

# PORTFOLIO WATCH



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Fee **FO** Only

## It's Not Safe To Be A Senior

Happy New Year! I wanted to share something that showed up in my Inbox today. I subscribe to several financial magazines, so advertisers know I'm a financial planner but often don't know I'm a Fee-Only planner. This gives me a window into the kind of advertising that goes on in the industry. Here's the headline for this particular ad: "Get Paid On Your Older Age Clients!" (exclamation point included). The email flyer goes on to advertise 5.15% commissions on annuities sold to clients ages 81-89, and 7.40% commissions for clients below 71. According to the broker's website, most of their annuities have surrender periods of 7 to 10 years, where you pay a steep penalty if you need your money back. The scary part is that there are planners who will see an ad like this and think "Hey, that sounds like a good idea." Watch out for those, no matter what age you are.

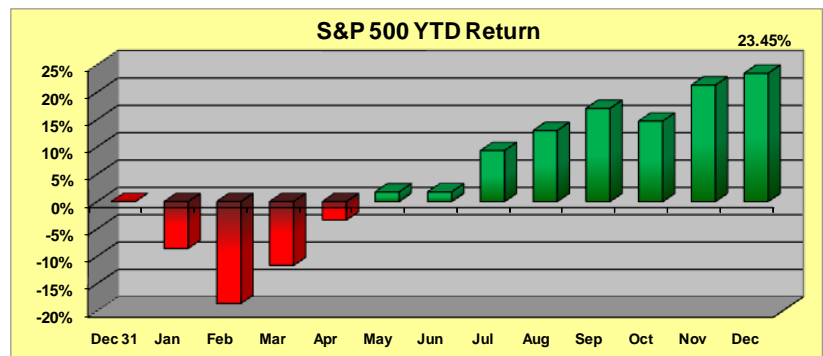
## More Roth IRA/401(k) Considerations

There are currently a ton of Roth IRA calculators available to help determine if a Roth IRA conversion makes sense. Unfortunately, relying on a calculator for the answer without addressing the right questions can be about as effective as consulting a Magic 8-Ball. Most of the free calculators are far too simplistic, and the ones that were put together with a little more thought tend to require an expensive license (I'm in the process of developing my own). Since anyone with an IRA is now eligible to do a conversion, I wanted to address some of the considerations that the calculators ignore.

### A Tax-Free Option

For most people, all of their retirement savings will be fully taxed when it is withdrawn. This means that every expenditure in retirement will have a tax implication. Many people may feel more comfortable having a chunk of money they can spend without worrying about the tax consequences. This tax-free portion of

2006 return: 13.62%    2008 return: -38.49%  
 2007 return: 3.53%    2009 return: 23.45%



retirement savings can be created through either an IRA conversion or by contributing to a Roth 401k. There is no formula for how large it should be, but somewhere between 10% and 25% of retirement savings seems reasonable.

### What's The Goal?

This is a fundamental question, but I don't see it explicitly addressed very often. Why do you want to consider paying taxes now instead of later? Is the goal to ultimately pay less tax on retirement income, or is the goal to prepay the tax so your heirs will get a tax-free distribution from your IRA? The answer could have a big impact on the final answer of whether a conversion makes sense or not.

