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WEALTH MANAGEMENT ADVISOR

IRA SAVINGS CAN GET YOU CLOSER TO YOUR GOALS

4 PRINCIPLES FOR SUCCESSFUL INVESTING

WHEN IS THE RIGHT TIME TO MAKE CHARITABLE DONATIONS?

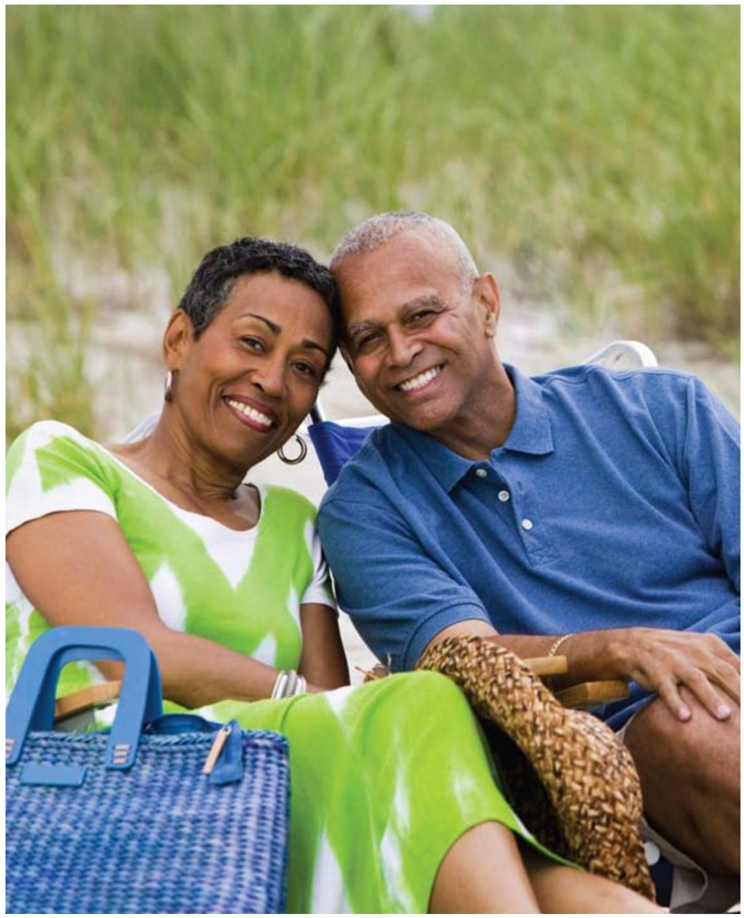
TAKE A BITE OUT OF FRAUDULENT CRIME WITH A FEW SIMPLE STEPS

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

IRA savings can get you closer to your goals

If you're saving for your retirement, chances are you're participating in your employer's 401(k) plan or other retirement plan. However, another common retirement savings vehicle — the IRA — is too often ignored or underused. As the April 15 deadline for 2009 IRA contributions approaches, don't forget about this powerful way to save more for your golden years.



Common features

The two main types of IRAs — traditional and Roth — share many qualities. Both let you save for retirement on a tax-advantaged basis. Both also impose a 10% early withdrawal penalty on funds withdrawn before age 59½ — though there are exceptions to the penalty for certain higher-education and first-time home-purchase costs, in certain hardship cases such as medical need, and in cases of disability or death.

The annual maximum for total contributions to all IRAs is the same for 2009 and 2010: the lesser of $5,000 or 100% of earned income for the year. Individuals age 50 or older can make an added "catch-up" contribution of $1,000. (Both amounts are annually indexed for inflation, but there is no adjustment for 2010.)

Tax deferred …

Traditional and Roth IRAs also have some important differences. In its tax treatment, a traditional IRA resembles a 401(k) account: Generally, tax is paid only when funds are withdrawn.

You can deduct contributions to a traditional IRA regardless of income, so long as you don't participate in a qualified retirement plan, such as a 401(k), at work. But if you do, your income will come into play.

