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WEALTH MANAGEMENT ADVISOR

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PRIVATE FOUNDATIONS
They're not just for the rich and famous

PROTECTING YOUR PORTFOLIO FROM BOND CALLS

FERRELL
WEALTH MANAGEMENT INC.
Registered Investment Advisor

Fairbanks Professional Center
1400 W. Fairbanks Ave.
Suite 202
Winter Park, FL 32789
Phone: (407) 629-7008
Facsimile: (407) 629-7516

HSAs offer tax-free health care savings

Since 2003, Health Savings Accounts (HSAs) have provided individuals with another tax-advantaged way to fund health care costs. HSAs are fast growing in popularity, with more than 6 million people now eligible to open one, according to America's Health Insurance Plans, a national association of health plan providers. That's an increase from fewer than 440,000 in 2004.

A health care "IRA"

With an HSA, anyone — you, a loved one or an employer — can set aside funds for current or future health care costs for you, your spouse or your family. Most important, an HSA offers tax benefits similar to those of an IRA or 401(k).

If you set up an HSA yourself, you can deduct the contributions on that year's income tax return, whether or not you itemize deductions. If your employer sponsors the plan, employer contributions, as well as any contributions you make through payroll deductions, are on a pretax basis.

Withdrawals made for qualified medical expenses are tax free. Withdrawals for nonqualified expenses are subject to federal and possibly state income taxes, as well as a 10% early withdrawal penalty. If, however, you're age 65 or older, you won't be subject to the extra 10% penalty on withdrawals for nonqualified expenses, though you'll still owe income taxes on them. This feature can make HSAs a potentially valuable source of retirement funds.

Higher limits for 2009

Every year, the IRS indexes for inflation the amount that can be contributed to a Health Savings Account (HSA) annually, regardless of the source of the contributions. It also determines the minimum required deductible and the maximum out-of-pocket costs for the associated high deductible health plan (HDHP).

2009 HSA limits:

	Individual	Family
Minimum HDHP deductible	$1,150	$ 2,300
Maximum HDHP out-of-pocket costs	$5,800	$11,600
HSA annual contribution limit	$3,000	$ 5,950
HSA catch-up contribution limit	$1,000	$ 1,000

Individuals between 55 and 65 are permitted to make additional "catch-up" contributions. If you're older than 65, however, you may no longer contribute to an HSA but can continue to take withdrawals from your account whenever you like.

HSAs also offer two important advantages over their tax-advantaged health care funding counterpart, the Flexible Spending Account (FSA). First, while FSAs have an annual "use-it-or-lose-it" requirement, your unused HSA funds stay in your account from year to year. Second, unlike FSAs, HSAs are invested in interest-bearing accounts or CDs, annuities, stocks, bonds or mutual funds. So if you're relatively healthy and expect to remain that way, an HSA can be more valuable because you can accumulate earnings tax free — enabling you to build up a medical "rainy day" fund.

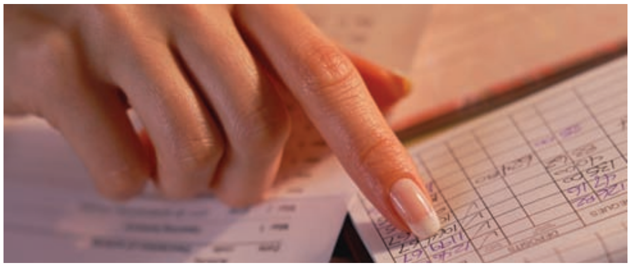
The rules

To qualify for an HSA, you must own a high-deductible health plan (HDHP). For 2009, the minimum deductible is $1,150 for individuals and $2,300 for families.

Generally, HDHP premiums will be lower than for a traditional lower-deductible health care plan — whether purchased individually or obtained through an employer. The tradeoff, of course, is that you'll be responsible for the first few thousand dollars of medical expenses that you incur each year — expenses that you can pay with your HSA balance.

To open an HSA, you must be under age 65 and may not receive any type of health insurance coverage through your employer or your spouse other than the HDHP. You can, however, have dental, vision, disability or long-term care coverage and still qualify for an HSA.

Unlike with an IRA, annual HSA contributions aren't subject to any income-based limits. Note that, if you terminate your HSA, you may no longer make contributions, though the funds in the account remain yours to use as you please, subject to normal HSA tax rules.



