



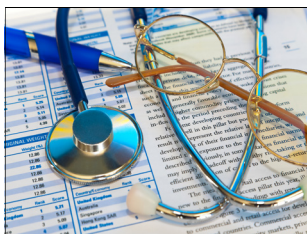
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4 Reasons To Reexamine Your Traditional IRAs

If you're like most people, you probably set up a traditional IRA (as opposed to a Roth IRA) years ago and you may have continued to make contributions on a regular basis. Depending on your personal situation, the money going into the account may have been fully tax-deductible, only partially deductible, or not deductible at all. But regardless of any tax break you got on your contributions, you haven't had to pay tax on any investment income or capital gains generated inside the account.



You may also have used the same or a different IRA to receive rollovers from a 401(k) or another employer-sponsored retirement plan after you switched jobs. If it's done correctly, such transfers aren't taxable. With a traditional IRA, your only tax obligation comes when you take money out.

Often, IRAs get little scrutiny over the years. You may have left yours alone as you focus on more immediate financial priorities. Yet there are several reasons why it pays to look again at your IRA.

1. Investment allocations may need to be adjusted. Your retirement accounts undoubtedly suffered during the stock market decline of a few years ago, and depending on how the money is invested, the account balance may or may not have since regained lost ground. If you haven't already revisited your investment allocations, now would be a good time. Do the assets in the

account—normally mutual funds or individual stocks and bonds—support your long-term financial goals? Does the investment mix feel comfortable in terms of the financial risk it entails?

Do you need to rebalance, trimming allocations that have grown too large and adding to those that fall short of the ideal percentage in your portfolio?

2. Beneficiary designations could be out of date. When

you set up your IRA, you had to indicate who would receive the account assets if you died. But your financial circumstances may have changed since then. A divorce would have obvious implications, and retirement plan assets are often a part of the financial settlement when a marriage breaks up. Other family changes, however, can be easy to overlook. You and your spouse may decide to divide the account among your children, and if they're minors, the beneficiary designation would be different than if they've already reached the age of adulthood in your state. The important thing to remember is that you're not bound by your original choices, but it's important to know what your beneficiary form says.

3. Additional rollovers or transfers may be in order. Consolidating your retirement accounts in one place has several potential advantages. Getting allocations right in a single account

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Confronting Your Own Mortality: It Isn't All About You

People tend to be either overly optimistic or pessimistic about the prospect of their own mortality, according to data collected by the National Bureau of Economic Research. Many people estimate their chances of living another 20 years at either zero or 100%, NBER says, with no middle ground. Furthermore, those with a relatively high life expectancy are too pessimistic about the chances of living, while those with a relatively low statistical lifespan are too optimistic.

While medical science continues to make breakthrough after breakthrough, sooner or later, we all die. This is obviously not something any of us want to hear, but that doesn't make it any less true. Nor does it absolve you of the responsibility of planning ahead for those you will leave behind.

In the financial planning profession, all too often we see how death comes as a total surprise. While no one can plan the day and manner of his passing, you can decide whether to leave your loved ones with a confused mess or an orderly estate that will continue to care for them after you're gone.

Keep your will up to date and review it annually. Store crucial financial documents where heirs can find them. Review life insurance coverage and beneficiary assignments on retirement accounts to ensure that they are correct and up to date.

If you need help dealing with this issue, we're here for you.

Colleen & Rob

Be Wary Of Market Pundits' Track Records

Turn on the television and you'll see self-appointed experts from big Wall Street firms weighing in on how various securities, sectors, and asset classes will perform. Some forecasts are closely argued and even compelling, while others boil down to off-the-cuff responses to the question, "what do you like?"

Either way, nobody ever seems to track all the recommendations to find out who, if anyone, actually has a working crystal ball—and whether pundits' forecasts deserve to be taken seriously.

But independent economist Fritz Meyer has been watching, following up on predictions from some of the biggest Wall Street firms: Morgan Stanley, Goldman Sachs, JPMorgan, and others. And he has discovered that, sector for sector, these highly compensated, widely quoted market gurus have failed to beat the market in any meaningful way.

At the end of 2010, eight out of 10 market strategists told Barron's they expected technology stocks to outperform during the new year. Six picked industrials and six picked energy. Those sectors ended 2011 up 1%, down 3%, and up

3%, respectively.

Not great, when you consider that the "experts" steered clients away from the sectors that delivered the bulk of the broad market's performance that year: utilities, consumer staples, and healthcare. "They were pounding the table last year on technology," Meyer says. "That was a mistake. In fact, they didn't make any good sector calls that I've been able to identify."

Go back a year, and the results weren't quite so dismal, Meyer says, although pundits' predictions for 2010 didn't turn out to be particularly prescient. Technology was also the top choice back then—but while tech stocks might have looked attractive at the beginning of the year, they ended up underperforming the broad market

by 3 percentage points.