For 2009, single filers participating in an employer-sponsored plan can deduct a full traditional IRA contribution if their modified adjusted gross income (MAGI) is less than $55,000 ($56,000 for 2010), and a partial contribution with MAGI between $55,000 and $65,000 ($56,000 and $66,000 for 2010). Married taxpayers filing jointly can deduct full

2009 and 2010 contributions if their household MAGI for the applicable year is less than $89,000, and partial contributions with MAGI between $89,000 and $109,000. (There are higher income limits for an individual who doesn't participate in a retirement plan at work but whose spouse does participate in a plan.)

If you or your spouse participates in an employer-sponsored plan and your income exceeds the applicable MAGI limit, you can make *non*deductible IRA contributions up to the $5,000 contribution limit (reduced by any Roth IRA contributions you make), which can be withdrawn at any time tax- and penalty-free. Any earnings on the contributions accumulate tax-deferred, and withdrawals of earnings will be subject to tax and any applicable penalties.

… Vs. tax free

Roth IRA contributions are after-tax, meaning you can't deduct them and they won't lower your taxable income for the year of the contribution. On the plus side, however, you can withdraw account *earnings* free of taxes, provided you're age 59½ or older and the account has been open at least five years. Withdrawals of *contributions* can be made at any time tax- and penalty-free.

> Roth IRA contributions are after-tax, meaning you can't deduct them and they won't lower your taxable income for the year of the contribution.

You can contribute to a Roth account regardless of whether you participate in an employer retirement plan, but income limits do apply. For 2009 and 2010, single filers can make a full contribution with MAGI of less than $105,000 for the applicable year, and a partial contribution with MAGI between $105,000 and $120,000. For 2009, married taxpayers filing jointly can make full contributions with MAGI of up to $166,000 ($167,000 for 2010) and partial contributions with MAGI between $166,000 and $176,000 ($167,000 and $177,000 for 2010).

Another benefit: Roth IRAs have no mandatory withdrawals, unlike traditional IRAs, which require minimum distributions after age 70½. This feature can make Roth IRAs an excellent estate planning tool.

Benefits that add up

Because IRA contribution limits are considerably less than those of employer-sponsored plans (the 2010 401(k) limit, for example, is $16,500 — $22,000 for taxpayers age 50 or older), it's easy to overlook them. But when it comes to retirement savings, a little can go a long way. Your IRA likely won't be enough to fund all of your retirement dreams, but it can be an invaluable down payment on them. ■

Roth conversions now more widely available

Beginning in 2010, anyone, regardless of income, can convert a traditional IRA into a Roth IRA, changing future tax-*deferred* potential growth to tax-*free* potential growth. (Previously, taxpayers with modified adjusted gross incomes greater than $100,000 were ineligible.)

Conversions are subject to income taxes, but for those taking place in 2010 the tax can be paid in two equal installments in 2011 and 2012. (If you convert nondeductible contributions, you'll owe tax on only your account earnings.)

With a Roth IRA, you must leave the assets in the account for at least five tax years and generally until age 59½ before you can withdraw the earnings free of income tax and penalty. Be sure to consult with your tax advisor regarding your particular situation.

4 principles for successful investing

Even though there's no single way to ensure investment success, most successful investors follow a set of principles that hold true in all markets. Following these four familiar, but deceptively simple, principles may make the difference in the pursuit of your financial goals.

1. Create a plan

Successful investors know their financial goals and develop a plan for pursuing them. Begin by identifying each goal and its time horizon — the point at which you expect to tap your funds.

Early in your career, your objectives may be relatively straightforward — paying down debt, saving for a car or home, or preparing for a family. As you grow older, your needs likely will become more complicated, including college saving, retirement planning and estate planning, among others.

Many of your goals will be on vastly different timetables. Say, for example, that you plan to retire in two decades, but you also want to purchase a vacation home next year. When investing for the latter, you'll want to avoid excessive risks to ensure access to your money when you need it — making certificates of deposit, money market funds or ultra-short-term bonds potentially attractive places for you to invest. For retirement, however, you'll have significantly more time to potentially recover from a market setback, making a more aggressive investment approach more appropriate for some investors.