Easy to establish

If you want to set up an HSA, you can do so at banks and many other financial institutions, just as you can with an IRA. A growing number of employers are providing HSA options as well, so you may already have access to this type of health coverage through your workplace.

Many individuals — especially the young and healthy — can benefit from an HSA, but the accounts may not be appropriate for everyone. For example, if you have a chronic condition that involves regular medical expenses, you could be better off with a traditional low-deductible health insurance plan. Your financial advisor can help you evaluate the pros and cons of HSAs. ■

Rebalance regularly to reduce portfolio imbalances

THREE

It's Investing 101 — work with your financial professional to develop a carefully diversified portfolio of stocks, bonds, cash and other investments that is appropriate for your risk tolerance and financial goals. But as vital as it is to start with the right initial asset allocation, that's only the first step in an ongoing process.

The case for rebalancing

Market fluctuations cause your investments to continually gain and lose value. Over time, financial market movements can cause significant imbalances in even the most carefully constructed asset allocation — potentially exposing you to excessive risk.

This is where rebalancing comes in. By bringing your existing portfolio into line with your target weightings, you can realize two benefits: 1) greater peace of mind about your portfolio's ability to withstand market volatility, and 2) the opportunity to improve your portfolio's long-term performance.

Restoring equilibrium

Letting your winners ride can work for a while, sometimes even years. But left on its own, your

of every quarter. It is important, however, to pick a schedule and stick to it, no matter what.

Another common approach is to rebalance whenever your portfolio weightings vary from your target by a specified amount — say 5%. Note that this approach requires you to monitor your portfolio relatively closely.

portfolio likely will become lopsided, too heavily tilted toward recent strong performers. This imbalance can set you up for big losses when market trends shift — as they typically will.

The other side of the equation is that your portfolio may become underexposed to the asset classes that have been underperforming. Owning less of these investments means missed opportunities when they begin to return to favor. If you rebalance when their prices are relatively low, however, you can take advantage of market conditions to buy more of these securities at attractive prices. This sets you up for better long-term performance potential.

How to do it

To bring your portfolio back into balance, consider selling some of the securities that have overgrown their target allocation and using the proceeds to buy more of the underrepresented investments. Another option is to keep the "overgrown" securities but invest more money in your portfolio and buy more of the recent underperformers to bring them in line with your target weighting. This approach will automatically reduce the percentage of your portfolio devoted to the better-performing assets.

Because emotions can get in the way of smart investing, make the rebalancing process automatic. You're more likely to stick to it and realize its long-term benefits. Many financial advisors recommend rebalancing on a regular schedule — say, once per year or quarter. It's probably not important whether you decide on a rebalancing date of every July 19 or the first day

Potential tax consequences

Rebalancing involves buying and selling securities, which can expose you to capital gains tax if you're working within a taxable investment account. This is particularly true because rebalancing usually involves selling some of your best performers. Thus, you'll need to decide whether your tax costs may outweigh the potential long-term performance benefit of rebalancing. Your tax advisor can help you compare these pros and cons.

The decision to rebalance generally is easier in a tax-advantaged retirement account such as a 401(k) or an IRA. Because transactions in these accounts don't incur capital gains tax, you can reap the benefits of rebalancing with fewer costs.

> Market fluctuations cause your investments to continually gain and lose value.

Keeping you on track

Professional opinion may vary on how and how often portfolio rebalancing should be done, but there's little disagreement about its importance to your financial well-being. The best approach for your situation will depend on many factors, from the investments in your portfolio to the types of accounts you own. And bear in mind that there is no guarantee that rebalancing will ensure a profit or protect against loss in a declining market. Be sure to ask your financial advisor about your situation and how you can keep your portfolio working toward your long-term financial goals. ■

Until death — or divorce — do we part

A prenuptial agreement can protect your assets

Despite love, hope and good intentions, more than half of marriages in the United States end in divorce — many involving messy and costly battles over who gets what. On second (or later) marriages, if the wealthier spouse dies first, battles can also ensue between the surviving spouse and children from the deceased spouse's prior marriage. A well-crafted prenuptial agreement, commonly referred to as a "prenup," provides protection for your personal and business assets by outlining how they'll be divided in the event of a divorce or death.

