JULY/AUGUST 2011

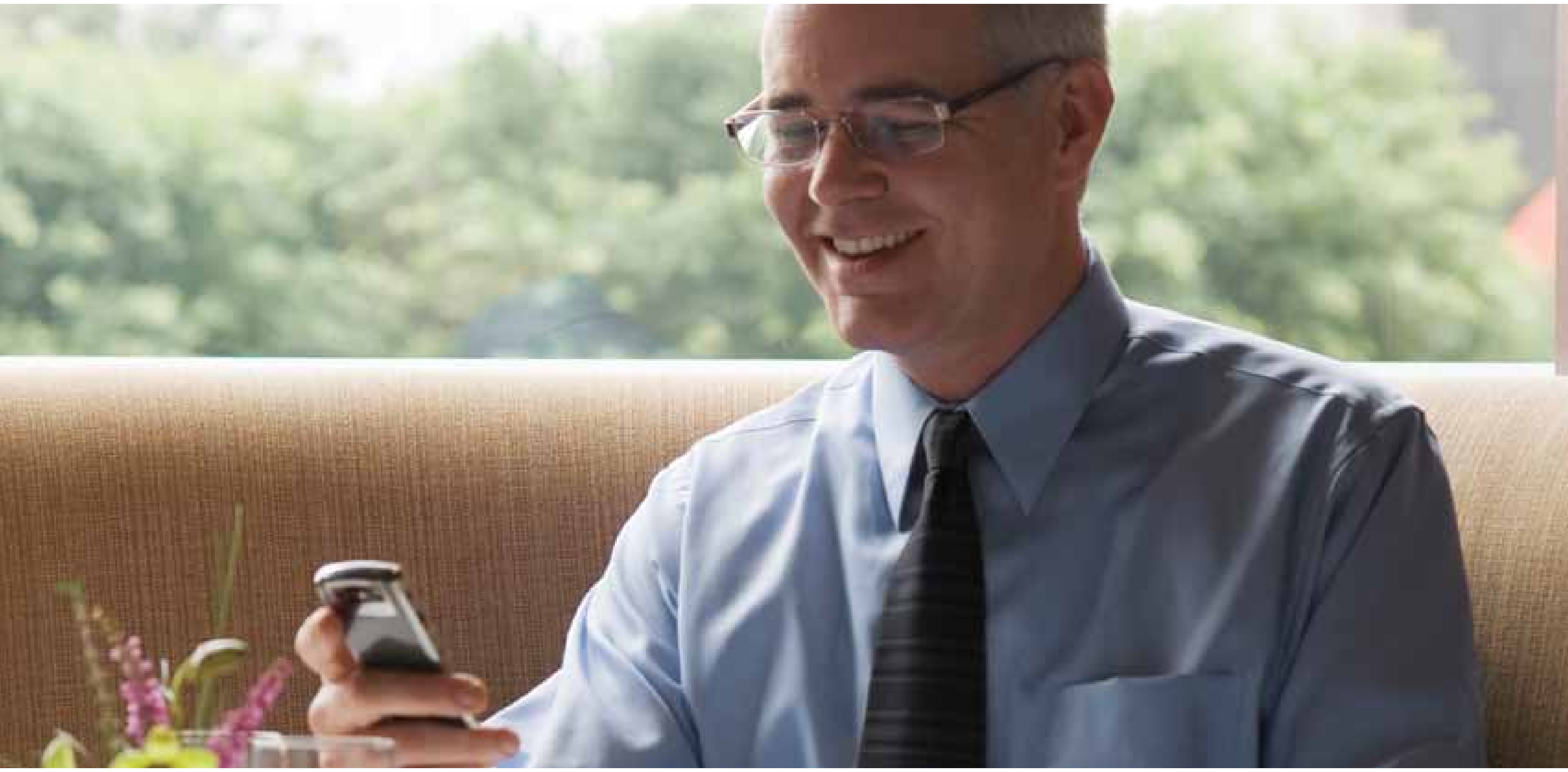
WEALTH MANAGEMENT ADVISOR

THE BRIGHTER SIDE OF CAPITAL LOSSES
There's opportunity in that red ink

REBALANCED YOUR PORTFOLIO, RECENTLY?
If not, unintended risks may increase

PLAYING CATCH-UP WITH YOUR RETIREMENT SAVINGS

The new estate tax regime
GREATER WEALTH-TRANSFER OPPORTUNITIES NOW AVAILABLE



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

The brighter side of capital losses

There's opportunity in that red ink

Capital losses are an almost inevitable part of investing, once you stray beyond federally insured investments, such as bank savings accounts and certificates of deposit. The good news is that losses can be used to lower your tax liability. They also give you an opportunity to reposition your portfolio.

