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# WEALTH MANAGEMENT ADVISOR



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

# Decision time

## When to begin taking Social Security benefits requires planning

TWO

As medical technology continues to improve and life spans grow longer, there is an increasing risk that you'll outlive your retirement savings. In fact, one out of four 65-year-olds today will reach age 90, and 10% will live to be older than 95, according to the Social Security Administration.

You need to be financially prepared for the possibility of a lengthy retirement, and one important decision you'll need to make is when to begin taking Social Security benefits.

### Your options

Many people choose to start receiving their monthly Social Security benefits as soon as they're eligible, at age 62. Even though this is an appropriate strategy in some situations, postponing distributions by even a few years might increase the total income you'll receive throughout your retirement.

You have three options regarding when to take Social Security benefits. You may:

1. Receive smaller monthly payments by taking benefits as soon as you're eligible at age 62,
2. Receive "full" payments by starting benefits at your "normal" retirement age (see "Eligibility for full retirement benefits" at right), or
3. Receive larger payments by delaying your benefits after normal retirement age up until age 70.

### Eligibility for full retirement benefits

| Birth year | Normal retirement age |
|---|---|
| 1937 or earlier | 65 |
| 1938 | 65 and 2 months |
| 1939 | 65 and 4 months |
| 1940 | 65 and 6 months |
| 1941 | 65 and 8 months |
| 1942 | 65 and 10 months |
| 1943–54 | 66 |
| 1955 | 66 and 2 months |
| 1956 | 66 and 4 months |
| 1957 | 66 and 6 months |
| 1958 | 66 and 8 months |
| 1959 | 66 and 10 months |
| 1960 and later | 67 |

Just because you can receive larger monthly payments by waiting doesn't necessarily mean that putting off benefits is the best move. In some instances, there may be sound reasons to receive payments sooner rather than later.

For example, if you're in poor health or have a family history of medical problems, it may be prudent to start collecting Social Security as soon as you're eligible. On the other hand, if you're in good health and you've accumulated enough monetary resources to sustain you during the early years of your retirement, delaying your distributions and collecting larger monthly payments down the road may make more sense.

## Opportunities for spouses

The decision about when to take Social Security benefits is relatively straightforward if you're single — take benefits soon and get smaller payments, or delay and get larger payments. But for married taxpayers, the decision can get considerably more complicated because, in some situations, one spouse's decision can affect the maximum amount of Social Security benefit the other can receive.

In fact, there are many factors to consider with a spousal benefit. Talk to your financial advisor about the alternatives available to you and your spouse so you can take fullest advantage of your opportunities.

## Help from the SSA

In making a decision as to when to start taking benefits, it's also helpful to look at your estimated benefits. Every year, you can expect to receive a statement in the mail detailing your expected annual benefits from the Social Security Administration (SSA). This information is calculated based on your career earnings to that point, so if your income continues to go up, so will your estimated benefits, up to a certain point. (For 2010, the maximum monthly benefit for a person who started taking Social Security benefits at the applicable normal retirement age is $2,346.)

For more up-to-date information, the SSA's Web site offers a useful calculator — www.ssa.gov/estimator — that allows you to estimate your future Social Security benefits. On this page, you can enter different levels of future income and retirement ages to compare how much you'll receive under a variety of scenarios.

If you're close to retirement and you'd like to receive a larger benefit, consider postponing retirement and working a few extra years. Doing so can help maximize your Social Security benefits, as well as help you build up more funds in an IRA or employer-sponsored retirement plan, such as a 401(k). The more financial resources you have, the more flexible you can be about when to take your Social Security benefits.

> Just because you can receive larger monthly payments by waiting doesn't necessarily mean that putting off benefits is the best move.