Keep what's yours

A prenup is a binding contract that spells out which assets were amassed during your marriage (marital property) and which were prematrimonial assets (separate property). This can be especially helpful when determining which property should remain separate and which should be distributed equitably (or in accordance with the laws of your state) during a divorce. Without an agreement in place, you're essentially leaving this decision up to the courts.

Prenups can be designed to protect:

Business assets. If you're the owner of a closely held corporation or partnership, use a prenup to prevent your future spouse from obtaining voting rights or claims against the business by stipulating that he or she waives all rights to an interest in the business in the event of a divorce or on your death. To protect any remaining business owners, you can stipulate that, on your death, your shares in the business are to be purchased by those owners. A business buy-sell agreement should also handle these matters.

Children's interests. If you have children from a previous marriage, a prenup can help ensure your assets are distributed according to your wishes after your death. The agreement can provide that a marital trust for the surviving spouse's benefit be created at your death. Your estate can claim an estate tax deduction (the marital deduction) for the assets that go into the marital trust.

You can direct that the assets remaining in the trust on your spouse's death be distributed directly to your children or be retained in trust for their benefit. If instead your assets pass directly to your spouse on your death, he or she will be free to dispose of them during life and after death in any manner he or she chooses.

Personal assets. If you have collectibles or other family assets, a prenup can make them immune to claims from your spouse. Prenups also outline special financial arrangements. For example, a spouse might waive his or her rights to certain property or relinquish support payments in exchange for a single lump sum.

Ensure enforceability

To ensure the agreement's effectiveness, you and your future spouse should each receive independent legal advice and fully disclose financials prior to entering the agreement. It may be obvious, but the agreement should be fair — otherwise the courts may not enforce it. Be sure to review it regularly to ensure that it reflects any changes in either of your financial circumstances.

In addition, make sure that no pressure is placed on you or your future spouse to enter into the agreement. It's ideal to create a prenup at least two months prior to the wedding to avoid any assumption of duress.

After the wedding, keep your separate assets separate. Even an ironclad prenup can be rendered ineffectual if you commingle your assets. An added bonus to maintaining certain assets as separate property is that they're shielded from the other spouse's creditors.

Plan for the unexpected

It may be difficult to discuss divorce, death and the division of money and other assets before you even walk down the aisle. But doing so can help minimize future financial and emotional turmoil. ■

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Private foundations

They're not just for the rich and famous

You may think that private foundations are only for families like the Rockefellers, Fords and Gateses — those who contribute millions of dollars to charity. But private foundations can be an effective strategy for creating a family legacy of giving. In fact, there is no official minimum and you may be able to effectively establish a foundation with an initial contribution as low as $250,000.

Give (on your own terms) and take

A private foundation is a tax-exempt entity that's typically structured as a not-for-profit trust or corporation and established to accept charitable contributions. It's private because it doesn't solicit public contributions.

One of its primary benefits is that it allows you to control your giving. As a member of the foundation's board of directors — which may also include family members, friends and trusted advisors — you manage the foundation's assets and direct grants to charities. You can also redirect the foundation's assets should your

charitable goals change or if you want to discontinue your support of a particular organization.

Like many other charitable giving vehicles, a private foundation offers tax advantages. For example, you can make a large contribution — and receive a large charitable deduction — in one year while distributions to the charities themselves are spread over a period of years to follow.

Contributions to a private foundation are deductible for federal income tax purposes. You can deduct cash contributions to a nonoperating foundation (the most common type) up to 30% of your adjusted gross income (AGI). For noncash contributions, the limit typically is 20% of AGI. The deduction for any contribution in excess of AGI limits may be carried over and used for five years.

Know the drawbacks

Setting up a foundation can be costly — between $5,000 and $10,000. Annual administrative costs can be high too, depending on several factors, including the size of the foundation and whether you plan to hire staff to operate it.

Private foundations also are highly regulated. For example, though tax exempt, a foundation's net investment income is subject to an excise tax of 1% if all required distributions to charity have been made; otherwise 2%. And foundations that fail to make qualified distributions of at least 5% of their net assets each year must pay a 15% excise tax on the shortfall.

Avoid self-dealing

The biggest risk for private foundations, however, is the prohibition against self-dealing. This forbids transactions between a foundation and "disqualified persons," such as the founder and members of his or her family, officers, directors and certain employees, significant donors, and certain related entities.