Understand the basics

A capital loss occurs when you sell a security for less than your "basis," generally the original purchase price. You can use capital losses to offset any capital gains you realize in that same tax year.

When your capital losses exceed your capital gains, you can use up to $3,000 annually to offset wages, interest and other ordinary income. (The limit is $1,500 for married people who file separately.) If your capital losses exceed these limits, you can carry the remainder forward to future years until it's used up.

Watch out for the wash sale rule

Years ago, investors realized it was often beneficial to sell a security to book a capital loss for a given tax year and then — if they still liked the security's prospects — buy it back immediately. To counter this strategy, Congress imposed the wash sale rule, which disallows losses in situations where an investor sells a security and then buys the same or "substantially identical" security within 30 days of the sale, before or after.

Waiting 30 days to repurchase a security you've sold might be fine in some situations, but there will undoubtedly be times when you'd rather not be forced to sit on the sidelines for a month. Likewise, you might hesitate to double up on a position in which you have a loss and then wait 31 days to sell the original stake — a strategy that also avoids a wash sale violation because the purchase occurs more than 30 days before the sale.

Take a fresh look at your losers

Fortunately, there's another alternative. With a little research, you might be able to identify a security you like just as well as, or better than, the old one. Let's assume you own stock in a networking equipment company that has lost value since you purchased it. After researching the industry, you discover that the company's chief competitor is actually more attractively valued and has better growth prospects.

Your solution is now simple and straightforward — you simultaneously sell the stock you own at a loss and buy the competitor's stock, thereby avoiding violation of the "same or substantially identical" provision of the wash sale rule. In the process, you've added to your portfolio a stock you believe has more potential or less risk.

The same strategy can be applied to mutual funds. In that case, your financial advisor can help you identify a mutual fund or exchange-traded fund with a similar investment strategy and size.

Congress extends the 15% tax rate on long-term capital gains

Near the end of 2010, Congress passed legislation extending the favorable tax rates on capital gains instituted in 2003. That means a 15% rate on long-term capital gains for taxpayers in higher tax brackets and 0% for those in the 10% and 15% brackets. These rates will apply to both the 2011 and 2012 tax years.

With rates now scheduled to stay low through 2012, there's no immediate pressure to lock in capital gains to avoid paying higher taxes later. However, investors will want to see which way the political winds are blowing in the second half of 2012 and fine-tune a strategy that reflects any likely changes in tax policy.

At any rate, tax considerations should remain only one factor — and not necessarily the most important one — in the decision to buy or sell a security or mutual fund.

Actively managed funds can be harder to replicate than index funds, especially if you like a particular manager. Remember, though, whatever replacement you come up with doesn't have to be a long-term solution. It can essentially be a placeholder for 30 days, a way of retaining a position in the market in case a significant advance should occur.

When buying mutual funds, it pays to know when the next capital gains distribution will occur and how large it will be.

Pay attention to the details

If you purchased shares of a security at different times, give some thought to which lot can be sold most advantageously. The IRS allows investors to choose among several different methods of designating lots when selling securities, and those methods sometimes produce radically different results.

When buying mutual funds, it pays to know when the next capital gains distribution will occur and how large it will be. If the distribution is sufficiently large and the date is imminent (they often occur in December), you might want to delay your purchase to avoid incurring a sizable tax liability. At the same time, bear in mind that prior dividends paid and reinvested in mutual funds you own were taxed, and therefore increase your tax basis in the fund.

Ease the sting

Losses are an unpleasant fact of investing. But with a proactive attitude and careful planning, you might be able to use a loss to lower your taxes and strengthen your portfolio — which can go a long way toward easing the loss's sting. Before taking any action, consult with your financial advisor and tax professional to determine if this tax-reducing strategy makes sense for you. ■

Rebalanced your portfolio, recently?

If not, unintended risks may increase

Warning: Without rebalancing your portfolio, over time you may become exposed to more risk than you initially intended. Understanding the reasons to rebalance and the steps to take to do so are important to your financial well-being.

Reasons to rebalance

Market fluctuations cause your investments to continually gain and lose value. In addition, 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. Bringing your existing portfolio into line with your target weightings may improve your portfolio's long-term performance. Letting your winners ride can work for a while, sometimes even years. But left on its own, your 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.