## Plan for the long term

The trade-off between smaller payments sooner or larger payments later can hinge on a variety of considerations, including your current and future financial profile and your health. Like so many financial decisions, this one has lasting consequences. So make sure you talk to your financial advisor about your situation to evaluate the best options for you. ■

# Bond investing 101: Interpreting the yield curve

Talk to a professional investor about the bond market, and chances are the conversation will quickly become technical. However, if you're looking for a straightforward analytical tool that can provide insight into current market conditions, the interest rate environment in the bond market and perhaps even the direction of the economy, consider familiarizing yourself with the yield curve.

## Different curves, different conditions

The yield curve is a graph that tracks the interest rates that bonds pay across a range of maturities. Basically, it compares how long- and short-term bond yields relate to each other.

Even though yield curves can be plotted for many types of fixed-income securities, you'll most commonly see a U.S. Treasury bond yield curve cited in the financial press. Bond maturities ranging from 3-month Treasury bills all the way to 30-year Treasury bonds are plotted on the horizontal axis, while interest rates — the yields that the bonds pay — are plotted on the vertical axis.

The yield curve is constantly shifting based on a variety of market and economic conditions, such as the Federal Reserve's current and expected future monetary policy and expectations for future inflation.

Typically, there are four basic shapes to the yield curve, all of which have significance for bond investors:

**1. Normal (positive) yield curve (Chart 1).** A normal yield curve has a gently positive slope that indicates interest rates rising gradually as bond maturities lengthen. This situation suggests a normally growing economy. It's logical to expect shorter bonds to pay lower interest rates than their longer counterparts — the shorter the time until maturity, the greater the odds that investors will be paid back in full. In contrast, with longer bonds, there's more time for conditions to deteriorate, and, therefore, a greater interest rate must be paid to compensate investors for the added risk.

**2. Flat yield curve (Chart 2).** A flat yield curve occurs when short- and long-term bonds are paying similar interest rates. This somewhat unusual condition suggests a transition period for the economy, and it can happen when the markets are unsure about the future direction of interest rates and economic growth. Because of this uncertainty, the yield curve flattens — indicating a market in which bond investors aren't rewarded with higher interest rates in exchange for taking on the increased risks associated with longer-maturity bonds.

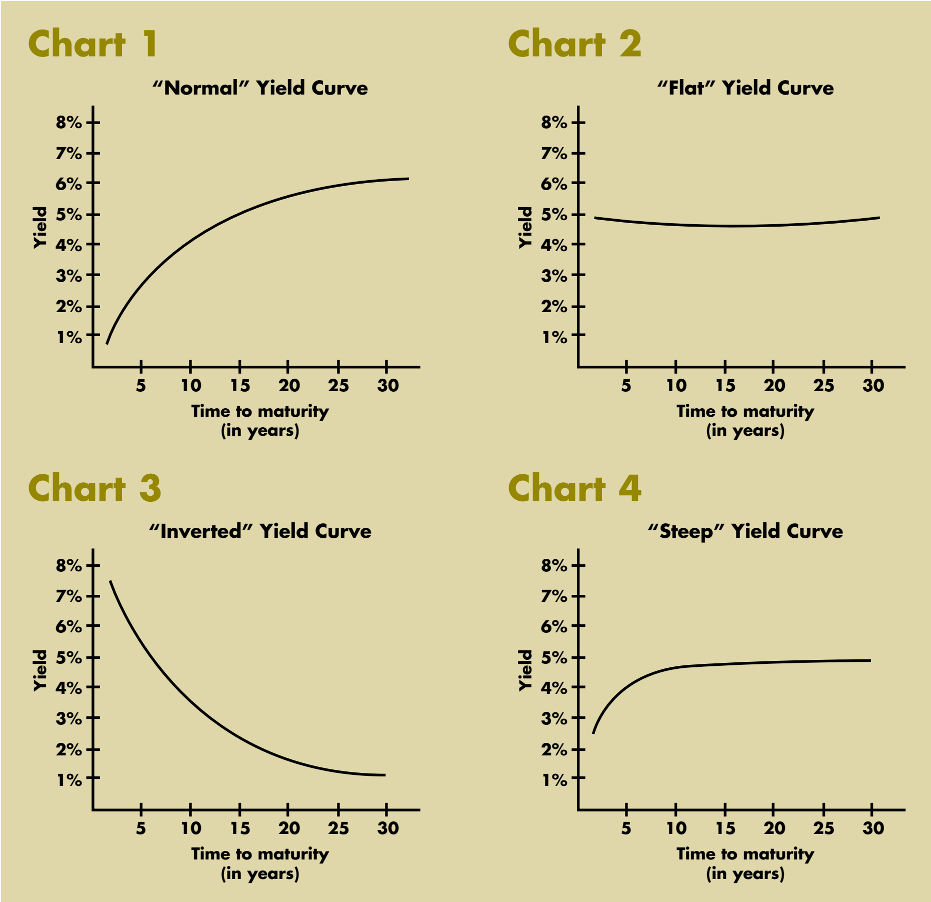
**3. Inverted (negative) yield curve (Chart 3).** An inverted yield curve — also called a negative yield curve — is a relatively rare situation where short-term bonds are paying higher yields than their long-term counterparts. This frequently indicates a weakening economy, which typically leads to even lower future yields for longer-term issues. As a result, the yield curve inverts as investors seek to lock in today's interest rates for as long as possible before they potentially trend lower.

