

## This issue

Tax Time Questions **P.1**

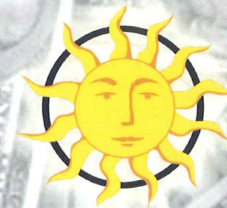
How to Invest Well **P.2**

Variable Annuities **P.3**

Upcoming Event **P.4**

# Write on the MONEY

Spring 2010



Published for the friends of  
Kensington Financial Services®  
"Your Planning Partner"

## Six Questions to Ask Your CPA at Tax Time



### 1. Will I be subject to the alternative minimum tax in 2010?

For some, the answer will be a clear "Yes." Barring a major change in your personal finances or a complete overhaul of the tax system by Congress, anyone who was subject to the AMT in 2009 is likely to be subject to it in 2010.

But for many others, the answer will have to be "Maybe," because Congress hasn't yet passed an AMT patch for 2010. If the AMT exemption amount reverts to 1986 levels—\$33,750 for single taxpayers and \$45,000 for joint filers (compared with 2009 exemption amounts of \$46,700 and \$70,950, respectively)—some people who were not subject to the AMT for 2009 may be subject to it in 2010.

If it is not clear whether you will be subject to the AMT in 2010, you should ask your tax advisor how to deal with

this uncertainty when carrying out investment and financial planning activities during the rest of the year.

### 2. Can you help me estimate my income for 2010?

If "income" were simply a matter of wages, no one is in a better position than you to answer this question. But there are many forms of income. Gross income may comprise salary, bonuses, investment income, the taxable portion of Social Security benefits, alimony, gambling winnings, and more.

And it's not enough to know gross income. It's also important to have an estimate of adjusted gross income (AGI), modifications to adjusted gross income (MAGI), and taxable income. Each of these types of income is dependent on various deductions and/or credits that need to be estimated in order to come up with projections for 2010. These in turn will determine if you can do certain things, such as contribute to a Roth IRA or a deductible IRA. An accurate estimate of 2010 income will enable you to make these contributions early in the year, rather than waiting until your 2010 taxes are prepared.

*Continued on page 2*

Sometimes we sound like a broken record when we say "Check with your tax advisor" in connection with some investment or financial planning strategy we are writing about. But we have to say that. Financial advisors are not allowed to give tax advice. Even if a recommended strategy is designed to reduce taxes, it can't be construed as tax advice. One reason for that is because we do not always have access to a client's entire tax picture. So before going to your CPA to have your 2009 taxes done, don't leave the meeting without asking about 2010. This information will help us in making recommendations for investment and financial planning strategies...

## How to Invest Well



It's not enough to know gross income;

have an estimate of adjusted gross income, modifications to adjusted gross income and taxable income.

After the market environment we've lived through the past several years, the term "risk tolerance" may very well turn your stomach. It's hard to tolerate 40% free-falls in our fortunes and we most assuredly don't want to suffer a wallop like the one we had in 2008. You don't have to. Indications show that with a little research and some simple calculations, you can keep less money invested in stocks than traditional investing wisdom would have you believe, all without giving up your retirement goals and with less risk.

*Continued on page 4*

*Continued from page 1, "Six Questions to Ask Your CPA at Tax Time"*

### 3. Do I have any remaining loss carryforwards going into 2010?

We can determine this by looking at your 2009 tax return, but it's good for you to take this question to your CPA in order to better understand how investment activity affects your tax situation.

We may suggest that you sell some assets to absorb some of these previous losses. Tax loss harvesting is traditionally a year-end activity, but it really should take place throughout the year as investment opportunities present themselves.

### 4. If I were to do a Roth conversion in 2010, what would be my tax liability?

Ask your CPA what your tax liability would be on a complete Roth conversion, and ask them about partial conversions—say, one that brings you up to the top of your current tax bracket. Also, you can ask us if a Roth conversion is a good idea.

### 5. Do you have any recommendations for reducing my 2010 taxes? What about 2011 and beyond?

Tax preparation with your CPA is the perfect time to get a strategy in place to reduce future taxes. With the expiration of current rates at the end of 2010, many people are expecting tax rates to

rise for higher-income taxpayers. Is there anything you could do this year to get ready for potentially higher rates? Perhaps recognizing gains to take advantage of the historically low 15% long-term capital gains tax rate, or taking larger IRA distributions before tax rates go up?