Actions to take

To bring your portfolio back into balance, consider selling some of the securities that have overgrown their target allocation. Then use 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.

FOUR

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, say, every July 19 or the first day of every quarter. It is important, however, to pick a schedule and stick to it, no matter what.

Rebalancing involves buying and selling securities, which can expose you to capital gains tax if you're working within a taxable investment account.

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.

Don't forget about taxes

Rebalancing involves buying and selling securities, which can expose you to capital gains tax if you're working within a taxable investment account. And the impact can be particularly great 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.

Variables to consider

It's important to remember that rebalancing your portfolio doesn't guarantee a profit or protection from a loss. In addition, there are many variables when it comes to determining when and how to rebalance your portfolio. Your financial advisor can help you evaluate which mix of investment types is best for you based on current market conditions and your risk tolerance and financial goals. ■

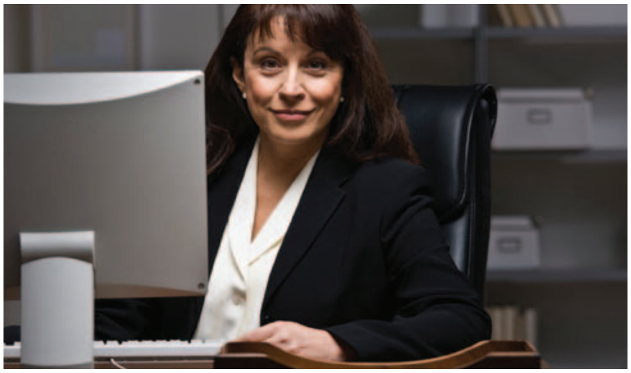
Playing catch-up with your retirement savings

Whether due to two ferocious bear markets in the past decade or simply because you got a late start in saving, you might be looking for additional ways to build your retirement fund. If you're age 50 or older, "catch-up" contributions are one tool you should consider.

What are "catch-up" contributions?

Catch-up contributions are extra amounts the U.S. tax code permits individuals age 50 or older (by the end of the tax year) to contribute to their retirement plans — amounts over and above the regular annual contribution limits. Consequently, those who take advantage of catch-up contributions have the opportunity to add meaningfully to their savings over time.

How much extra you can put away depends on the type of retirement plan — see "2011 retirement plan contribution limits" below. In addition, you can't make contributions in excess of your earned income for the year. (Additional rules may limit your ability to contribute in certain circumstances; check with your tax advisor for specific details that may apply to your situation.)



Tax treatment

If you make catch-up contributions to a traditional 401(k), 403(b) or 457(b) plan or a SIMPLE, they'll be pretax. Similarly, if you make catch-up contributions to a traditional IRA, you may be able to deduct them. (Deductibility depends on such factors as participation in an employer-sponsored plan and income level.)

So, for example, if this year you make the maximum catch-up contribution to your traditional 401(k) and you're in the 28% tax bracket, that's $1,540 less federal tax ($5,500 × 28%). There may be additional state tax savings as well.

The power of catching up

How much of a difference can it make to take full advantage of your catch-up options? More than you might think.

Let's assume you turn 50 this year and contribute an extra $5,500 to your traditional 401(k) for 2011. You then continue making that same $5,500 contribution for the next 15 years, until you reach age 65. If you achieve a 4% rate of return, you'll add close to an extra $120,000 to your retirement nest egg before taxes. Increase your return to 6%, and the difference grows to about $141,000. At an 8% return, the retirement savings boost works out to about $167,000.

Saving to the max

Some savers qualify to contribute to both employer-sponsored plans and IRAs, which allows them to make catch-up contributions to both accounts, thereby boosting their final totals at retirement even more. And if you have a spouse who can implement the same strategy, the amounts discussed here can be doubled.

It's a good idea to check with your tax advisor to verify the level of catch-up contributions you're eligible to make. If you're concerned about having enough money in retirement, catch-up contributions might help you close the gap. ■

2011 retirement plan contribution limits

Type of plan	Regular limit	Catch-up contribution limit	Total maximum contribution for taxpayers age 50 or older
401(k), 403(b) or 457	$16,500	$5,500	$22,000
SIMPLE	$11,500	$2,500	$14,000
IRA	$5,000	$1,000	$6,000

Note: *Other factors may further limit your maximum contribution.*

The new estate tax regime

Greater wealth-transfer opportunities now available

After many years of not knowing the fate of the estate tax, there now is some certainty — well, at least for two years. With the passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act late last year, the estate tax law is set through 2012. But if Congress doesn't take additional action, the estate tax will revert to levels prescribed by pre-2001 tax law beginning in 2013.