**4. Steep yield curve (Chart 4).** A steep yield curve occurs when short-term bond interest rates are *significantly* lower than those offered on longer-maturity issues. This happens when investors are anticipating a rapid improvement in the economy and is typical in the late stages of a recession. The shape of the curve results because long-term investors require considerably higher yields to entice them to invest — they don't want to lock in low interest rates for an extended period, so yields rise in response.

> The yield curve is a graph that tracks the interest rates that bonds pay across a range of maturities.

## Reading the tea leaves

The yield curve isn't a wholly reliable predictor of the course of the bond market or the economy, but it does neatly encapsulate the market's expectations about the direction of both. Your financial advisor can help you interpret the current yield curve and develop a fixed-income portfolio that takes advantage of the opportunities in today's market. ■

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Each sector of the bond market entails risk. The guarantee on Treasuries, TIPS and Government Bonds is to the timely repayment of principal and interest; shares of a portfolio that invest in them are not guaranteed. With corporate bonds there is no assurance that issuers will meet their obligations. An investment in high-yield securities generally involves greater risk to principal than an investment in higher-rated bonds. Investing in non-U.S. securities may entail risk as a result of non-U.S. economic and political developments, which may be enhanced when investing in emerging markets. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio.

# Save or dump?

## Retention guidelines help determine whether to keep or shred tax records

Another tax "season" has come and gone. You've filed your tax return with the IRS by the April 15 deadline, and your home office likely is strewn with reams of paper consisting of years' worth of tax returns, receipts, canceled checks, bank and brokerage statements, and other financial records.

As you begin to straighten up, you ask yourself: How long do I really need to hold on to all of these documents? The quick answer is that it depends on the document.

### Follow IRS guidelines . . .

Generally, you should keep tax-related records as long as the IRS has the ability to audit your return or assess additional taxes — in other words, until the statute of limitations expires. That means three years after you file your return or, if later, three years after the tax return's original due date.

In some cases, the statute of limitations extends beyond three years. If you understate your adjusted gross income by more than 25%, for example, the limitations period jumps to six years. And there's no statute of limitations if you fail to file a tax return or file a fraudulent one.

### . . . but there are some exceptions

Even though the IRS statute of limitations is a good rule of thumb, certain types of records should be kept longer. For example, it's wise to keep your tax returns themselves forever. Even if you've destroyed the supporting documents, which generally is fine to do after the statute of limitations runs out, you never know when you'll need a copy of your individual income tax return.

For one thing, the IRS often destroys original returns after four or five years. So if the IRS comes back 10 years later and claims you never filed a return for a particular year, it can assess tax for that year even though the limitations period for properly filed returns has long since expired. As you can see, it would be difficult to defend yourself without a copy of your tax return.