The self-dealing rule is tricky because a person can violate it unknowingly and despite the best intentions. For example, if a disqualified person uses a foundation credit card for personal expenses and later reimburses the foundation for the expenses, this is considered a loan and a form of self-dealing — even if the person reimburses the full amount within a month of the transaction. A violation can result in significant penalties and even the loss of the foundation's tax-exempt status.

Yearly tax returns are required and Form 990-PF must be filed annually with the IRS and made available for public inspection upon request. State tax returns are also required in most states. Detailed reporting and allocation of expenditures is a must.

Weigh the costs

Although complex rules and regulations govern private foundations, these entities also have their perks. A private foundation can allow you to direct or redirect assets to charities of your choice and take advantage of tax benefits. ■

Protecting your portfolio from bond calls

When you buy a bond, you probably pay close attention to its maturity date — the year the issuer pays back your principal and finishes its series of interest payments. Some bonds are callable as well, meaning the issuer can choose to redeem the securities at a predetermined price before they mature. Issuers often call bonds when interest rates fall, allowing them to save money by paying off their debt early and refinancing it at more favorable terms.

This provision means that callable bonds can provide investors with a higher coupon rate. Issuers may also provide investors with an additional bonus payment as compensation for getting paid back early. Nevertheless, when bonds are called, it can leave a hole in your portfolio, especially if interest rates have fallen significantly. Current bonds then aren't likely to provide you with as much income as the older, higher-rate bonds.

Even though you can't prevent bonds from being called, you can prepare your portfolio for the possibility. For starters, consider buying call-protected bonds, which may not be called for a preset term. In addition, bond laddering — a portfolio strategy where you own bonds offering a variety of maturity dates — can temper your portfolio's interest rate risk and reduce the potentially negative effects of bond calls.

Your source for customized investment and financial planning

FERRELL
WEALTH MANAGEMENT INC.
Registered Investment Advisor

www.Ferrellwm.com
Tel: 407-629-7008

Successfully managing personal and family finances means making the right decisions today while considering their implications for the future. At Ferrell Wealth Management, our sole focus is our client's best interest, and we customize portfolios and financial plans to fit each individual's set of goals and objectives.

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- Investment Policy Formation and Review
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By working with our experienced team of advisors, you will benefit from the independent and objective perspective necessary to make your financial vision a reality.

James W. Ferrell, MBA, CFP®,CPA, PFS, CIMC
President
A Certified Public Accountant (CPA), Certified Financial Planner (CFP), Personal Financial Specialist (PFS) and Certified Investment Management Consultant (CIMC), Jim is the founding shareholder and President of Ferrell Wealth Management, Inc.

Jim is actively involved in local organizations including: Morning Star Charities, Inc. (President), Winter Park Chamber of Commerce, the University of Central Florida Foundation (Board of Directors), Winter Park YMCA (Board of Directors), on the Center for Entrepreneurship at Rollins College (Board of Directors) and is an Inductee in the UCF College of Business Administration Hall of Fame.

Katie Miller, MBA
Vice President - Senior Financial Advisor
A Certified Financial Planner (CFP) candidate with a Master of Business Administration Degree from Rollins College, Katie works as a financial advisor responsible for assisting clients set and achieve their long-term financial goals through investments, tax planning, asset allocation, risk management, retirement planning, and estate planning.

Katie is a member of the Winter Park Community Foundation Advisory Board and Investment Management Consultants Association (IMCA), and involved in such local organizations as the Central Florida YMCA, Orlando Chamber of Commerce, Winter Park Chamber of Commerce, and Camp Boggy Creek.

Alex Negron, MBA
Senior Financial Advisor
A Central Floridian for 20 years, Mr. Negron is a Certified Financial Planner (CFP) candidate with a Master of Business Administration Degree from Webster University. Alex is responsible for assisting clients with their financial plan, which includes retirement, estate, and tax planning. He develops asset allocation plans using various types of investments in order to properly diversify and reduce portfolio risk.

Prior to becoming a member of Ferrell Wealth Management, Inc., Alex worked for Charles Schwab & Co., Inc. as a VP- Financial Consultant in Orlando, Fl.

Mr. Negron is involved with local organizations such as the Orlando Chamber of Commerce and Leadership Orlando Alumni. He holds the Series 7, 9, 10, 63, and 65 licenses.

Please call us today at 407-629-7008 to discuss your needs, or visit www.Ferrellwm.com for more information on our services.

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