Ashwood Advisors, LLC

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Truth, Knowledge, Experience *3rd Quarter 09*

Hi Everyone,

Winter and the holidays are just around the corner. Take time to visit friends and family. As 2009 winds down the markets have rebounded strongly, but we are not yet out of the woods. Look for the remainder of the year to be choppy at best.

Sincerely,
Steve Geremia

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- Good News for Recent and Potential First-Time Homebuyers

New Rules for Roth IRAs May Pave the Way for a Smoother Retirement

Presented by Stephen Geremia

Historically, retirees have relied on three different sources to meet their retirement income needs:

- Social security
- Personal savings (including IRAs, employer-sponsored retirement plans, after-tax investments, and savings)
- Pension plans

Increasingly, however, Americans have had to rely upon their own personal savings to fund their retirement. The reasons for this include:

- Employers have discontinued their pension plans, shifting the responsibility for saving to individual employees.
- Increased life expectancy has contributed to an overburdened social security system that, according to numerous reports, is expected to become insolvent in our lifetime.

And now, the retirement savings game is about to change again. Are you prepared for opportunity?

Traditional vs. Roth IRAs

Due to their favorable tax status and flexibility of investment choices, IRAs can be an effective investment vehicle for retirement savings. These accounts generally come in two flavors: Traditional and Roth.

- Traditional IRAs allow for pretax dollar contributions (i.e., pay taxes later; avoid them now).
- Roth IRAs allow for post-tax dollar contributions (i.e., pay taxes now; avoid them later).

There are different rules regarding the funding, eligibility, and deductibility of Traditional and Roth IRAs. With rules for Roth IRAs changing in 2010, it may be to your advantage to convert from a pay-later to a pay-now vehicle.

The new rules

Through 2009, only individuals with adjusted gross incomes less than $100,000 are able to convert qualified dollars to a Roth IRA. Beginning January 1, 2010, however, the $100,000 limit will be eliminated, so individuals who were previously unable to convert to a Roth IRA will now be permitted to do so.

When you convert to a Roth, you pay income tax on the taxable dollars that are converted. One benefit of the new rules, however, is that amounts converted in 2010 will be eligible for a special tax option. Eligible individuals electing to convert in 2010 will be able to spread out the income tax payment in equal installments over two years. If they elect to defer taxes, they may pay 50 percent of the tax burden in 2011 (generally due on April 15, 2012) and the remaining 50 percent in 2012 (generally due on April 15, 2013). (Note that taxes due from conversions made after 2010 will be due in full in the year of conversion.)

Reasons to consider a Roth conversion

There are many potential and attractive benefits of converting to a Roth IRA, but whether or not it makes sense for you will depend on your situation. You should always consult with a financial professional or a qualified tax advisor to determine the best way to invest for your future and to learn about applicable tax regulations and their impact on your investments.

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Tax-free withdrawals. Because retirement can now span 20 years or more, tax-free withdrawals have become an attractive feature. When you do a Roth conversion, you are paying taxes today in order to receive a qualified, tax-free distribution in the future. One of the reasons to think about setting up or converting to a Roth IRA is if you believe your income tax rate is likely to be higher in the future than it is today.

You may take qualified tax-free distributions from a Roth IRA after you have had it for five years and when the distribution is for one of the following reasons:

- Age 59½ or older
- Death
- Disability
- First-time home purchase

No required minimum distribution (RMD). Unlike Traditional IRAs, Roth IRAs do not require that minimum distributions begin at age 70½. This allows those who do not need that income stream in retirement to pay the taxes now, keep all of the Roth IRA money invested beyond age 70½, and avoid the annual income tax burden that exists with RMDs.

Hedge against rising income taxes. Another reason to consider converting to a Roth IRA is the belief that income tax rates will be higher in the future than they are today. No one has a crystal ball, but it is conceivable that taxes will increase. When you look at marginal income tax rates over the past several decades, only once during a five-year period has the top marginal income tax rate been less than today's current rate of 35 percent.

> If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability. ~ Henry Ford

An effective estate planning strategy. If your goal is to preserve assets for your heirs, then converting to a Roth may be an effective estate planning strategy. Because distributions from a Roth IRA are not required until a nonspouse beneficiary inherits the accounts, more assets can be preserved for future generations. And although nonspouse beneficiaries must take RMDs, they can generally stretch those distributions based on their life expectancy—and the income is free from federal tax.