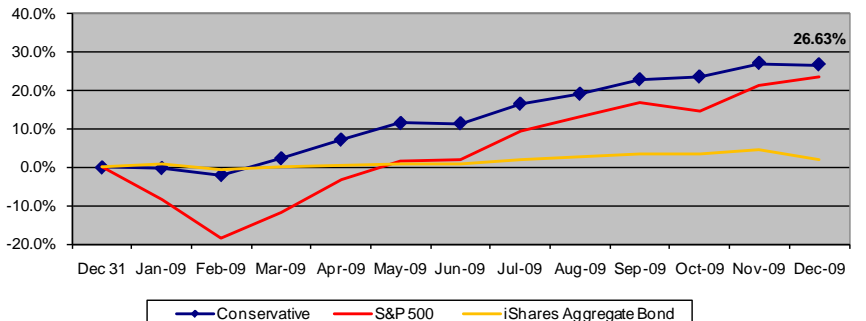
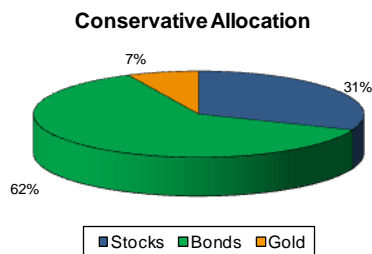
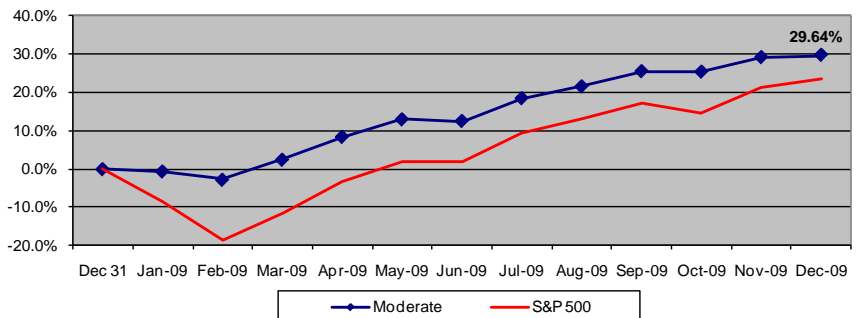
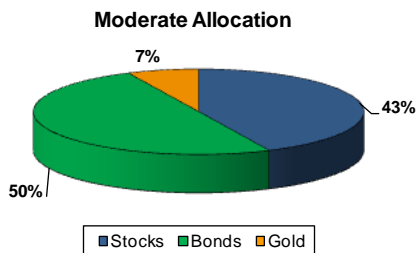
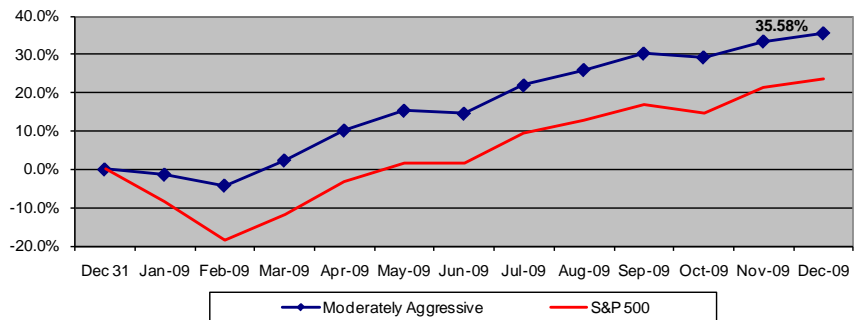
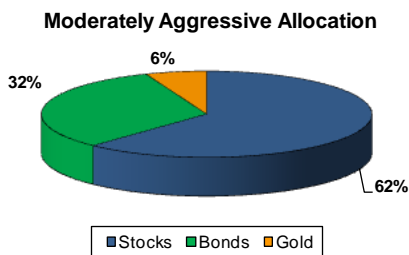
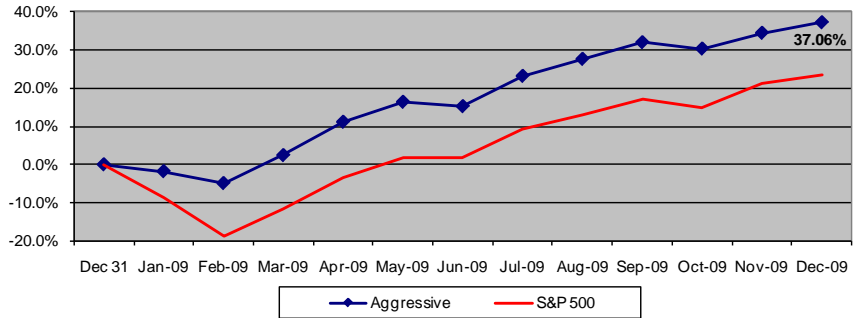
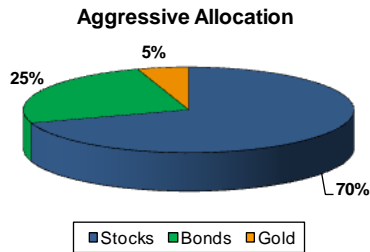
### Future Tax Policy