2. Diversify

Diversification may be an investing truism, but financial professionals speak of it often because it's a vital element of an effective portfolio. By holding a variety of noncorrelated asset classes or securities (that is, investments that have historically performed *differently* under the same economic circumstances), you may reduce your overall risk and make your portfolio's overall return more consistent, if not necessarily higher. (Actual investment results will vary. Please keep in mind that a strategy involving diversification doesn't assure a profit and doesn't protect against a loss in declining markets.)

3. Keep an eye on taxes

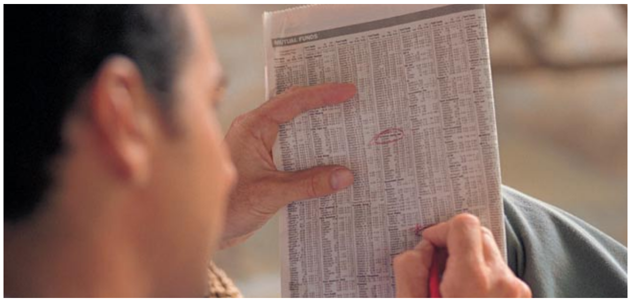
Taxes can skim the cream off the top of your returns, leaving you with reduced performance. Taxes on realized investment gains are unavoidable, but you can successfully limit what you'll owe by taking the following steps:

- Contribute to any tax-advantaged accounts available to you — such as 401(k) plan accounts, IRAs and Simplified Employee Pension plans.
- When possible, own investments that produce short-term capital gains in tax-deferred or tax-free accounts to avoid having the gains taxed currently at your ordinary income tax rate.
- When possible, hold on to appreciating investments for at least one year to qualify for long-term capital gains treatment.

You also may benefit — especially if you're in a higher tax bracket — by putting some of your money in tax-friendly investments, such as municipal bonds or tax-managed mutual funds.

4. Stick with it

For many investors, the biggest challenge is to stick with their plan, regardless of what's happening in the financial markets. During the



market turmoil of late 2008 and early 2009, for example, too many people abandoned their carefully thought-out investment strategy. Some sold out of the markets entirely — only to find themselves missing out when security prices rebounded sharply in the spring and summer last year.

One way to stay on track is to make automatic contributions to your investment accounts — removing the uncertainty of whether now is the right time to invest. Regular investments of the same dollar amount also can benefit your account through dollar-cost averaging, allowing you to buy more shares when they're cheaper and fewer when they're more expensive. (Dollar-cost averaging doesn't assure a profit, nor does it protect against loss in declining markets. To be effective, there must be a continuous investment regardless of price fluctuations. Investors should consider their financial ability to continue to make purchases through periods of low price levels.)

Additionally, before making investment decisions that may result in unintended consequences over the long term, determine if you're proceeding according to your plan. Sometimes your plan will need to be revised — particularly if you've had a major change in your life recently — but much of the time, consistency and patience can be your best strategies.

Put principles into practice

It's easy enough to read about these principles; the challenge is to put them into practice. Your financial advisor can help you select appropriate investments for all of your goals, suggest other ways to help you pursue your goals, and revise your investment strategy as your goals shift. ■

When is the right time to make charitable donations?

You've decided you'd like to use a portion of your wealth for philanthropic endeavors. Now it's time to make another decision: Should you make charitable gifts during your lifetime or charitable bequests after your death? Let's take a closer look at the factors involved with each choice.

No time like the present

One advantage of making lifetime gifts is that you can see how your generosity makes a difference. Lifetime gifts generally are advantageous from a tax standpoint as well.

When you leave property to charity in your will or living trust, your estate can claim an estate tax charitable deduction to the extent that the property is included in your gross estate. If you donate property during your lifetime, however, not only is the property's value excluded from your estate — resulting in the same estate tax benefit as a bequest — but you're also entitled to a charitable *income* tax deduction.

(Note that this article is written with the assumption that the federal estate tax will be in effect for the year of death. As of this writing, an estate tax repeal for 2010 only is in effect, but the repeal may have been repealed by the time you're reading this. Check with your tax advisor for the latest information.)