Questions to consider

There are many things to consider before making the conversion decision. A qualified professional can help you explore the following important questions:

1. **Do I expect tax rates to be higher or lower when I retire?**
2. **Do I have a large percentage of assets in Traditional IRAs?** If you have a concentration of assets in traditional IRAs, you may want to consider converting some of those assets as a way to hedge against future tax increases. Supplementing retirement with nontaxable income may increase the likelihood that you will be in a lower tax bracket during retirement.
3. **If I convert, can the conversion taxes be paid from a source outside of the IRA?** Using IRA assets to cover the tax bill will typically result in more taxes being paid and may involve early withdrawal penalties, depending on your age, so it is generally better to pay the tax owed with funds from outside the retirement account.
4. **Will I need access to the money within five years?** Remember the five-year requirement mentioned previously. If you think you will need access to the assets, then a Roth conversion may not be right for you at this time.
5. **Do I wish to leave tax-free income to my beneficiaries?** As previously mentioned, a Roth IRA can be used as an effective means of preserving assets for heirs.
6. **Do I have retirement accounts that have suffered losses?** You may have accounts with balances that aren't as high as they were prior to the market downturn in 2008. Converting these accounts to a Roth IRA while the values are low may result in a lower income tax.

Your answers will help your professional advisor(s) assist you in making the best decision. However you choose to fund your retirement, it is wise to be aware of the changing regulatory environment and how it may impact your future.

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Good News for Recent and Potential First-Time Homebuyers

Presented by Stephen Geremia

If you purchased a home recently or you are contemplating purchasing a home in the next few months, you likely know many of the benefits of homeownership—including the possibility of tax savings. What you may not know is that if your purchase falls between April 9, 2008, and November 30, 2009, you could be eligible for a first-time homebuyer tax credit. What's more, if you purchase, or purchased, this year, you don't necessarily have to wait until the 2009 tax filing season to claim your credit. That's great news in a difficult economy.

The provisions for this tax credit are not new. On July 30, 2008, President Bush signed H.R. 3221, better known as the Housing and Economic Recovery Act of 2008. This act provided many protections for homeowners, along with incentives such as the tax credit for first-time homebuyers. What is new, however, is legislation that enhances the credit.

Provisions of the credit

The new legislation has resulted in two different sets of rules relating to claim of the tax credit. The rules are differentiated by date of purchase, as you can see below.

Summary of Rules for Qualifying First-Time Homebuyers, by Purchase Date		
When was home purchased?	**April 9, 2008, through December 31, 2008**	**January 1, 2009, through November 30, 2009**
Maximum credit?	$7,500 ($3,750 if married, filing separately)	$8,000 ($4,000 if married, filing separately)
Does credit have to be paid back?	Yes—generally, over 15 years in equal installments	No, provided the home remains your principal residence for 36 months
Credit is claimed on tax return for what year?	2008 federal income tax return	You can elect to treat the purchase of the home as if it occurred on December 31, 2008, claiming credit on 2008 tax return ($8,000 maximum credit limit still applies, even if reported on 2008 return); otherwise, credit is claimed on 2009 tax return.
Credit phased out for higher incomes?	Yes	Yes

Do you qualify?

Generally, you qualify as a first-time homebuyer if you—and your spouse, if you are married—did not own any other principal residence during the three-year period ending on the date of purchase. Unfortunately for many, the new legislation continues to eliminate the credit for those with higher incomes. The credit is reduced if your modified adjusted gross income (MAGI) exceeds $75,000 ($150,000 if you're married and filing a joint return) and is completely eliminated if your MAGI reaches $95,000 ($170,000 if you're married and filing a joint return).

Buy today, claim last year?

The American Recovery and Reinvestment Act of 2009 makes it possible for you to elect to report a qualifying home purchase made in 2009 as if it occurred on December 31, 2008 (allowing you to claim the credit on your 2008 federal income tax return). You should speak to your tax professional about how to do this.

If you qualify for a tax credit, there are plenty of uses for that extra cash. If you choose to save or invest the money to reap future rewards, consult a financial professional about the appropriate strategy for your goals and lifestyle. However you use the credit amount, there's no doubt that homeownership just got a little sweeter!

