

THE QUARTERLY

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FROM THE DESK OF ERIN BOTSFORD

BY ERIN BOTSFORD, CFP®

It is often said, the older you get, the faster the years seem to pass. I'm not sure that age has anything to do with it but this year has certainly flown by. Wasn't it just a few weeks ago that we were celebrating the warmer weather of spring? Now, families are starting to plan their holiday celebrations!

Although we have not yet reached year end, this is a good time to take a quick look back at some of the opportunities that presented themselves over the past several months and start planning for the New Year.

Among the biggest developments for clients of The Botsford Group is our new affiliation with DeWaay Financial Network LLC, one of the most exclusive broker-dealers in the country. Through this new relationship, our clients have access to a wide variety of investment options, including private equity offerings and alternative investments that may not be available outside the DeWaay network.

The economic recovery that some said would follow the passage of the stimulus bill and various industry bailouts earlier this year has been slow to manifest, with the S&P 500 oscillating tightly between 1,000 and 1,200 for the last year. Nobody knows what the pending midterm elections will hold or what direction our government leaders will take on tax policy and other key economic issues in the year ahead. Given this legislative uncertainty, we continue to remain vigilant as it is difficult to determine how the markets will interpret the results of the upcoming elections.

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Regardless of the outcome of the elections, we are very clear our goal is to help you live the life in retirement you always envisioned. First, we put together a plan intended to help safeguard your assets—then we explore ways to help grow your wealth. Through our association with DeWaay, we now have access to resources and the expertise to offer you unique products that may help achieve both these goals while continuing to provide you with first class service.

In short, there are plenty of reasons to celebrate this holiday season. As you dig in to that plate of turkey and stuffing, I encourage you to give thanks for your loved ones, and for the freedoms we all enjoy in this great country that the pilgrims helped establish when they came to the New World nearly 400 years ago.

Market Outlook Bryan Strike, CFP®, CPA

The broad market's resilient performance has surprised many this past quarter. Although the Dow Jones Industrial Average (DJIA) dropped 4.3% in August, it rocketed up 6.8% in September—historically the worse performing month for equity markets. The majority of that gain came from the first 20 days of the month, after which the market slowed while the GPS recalculated directions.

The DJIA rose 11.09% for the third quarter overall, and the S&P 500 was up 11.35%. The technology sector fared especially well, with a 12.82% rise in the value of the NASDAQ Tech Stock index for the quarter. The AGG Bond Index rose 2.28% and the GLD Gold Index showed a 5.07% increase.

Moving Forward

Current volatility is the byproduct of better-than-expected numbers in housing, employment, GDP, and inflation. That's not to say the numbers are good, by any stretch of the imagination, but they are better than the awful projections that were being made. With that said; however, we maintain a gloomy overall picture of the next year.

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The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) was designed to stimulate the economy during the recession in 2001. The legislation reduced income tax rates for most taxpayers, created a new 10% tax bracket for low-income households, and doubled the child tax credit. It also provided greater tax deductions for education expenses and increased the amount of tax-deductible contributions taxpayers could make to their traditional IRA accounts, among other changes. The Urban Institute estimates that EGTRRA has saved taxpayers \$1.35 trillion over the past 10 years.



WHAT THE TAX LAW CHANGES COULD MEAN FOR YOU

In 2001, President George W. Bush signed into law the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), a landmark piece of legislation that cut taxes across the board for individuals and married couples in an effort to keep more money in the economy. Due to political disagreement over the tax cuts Congress had to establish a “sunset” date on the legislation of December 31, 2010, at which time the previous higher tax rates would go back into effect.

Our current government leaders are still debating whether to let EGTRRA expire in whole or in part. With the outcome still unknown, it is important to discuss the implications of the proposed tax law changes on your own household with your financial advisor and tax accountant. Here are a few items to consider:

Higher Income Taxes - Rates will increase between 3 and 5 percent for all tax brackets, with the highest tax bracket topping out at 39.6 percent. If you are scheduled to receive income in 2011, such as a deferred bonus, retirement package, or traditional IRA or annuity distributions, you may want to explore opportunities for moving the payment schedule to the end of 2010 to take advantage of today’s lower tax rates. Likewise, if you have bonds nearing their maturity date, talk with your CPA about whether the taxes saved on the ordinary interest income by redeeming the bonds early outweigh the interest you will earn if you wait.