### 6. Is there anything my financial advisor can do to help my tax situation?

Yes! Contact Ralph Phillips at Kensington Financial and he will arrange a meeting with you and your CPA to discuss strategies and plans for 2010 and beyond.

# Variable Annuities



## Guaranteed Lifetime Income...for the life you want.

You need to invest your retirement money to give it the chance to grow. But investing can also expose you to risk, including:

- **Market risk.** Your investment value will rise and fall with the market.
- **Income risk.** Your yearly income may shrink if your investment value drops.
- **Inflation risk.** The rising cost of living may offset your investment gains.
- **Longevity risk.** You may last longer than the money you have to live on.

### A variable annuity could help reduce the risks.

Variable annuities are contracts you buy from an insurance company to help you build assets for retirement. They are called “variable” because their value will fluctuate based on the performance of the underlying investment options you and your investment professional pick. The cost of a variable annuity depends in part on the combination of features you select. Annuity fees and charges may include administrative fees, contract fees, mortality and expense charges and the expense of your investment options.

Variable annuities were designed to be long-term investments. If you take early withdrawals, you’ll face surrender

charges and your death benefit and cash value may be reduced. You could also face a 10% tax penalty (in addition to ordinary income taxes) if you start taking withdrawals before age 59½. And if you take your money out early, you may not benefit from tax deferral, one of the key advantages of variable annuities.

Variable annuities don’t guarantee the performance of the investment options you pick, because investment performance is tied to the market. But they do offer a level of protection against investment loss.

### Now, imagine you had guaranteed income for life.

The Nationwide Lifetime Income Rider® (L.inc) is designed to give you income you can’t outlive, even if your contract value falls to zero. At the same time, it gives you unlimited potential for growth when the market is up. Nationwide L.inc is an optional rider available for an additional cost, with certain Nationwide® variable annuities.

Learn more about building your retirement income potential by contacting “Your Planning Partner,” Kensington Financial Services Inc.

## Variable annuities can give you...

- *Lifetime income* - a stream of income you can’t outlive; accessed either through annuitization or systematic withdrawals,
- *Living benefits* - optional benefits for you, including guaranteed accumulation of guaranteed withdrawals,
- *Death benefits* - guarantees for your beneficiaries, including a level of protection from investment loss,
- *Tax deferral* - the potential for your investment to grow faster than taxable investments because you don’t pay taxes on gains until you take a withdrawal,
- *Investment choices* - access to a wide range of professionally managed investment options only available with annuities.



**Want a quick snapshot of your situation?**

**Ask us to run a Nationwide L.inc illustration.**

It's true, a portfolio that combines 50% stocks and 50% high quality bonds will perform nearly as well over decades as a portfolio that carries an 80%-20% blend of stocks and bonds. In fact, a nationally recognized study illustrated a 21-year example showing that a 50:50 portfolio averaged a 10% return; in contrast, a portfolio of 80% stocks and 20% bonds provided far more market risk, and yielded nearly the same return.



Traditional investor mind set goes something like his: stocks over time outperform both bonds and cash, thus, without a high portion in stocks, financial goals are not met, inflation will take it's toll and retirement years will not be as golden as the money runs out. The stock-heavy portfolio that served you well in your 20s and 30s is not ideal in your 50s and 60s especially when poor market performance can deplete years of growth in just a few months.

To build wealth without constantly readjusting the investment mix, consider a more equal balance of stocks and bonds with quarterly rebalancing. The idea is to level out your investment performance by accepting lesser short-term gains in exchange for less harsh short-term declines.

With lower risk and steadier performance, your portfolio return may be somewhat less than an 80%-20% mix, but the difference is not that substantial and you'll not have to fear the inevitable market down turns. The important question to ask is, "How important is piece-of-mind to me as I plan for the future?" Call us at 724-334-1950. We can show you how!