He that wants money, means, and content is without three good friends. ~ William Shakespeare

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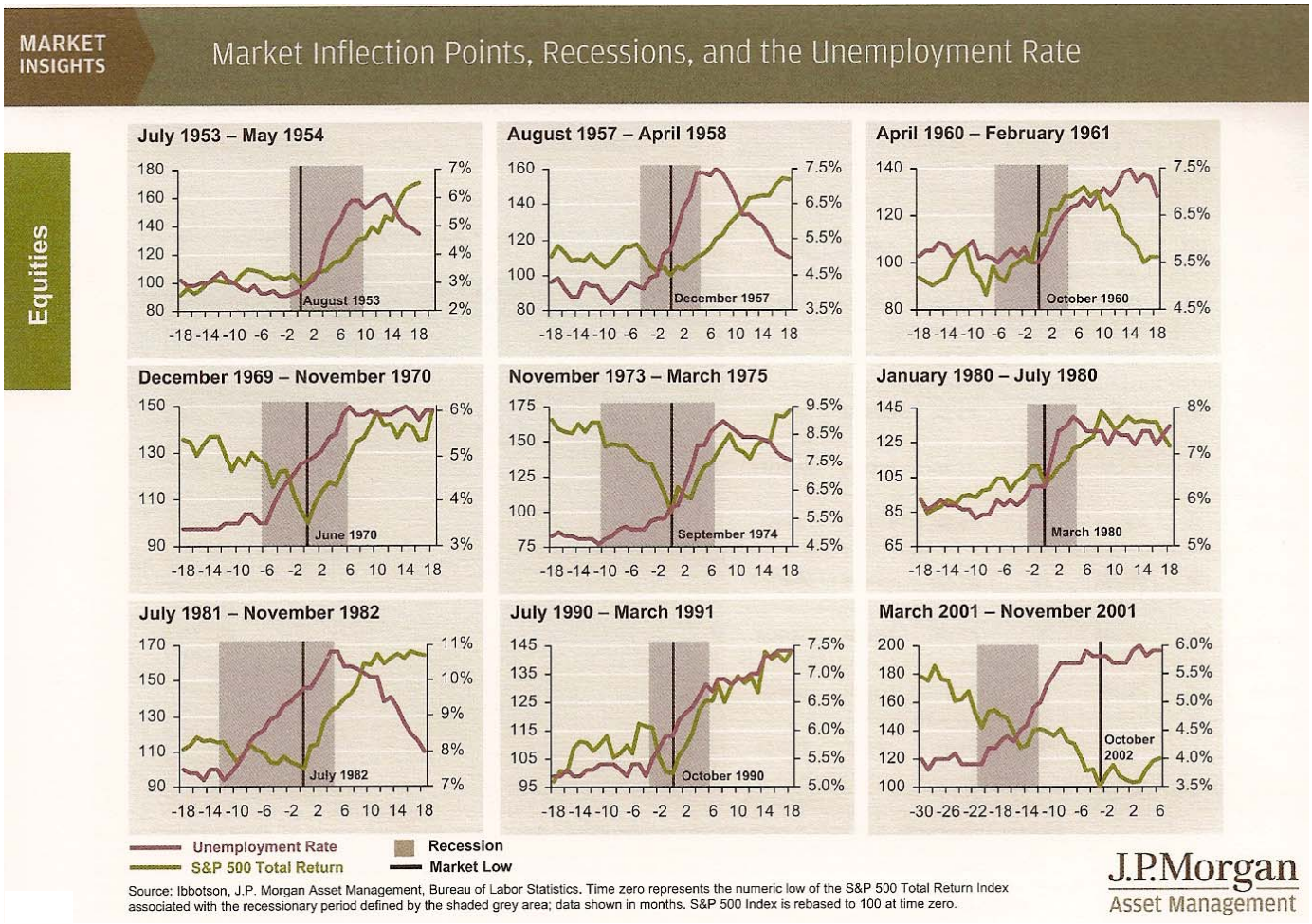
- *Industrial demand for electricity, 29% of the market, was down 12.5% from a year earlier, according to the Department of Energy ~ WSJ 10/5/09*

- *A record number of large appliances—47 million-were sold in 2005, but sales have declined since then, sagging to 39.7 million in 2008. So far this year, sales are down 14%, according to the Association of Home Appliance Manufacturers. ~ WSJ 9/28/09*

- *Hydropower is the most important and widely-used renewable source of energy and represents 19% of the worlds total electricity production ~ USGS 10/09*



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