The current rules state that contributions and conversions to a Roth IRA are fully taxable (i.e. no tax deduction), and all qualified withdrawals in the future will be tax-free regardless of how large the account grows. In other words, the government gets its money up-front, and the investor relies on the fact that the tax rules of the game won't be changed in the future. After all, it wouldn't be fair to change the rules after the fact, and taxpayers wouldn't stand for it. Unless, of course, the rule change doesn't apply to them. What if the rule change only applies to those who don't need tax-free money? Say, those who have accounts worth more than \$1M. Or \$500K. Or those who make withdrawals of more than \$100K in a single year (maybe I should be a legislator). The point is that rules can always be changed, and "fairness" can often take a backseat if it has been determined that a person has too much money.

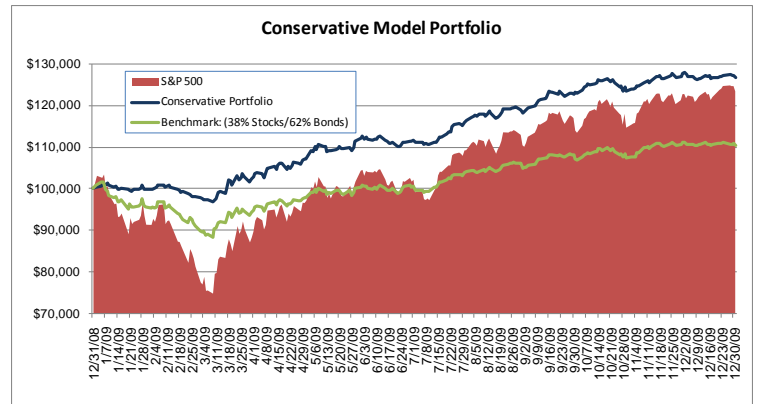
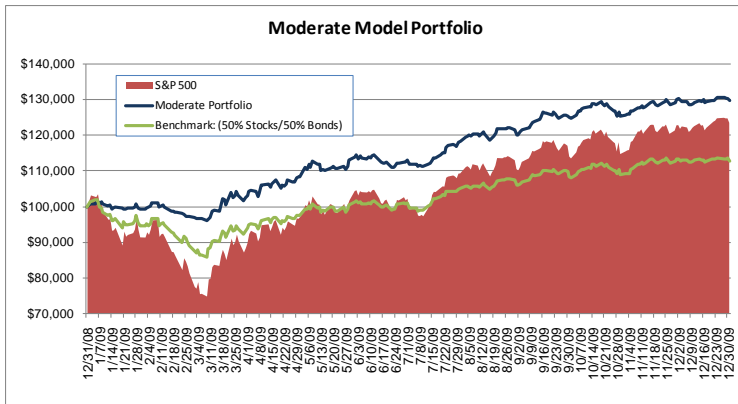
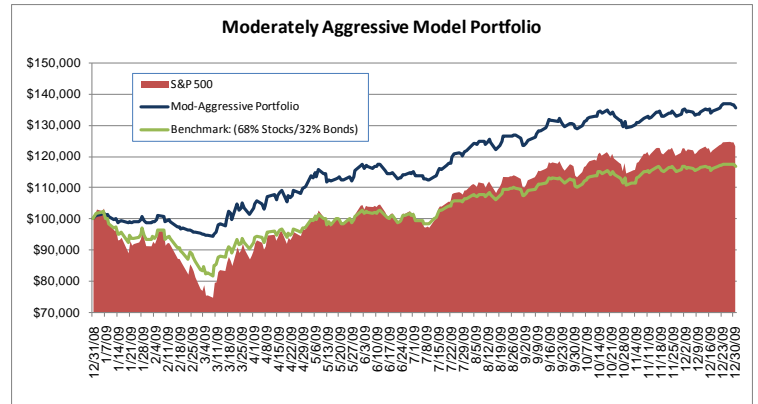
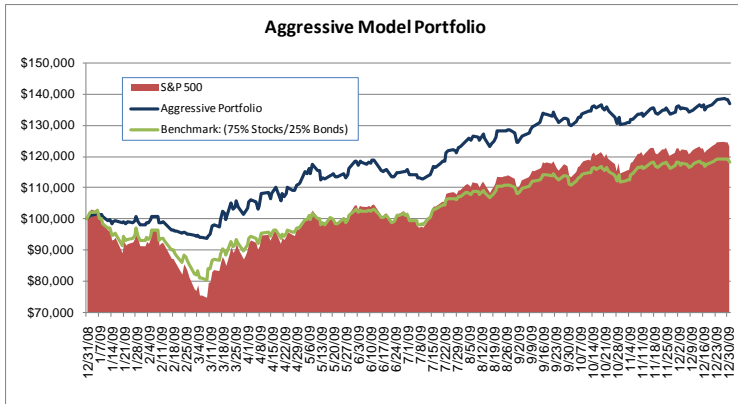
A Roth calculator is still a useful tool, which is why I'm working on one, but there are obviously other questions that a calculator just can't give the answer to.