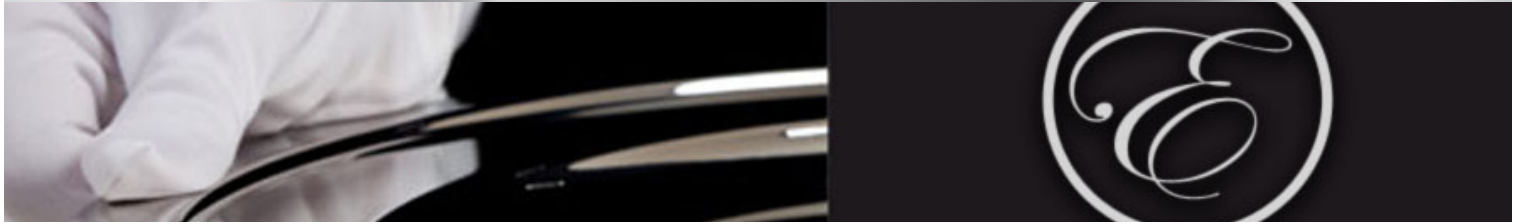
Capital Gains and Losses - Currently, you do not have to pay any tax on long-term capital gains if your net taxable income is less than \$34,000 as a single filer or less than \$68,000 when filing jointly. Next year, the rate rises to 10 percent. Above these income levels, the long-term capital gains rate will increase from 15 percent in 2010 to 20 percent in 2011 and beyond. If you have appreciated stock or other assets you wish to sell in the next 6-12 months, you may want to consider selling these positions before year-end to avoid a higher tax hit. Similarly, it may make sense to hold off on realizing capital losses until next year when you can offset the higher tax rate on capital gains.

Tax-Deductible Business Expenses - If you operate an S-corporation, partnership or sole proprietorship as a cash-basis taxpayer, writing off tax-deductible business expenses is a common way to reduce the amount of net income from your business that you must claim on your individual federal tax return. In light of the possible increase in the federal income tax rates, you may want to postpone some of those expenses until 2011 or later when tax rates may be higher.

Other issues to consider include whether to reallocate your portfolio for your non-lifestyle investments, whether to delay state and local tax payments, and when to take distributions from non-qualified 529 plans and Education Savings Accounts. Be sure to schedule time with your tax accountant well before year-end so you can review all your options thoroughly. Also, be sure to contact your Relationship Manager so we can help you stay on track.

Information in this article was obtained from the Internal Revenue Service.





CLIENTS GAIN INSIGHTS IN ATLANTA

An air of anticipation permeated the Westin Atlanta Perimeter North earlier this month, as clients and associates of The Botsford Group and Biltmore Capital Advisors gathered on October 5th for a one-of-a-kind educational event. The venue's elegant décor provided a perfect backdrop for a discussion on innovative investment opportunities and year-end tax strategies to help clients make informed decisions about their financial portfolio.

Presenters included Erin Botsford, President of The Botsford Group; Tyler Vernon, from Biltmore Capital Advisors; and Adam

Claypool, head of investment banking for DeWaay Capital Management. Guests enjoyed fine food and cocktails during the event and had the opportunity to ask questions of the speakers during an open forum at the end of the evening.

If you were unable to attend or live outside the Atlanta area, feel free to call our office for details on the information shared at the reception.