The bottom line is that, even though uncertainty remains, for the next two years you have the ability to transfer greater amounts of wealth out of your estate, thus lowering your estate tax liability.

2 exemptions increased

Under the 2010 Tax Relief act, the gift tax exemption increased from $1 million to $5 million for 2011, and the $5 million amount will be adjusted for inflation for 2012. The estate tax exemption for these years is the same as the gift tax exemption, but any gift tax exemption used during life will reduce the estate tax exemption available at death.

For 2010 and 2011, a top tax rate of 35% applies to taxable gifts or estates in excess of the available exemption. But in 2013, if Congress doesn't take action, the exemptions will fall to $1 million and the top rates will jump to 55%.

If you have a high net worth, consider making lifetime gifts this year or next to lock in as much of the $5 million exemption as you can without endangering your own financial security. Congress may decide to make permanent the $5 million exemption, but you'll still benefit by making lifetime gifts sooner rather than later, because you'll remove all future appreciation on the gifted assets from your estate.

One caveat to keep in mind is that assets you transfer by gift aren't entitled to the "stepped-up basis" that applies to assets transferred at death. Thus, you'll need to consider the effect of capital gains taxes your loved ones will have to pay if they decide to sell the gifted assets.

Married couples gain flexibility

Another estate-tax-related provision of the 2010 Tax Relief act allows the $5 million estate tax exemption to be "portable" for married couples. What does this mean? Simply, if one spouse dies without using up all of his or her exemption, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining exemption to make tax-free transfers during life or at death.

This provision allows significant estate planning flexibility if proper planning wasn't done prior to the first spouse's death. But, as with the other new estate tax provisions, this one is available only through 2012 unless Congress decides to extend it. Even when the portability election is made before 2013, the benefits will be lost if the survivor doesn't use up the deceased spouse's remaining exemption before the portability provision expires.

Choosing the right strategy

If you have a large estate, the 2010 Tax Relief act has provided opportunities for you to transfer a significant amount of assets out of your estate tax-free. But remember that currently they're available only through 2012. Consult with your estate planning advisor to determine which strategies are best for your situation and when to take action. ■

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.

We provide a full range of investment management and advisory services including:

- Fee Based Investment Advisement
- Comprehensive Personal Financial Planning
- Portfolio Management
- Investment Policy Formation and Review
- Banking Services through Schwab Bank and other banking relationships
- Tax and Estate Planning
- 529 Plans
- Separately Managed Accounts
- Mutual Funds
- Exchange Traded Funds
- Government, Corporate and Municipal Fixed Income
- Asset Allocation Modeling
- Retirement Accounts, including 401(k)s
- Cash Management Accounts
- Margin Loans
- Life, Disability and Long-Term Care Insurance
- Access to your portfolio anytime, anywhere through online services

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.

Crystal Garner
V.P. – Relationship Mgmt., Senior Financial Advisor
Crystal Garner is an investment advisor and veteran member of the team and is responsible for ensuring clients receive the highest level of personal service. In addition to assisting clients with their multi-faceted needs, she also manages the daily operations of the firm.

Shena Simmons
Senior Financial Advisor & Marketing Director
Shena serves as an investment advisor for the firm and utilizes her dual background in finance and marketing in responsibilities ranging from financial planning to directing the firm's marketing efforts.

J.L. Hurt IV
Senior Financial Advisor & Research Analyst
J.L. serves as a research analyst and portfolio manager for the firm. In addition to assisting clients with the many facets of financial planning, he is also responsible for the rebalancing of client portfolios and analysis of securities and separate account managers.

Eric Faber
Financial Advisor & Business Developer
Eric is an investment advisor responsible for helping clients establish and achieve their long-term financial goals through comprehensive financial planning.

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

Ferrell Wealth Management, Inc. is a registered Investment Advisor with the SEC, with assets custodied at Charles Schwab and Co. and TD Ameritrade, Member FINRA/SIPC. Brokerage products and services are offered by Charles Schwab & Co. and TD Ameritrade, (Member SIPC) and are not FDIC insured and are subject to investment risk including the loss of principal. Securities offered through Triad Advisors Member FINRA/SIPC. Advisory services offered through Ferrell Wealth Management, Inc. Ferrell Wealth Management, Inc. is not affiliated with Triad Advisors. Ferrell Wealth Management Inc. is independent of Charles Schwab and Co., TD Ameritrade and Triad Advisors.