Keep in mind that charitable income tax deductions are limited based on your adjusted gross income (AGI), the type of asset donated and the type of organization receiving the gift. Donations in excess of the applicable AGI limit, however, can in most cases be carried over for up to five years.

Putting off until tomorrow

Sometimes, charitable bequests are preferable to lifetime gifts. For example, if you're uncertain about your future financial needs, large lifetime gifts may be risky. By making donations in your will or living trust, you retain the ability to use these resources during your life. You may therefore feel comfortable making substantial bequests above and beyond the amount you're willing to part with during lifetime.

If you wish to benefit a foreign charitable organization, it's generally preferable to do so through your will or living trust. You can claim charitable deductions for income tax purposes only for gifts to U.S. charities, while your estate may also deduct donations to foreign charities.

Marriage of philanthropic minds

Deductions for donations of ordinary income property — such as stock held one year or less, inventory and property subject to depreciation recapture — are limited to the taxpayer's cost basis in the property. If you're married and your spouse is also charitably minded, you can use a charitable bequest strategy to get a larger income tax deduction for a donation of ordinary income property. How?

Instead of donating ordinary income property during your life, leave the property to your spouse in your will or living trust. The bequest is shielded from estate tax by the unlimited marital deduction, and your spouse's cost basis in the property is "stepped up" to its fair market value.

Your spouse can then donate the property to charity and take an income tax deduction equal to his or her basis, which will be the property's full fair market value (assuming the property is donated immediately).

Make the right choice

Giving to charities that are near and dear to you can be an excellent decision. But before taking action, be sure to discuss with your tax, legal or accounting professional the ins and outs of making lifetime gifts and charitable bequests. He or she can review your specific situation and help you determine which choice is better for you. ■

Take a bite out of fraudulent crime with a few simple steps

Fraud becomes more prevalent during difficult economic times, when people are hurting financially. And fraudsters tend not to discriminate — they'll target both novice and sophisticated investors alike. Thus, it's important not to get into the mindset that fraud and identity theft "can't happen to me," because it can. By taking proper steps, however, you can protect your wealth from thieves.

Fraud red flags

When it comes to investing, there are no guarantees, and caution and due diligence are top of mind for smart investors. Ponzi schemes such as

Bernie Madoff's are just one example of investment scams.

When considering an investment offer, be aware of a few red flags. Is the investment strategy explained in a convoluted way that sounds like it might not hold up to close scrutiny? Does the investment provide unusually high and consistent returns even during market volatility? Is there no third-party brokerage firm involved?

If you answered "yes" to any of these questions, consider seeking the assistance of a qualified, independent investment professional. With objectivity and a trained eye, he or she can help take the emotion out of investment decisions and assess offers for any fraudulent signs.

No one else should be you

Just as you wish to keep your investments safe, you need to work to keep your identity safe. One type of identity theft scheme that has received considerable publicity is "phishing." As people have become more comfortable using the technology, the number paying bills and accessing their bank accounts online has grown. Unfortunately, some people have become too comfortable, and those are the ones fraudsters employing phishing techniques prey upon.

Phishing involves creating phony — but professional looking — e-mails purporting to be from financial institutions or other companies and asking you to submit personal information, such as your Social Security number or credit card or bank account numbers. Because these e-mails look legitimate, it can be easy to fall prey.

The best course of action is to not give out personal information unless you initiate the contact with your bank or any other company. Even then, before you share personal information, ask about the organization's privacy policies and review their security measures. In addition, don't provide more information than needed.

Don't ever give out personal information online to what purports to be an institution such as your bank, investment firm or the IRS — the genuine entities should already have that information and would never e-mail you requesting it.

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Protect what's yours

Wealth preservation should play an important role in your overall wealth management plan. Two major threats to your money are fraudulent investment schemes and identity theft. Discuss with your financial professional steps you can take to identify and thwart fraud before it happens to you. ■

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WEALTH MANAGEMENT INC.
Registered Investment Advisor

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

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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
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Senior Financial Advisor & Marketing Director
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