# Model Portfolio Performance

The following allocation models and Year-To-Date performance graphs represent the preferred investments in Veripax Financial Management's target portfolios. Investment allocation for each model is determined based on time horizon and risk tolerance. In most cases, individual client portfolios will contain slightly different investments and allocation mixes based on individual financial goals, investment priorities, and tax considerations. The Model Portfolios invest primarily in Exchange Traded Funds and no-load bond funds.



# Daily Performance Charts



**Benchmarks:** The Benchmark for each of the above graphs utilizes the Russell 1000 Index for stocks and Total Bond Market Index for bonds. The ratio of stocks and bonds in each Benchmark matches the ratio of the associated VFM model portfolio.

**Portfolio Construction:** Each Model Portfolio consists of up to 8 stock sectors, 7 bond sectors and gold. Buy/Sell decisions are based on VFM's proprietary algorithm and are consistent across all portfolios. Each Model Portfolio and the associated Benchmark are rebalanced quarterly.

## Portfolio Comments

There was quite a drop in the last half hour of trading for the year, but the markets still closed higher for the month and capped off a great year. It remains to be seen whether the gains this year are really a recovery or just a bounce, but either way it sure felt a lot better than 2008. The S&P 500 finished the year up 23.45%, which was in the same ballpark as the Europe/Australasia/Far East Index (23.23%) and the Russell 2000 (25.22%). These were blown away by the NASDAQ, which gained 43.89%.

Here's how the sectors did for the year. Performance is shown with and without active management. Big differences are highlighted.

|                   | Return w/active mgmt | Return w/o active mgmt |
|-------------------|----------------------|------------------------|
| High-Yield Bonds  | 68.7%                | 68.7%                  |
| Technology        | 49.1%                | 50.8%                  |
| Basic Materials   | 41.2%                | 47.6%                  |
| Small Caps        | 44.9%                | 36.6%                  |
| Gold              | 22.8%                | 24.0%                  |
| Multi-sector Bond | 29.6%                | 29.6%                  |

|              | Return w/active mgmt | Return w/o active mgmt |
|--------------|----------------------|------------------------|
| Real Estate  | 70.2%                | 26.8%                  |
| Energy       | 24.9%                | 21.5%                  |
| Healthcare   | 29.0%                | 19.2%                  |
| Financials   | 64.6%                | 13.6%                  |
| Utilities    | 21.2%                | 9.8%                   |
| Infl-Prot Bd | 8.9%                 | 8.9%                   |

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