W-2 forms also are important to keep at least until you start receiving Social Security benefits. You may need them if there's a question about your work record or earnings in a particular year.

If you have property records, it's ideal to keep closing documents and records related to capital improvements until at least three years (preferably six years in case you understated your income by more than 25%) after you file your return for the year in which you sell the property.

Suppose, for example, you bought your home in 1990 for $500,000 and in 2000 made $400,000 in capital improvements. Ten years later, you sell the house for $1.4 million, and the IRS audits your 2010 tax return in 2013. Although the IRS is examining only your 2010 return, you'll need the records from 1990 and 2000 to document your adjusted basis in the property.

If you've sold stocks or other securities, retain statements and trade confirmations until at least three years (preferably six years) after you file your return for the year in which you sell stocks or other securities.

### Digitize your files

The IRS permits you to store tax records electronically, so long as the system you use meets IRS standards. For example, your system must provide reasonable controls to ensure its integrity, accuracy and reliability, as well as detect and prevent tampering. In addition, a retrieval system should include an indexing system, inspection and quality assurance measures, and the capability to reproduce legible hard copies. You can retain the documents you need by scanning the originals and storing them on an external hard drive or some other media. There are also Web-based services that will store electronic records, virtually eliminating space constraints.

### When in doubt, don't throw it out

It's easy to accumulate a mountain of paperwork from years' worth of tax and financial records. The good news is that guidelines are available as to what you should keep and what you can discard. And if you're still unsure whether you'll need a document, a good rule of thumb is to hold on to it. ■

## Up in the air

**With the estate tax in flux, do you know what your estate plan says?**

Creating an estate plan shouldn't be a "once and done" event. To ensure it's meeting your goals, you need to revisit it at least annually and, if necessary, make revisions.

If you haven't reviewed yours recently, now is a critical time to do so. Why? Because there's been a great deal of estate tax law uncertainty lately.

Here's some background: The 2001 tax act that increased the estate tax exemption and reduced the top estate tax rate over the past several years also repealed the estate tax for this year only. In addition, the 2001 tax act included a 2010 sunset provision that slates estate tax exemptions and rates to return to levels dictated by pre-2001 law (a $1 million estate tax exemption and a 55% top estate tax rate) in 2011.

The popular wisdom that Congress would repeal the repeal by the end of 2009 didn't hold true, so as of this writing the temporary repeal is in effect. It's likely that Congress eventually will take action — and it may have already done so by the time you're reading this. It's also important to keep in mind that any legislation Congress does pass might be retroactive to Jan. 1, 2010.

So what measures has Congress considered regarding the estate tax? One is to simply retain the 2009 levels ($3.5 million estate tax exemption; 45% top estate tax rate) for this year only and then address 2011 later in the year. Other options may be to retain the 2009 levels permanently, set different levels permanently or allow the estate tax to remain in flux until an omnibus tax reform bill is enacted.

No matter what the outcome, you need to review your estate plan both today and after President Obama signs estate tax legislation into law (if that hasn't happened yet). If you don't, your estate plan may have undesirable consequences, such as your loved ones incurring unnecessary tax liability. Your estate planning advisor can update you on the most current estate tax law news and help you revise your plan in light of legislation or changes in your specific situation.

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FERRELL
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**
**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.

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**Senior Financial Advisor & Marketing Director**
Shena Stewart serves as a Financial Advisor for the firm and utilizes her dual background in Finance and Marketing in responsibilities ranging from portfolio analysis and quarterly reporting to directing the firm's marketing efforts.

**J.L. Hurt IV**
**Senior Financial Advisor & Research Analyst**
J.L. serves as a financial advisor and research analyst for the firm and assists clients with the many facets of financial planning.

**Pedro Lebron**
**Senior Financial Advisor & Compliance Officer**
Pedro serves as the firm's compliance officer and research analyst and is responsible for a diverse set of tasks ranging from periodic filings with the SEC and State of FL to analysis of securities and separate account managers and trading.

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