Source: wsj



## 13<sup>th</sup> Annual Kensington Financial Golf Classic

*A charitable event which benefits The Lora Lee Phillips Memorial Scholarships at Penn State New Kensington and Indiana University of Pennsylvania*

**Saturday, June 5, 2010**

**Chestnut Ridge Golf Club, Blairsville, PA**

An individual donation of \$125 entitles each player to 18 holes of golf, refreshments, gifts and prizes, dinner, beverages and entertainment!

Special group packages are available. Additional donations are welcome, including tee and green sponsorships for only \$100 and are 100% tax deductible.

Please organize your foursomes and RSVP by May 24, 2010 to [yvonne@kensingtonfinancial.com](mailto:yvonne@kensingtonfinancial.com) or call 724-334-1950.

Additional details available at [www.loralee.org](http://www.loralee.org).

*The information in this newsletter is not intended as tax or legal advice, and may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Kensington Financial Services Inc.*

**Securities offered through Kovack Securities Inc. (KSI), Member FINRA/SIPC  
Kensington Financial Services Inc (KFS), and KSI, are independent non-affiliated entities  
Neither KFS or KSI offer tax or legal advice services**

**Pricing** – Securities prices may vary from actual liquidation value. Any prices shown should only be used as a general guide to value. Prices are received from various pricing services. However, pricing services are sometimes unable to provide timely information. Where pricing sources are not readily available, particularly on certain debt securities, estimated prices may be generated by a matrix system taking various factors into consideration.

**Mutual and Variable Annuities** – Mutual Funds and variable annuities are not bank deposits or obligations, are not guaranteed by any bank, and are not insured or guaranteed by the FDIC, the Federal Reserve Board, or any other government agency. Investment in mutual funds and variable annuities involves risk, including possible loss of principal.

**Performance** – Any investment performance illustrated is past performance and is not indicative of nor does it guarantee future results. Investment return and principal value will fluctuate so that an investment, when redeemed, may be worth more or less than the original cost.

**Valuation** – If assets shown are valued at any time other than the "Price Date", that Valuation Date will appear and be specially noted. The value of assets shown, has been provided by outside sources with valuation information being provided to us by the issuer of the product and it being reflected without inquiry or investigation – as a result we make no guarantee as to the accuracy of the information presented herein.

**Taxes/Legal** – This material should not be considered tax advice or legal advice. You should consult your Tax and Legal Counsel for advice and information concerning your particular situation. You should consult your Qualified Investment Advisor at Kensington Financial Services Inc., before making any investment or insurance decisions.

CRC\* – Ralph H. Phillips is a Certified Retirement Counselor. <http://www.infre.org/CertifiedRetirementCounselor.shtml>

Sources – All information presented in this publication has been gathered from sources which we believe to be reliable. However, no guarantee is given or should be implied as to the accuracy of the facts and figures presented herein.

Kovack Securities, Inc., Member FINRA/SIPC, Florida Securities Dealers Association & Securities Industry Association  
Corporate Headquarters: 6451 North Federal Highway, Suite 1201, Fort Lauderdale, Florida 33308  
Ph: (954) 782-4771 Fax: (954) 943-7331 Email: [info@kovacksecurities.com](mailto:info@kovacksecurities.com) [rphillips@ksifa.com](mailto:rphillips@ksifa.com)

One of our goals is to help protect and inform members of our Client Family. Here are some tools that you can use:  
<http://www.fimra.org/Investors/ProtectYourself/index.htm>  
<http://www.sec.gov/>  
<http://www.sipc.org>

Investments/insurance products secured through KFS or KSI are not FDIC insured.

Copyright © Kensington Financial Services Inc., Lower Burrell, Pennsylvania.

Reproduction of any kind without prior written permission from the publisher is prohibited.



**KENSINGTON FINANCIAL SERVICES, INC.®**

*"Your Planning Partner"*

2664 Leechburg Road • Lower Burrell, PA 15068 • 724.334.1950 • Fax 724.334.1954  
[www.kensingtonfinancial.com](http://www.kensingtonfinancial.com) • [info@kensingtonfinancial.com](mailto:info@kensingtonfinancial.com) • [rphillips@ksifa.com](mailto:rphillips@ksifa.com)

Securities Offered Through Kovack Securities, Inc.  
Member FINRA/SIPC