CHARITABLE GIVING: SMART DECISIONS FOR THE HOLIDAYS

The end of the year tends to be the most popular time for people to make charitable donations, often as a symbolic gesture of gratitude as they celebrate winter holidays, such as Christmas and Hanukkah. In recent years gifts from individuals and corporations to philanthropic causes totaled nearly \$300 billion annually, making America the most generous country on earth as far as charitable giving. A lagging economy combined with revelations about the high executive pay at some non-profits has led to a decline in donations. Before you pull out your checkbook this year, here are two key points to consider:



- **Where does the money go?** The American Institute of Philanthropy suggests it should cost no more than \$35 to raise \$100 in donations; however, many organizations fail to disclose how funds are spent. Charity Navigator, an independent charity evaluator, provides detailed information on hundreds of charities nationwide and the organization's strict ranking requirements can help you make an informed decision about where to focus your giving.
- **When should you give?** Although individuals typically make charitable donations before year-end to take advantage of the income tax deduction on their federal return, you may want to consider waiting until January 1st to send in your check. If the Economic Growth and Tax Relief Reconciliation Act of 2001 is allowed to expire at the end of 2010, individual income tax rates will increase across the board, and the tax savings may be better applied to next year's return.

For many groups, even a small donation can have a large impact, and giving generously to charities is one way to leave a meaningful legacy. Protecting your own financial household and making sure your money is being spent wisely will help that legacy to endure.

DECIDING WHERE TO RETIRE



When Craig and Leslie Thompson decided to vacation along the Yucatan Peninsula this summer, they did so with the thought of retiring to the area a few years down the road. They had heard that the cost of living along Mexico's eastern coast is a fraction of what it is in the U.S., and that they would enjoy warm weather year-round.

"What we didn't realize is that our current cost of living in Texas is already much lower than in other parts of the U.S., so there wasn't much difference," says Leslie. "If you're moving from the northeast, where a gallon of milk is \$6, you'll save a lot of money. If you're moving from north Dallas, the cost in Mexico is about the same."

The couple also discovered that the Yucatan's warm climate was matched by high humidity in the summer, another deal-breaker in terms of retirement locations, she says.

If you're considering a move to another city—or another country—when you leave the workforce, you may want to do some homework ahead of time. Just because you enjoy vacationing someplace doesn't necessarily mean it will suit your needs year-round. Here are a few things to consider when choosing where to live during retirement:

- **Access to services** - If you're planning to live in a remote location or overseas, determine whether the services you need will be readily available. How easy is it to buy groceries? Will you have access to quality medical care? Are activities seasonal or year-round?
- **Weather conditions** - Living at the beach might seem ideal if you're used to a colder climate, but consider whether triple-digit temperatures and potential hurricanes are a good trade-off for winter storms. Likewise, if you're heading for the open plains or mountain surroundings, think about what the weather is like at different times of year and how it could affect you.
- **Tax considerations** - Several states, including Texas, Florida and Washington, have no state income tax and have therefore become retirement meccas. Other states have no sales tax or lower-than-average property taxes. Relocating to one of these areas can help your retirement dollars stretch farther.

Whether you plan to curl up in a mountain cabin or spend your days surfing at a beachside resort, we can help you put together a financial plan to make your retirement dreams a reality—wherever those dreams may take you.

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Market Outlook

Continued

An analysis from Credit Suisse shows that a large majority of mortgage rate resets will occur next year, dragging on the market. The first reset date is generally the "oh no" moment when rates increase and borrowers find themselves unable to make their mortgage payments, resulting in increased defaults and foreclosures. Furthermore, accounting rules currently permit banks to sit on thousands of homes that they do not wish to sell at today's depressed prices because they do not have to mark the values to the market value.

Where We Stand

The world in which we live is run by an unanchored monetary regime expressing no desire for self-imposed discipline. Cash is being printed at alarming rates, austerity measures in Greece and across Europe are being met with protests, assets are not marked down, and continued uncertainty about future taxes and regulations have put economy at a standstill.

Amidst all the chatter and uncertainty of our global economy, our firm's solid philosophy about money and investing has not changed. We hold fast to our concept of "Lifestyle Driven Investing™", and with our new affiliation at DeWaay Financial Network LLC, we have access to more and more investment products that meet our strict criteria. We will look forward to sharing new ideas with you and will always do our best to deserve your continued confidence.

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