A majority of Wall Street heavyweights picked the industrial sector as a probable outperformer, which was a good call, Meyer says. But only one in three predicted the year's biggest winner—the consumer discretionary sector, which surged 26% in 2010—and just as many thought that healthcare, which turned out to be the worst-performing sector, would beat the overall market.

On average, simple portfolios constructed out of Wall Street's "expert" allocations came in within 1 percentage point of the broad market between the start of 2010 and the end of 2011.

This year, the gurus are picking technology and healthcare again.

Should investors overweight those sectors? Fritz Meyer doesn't know, but their recent batting averages don't inspire much confidence. "The question in my mind has always been why you should listen to these guys," he says. Given that their choices seldom beat the market, Meyer suggests investors "stick with modern portfolio theory, broad diversification, and periodic rebalancing." ●



12 Financial Resolutions For 2012

Now that another year has begun, are you ready to take control of your financial life? These practical suggestions could help you do just that.

1. Draw up a budget. Spending more than you earn always ends badly, so resolve to learn to live within your means. Commit to a reasonable monthly plan that is neither unattainably strict nor just spending as usual.

2. Prioritize your debt. One budget item will be loan repayment, and while you may be locked into long-term commitments on a mortgage and car loans, you have much more

control over credit-card balances and other short-term borrowing. To improve this part of your balance sheet, start with high-interest liabilities.

3. Review investment allocations.

Does your portfolio mix of stocks, bonds, and other investments make sense in light of your financial goals, investing timetable, and ability to tolerate market ups and downs? Checking in now could be particularly important in today's uncertain economic environment. (Just keep in mind that while asset allocation is a sound investment principle, but it won't protect you from losses in declining markets.)

4. Boost your retirement nest egg.

Being able to live well in retirement is an investing priority for most people, and the new year is a great time to increase payroll deductions for a 401(k) plan at work or to put more into an IRA. (Contributions for the 2011 tax year can be made until April 17, 2012.)

5. Set aside money for a rainy day. Could you cope with an unexpected emergency? Try to keep a cushion that will last three to six months.

6. Dust off old insurance policies.

An annual review of life, home, and auto policies could help ensure that

New IRS Data Indicates Audit Triggers

The IRS issues vital tax statistics about individuals and businesses in its annual “Data Book” (also referred to as Publication 55B). The latest edition, covering the federal government’s 2010 fiscal year—from October 1, 2009 through September 30, 2010—was released in March 2011 and reveals the latest patterns in the tax agency’s enforcement efforts. Studying those trends can show what activities and circumstances may be most likely to put you at risk of a tax audit.

Not surprisingly, businesses and individuals generating the highest incomes are most likely to be targeted. But the IRS also continues to examine some taxpayers at all income levels to keep anyone from feeling audit-proof. Consider these key findings from the 2010 Data Book.

Types of audits. There are two main types of audits: correspondence audits, in which a letter from the IRS requests additional information about a return; and field audits, which tend to be more thorough and may be conducted by an IRS agent in your place of business, your tax advisor’s office, or in IRS offices. Almost 80% of the audits in 2010 were correspondence audits, a slightly higher percentage than in 2009.

In most cases, an audit will begin with a letter that raises questions about

particular items on a return. If issues under dispute are complex, the IRS may launch a closer examination of your personal or business records. But even most field audits are targeted to a specific area, and it’s rare for an entire return to be called into question. A return may have been flagged for investigation because of an entry on a specific line or a combination of two or three lines. If you do end up being audited, be forthright with the IRS agent but don’t volunteer information. As a practical matter, the agent will want to close the case as quickly as possible.

Audit rates. The overall audit rate for individual tax returns in 2010 was 1.1%. That means that about 1.6 million of a total 143 million individual tax returns were audited. But the likelihood of being asked for more information varied widely according to income level, type of return, and tax benefits claimed. For returns showing total positive income (TPI) of \$200,000 to \$1 million, 2.5% of returns not showing business activity were audited (up from 2.3% in 2009), while 2.9% of returns showing business activity were audited (down from 3.1%). For returns with TPI of \$1 million or more, 8.4% were audited, compared with 6.4% the previous year.

Frequently, an individual return is audited because a particular line item

“jumped out” as being sharply different from normal levels. Frequent triggers include unusually high deductions for mortgage interest, charitable donations, or medical expenses.

Business returns. For businesses (not including farms) that brought in total gross receipts of \$100,000 to \$200,000, 4.7% of returns were audited in 2010 (up from 4.2%). For businesses (not including farms) with total gross receipts of \$200,000 or more, 3.3% of returns were audited in 2010 (up from 3.2%). The audit rate for all corporate returns, excluding those of S corporations, was 1.4% (up from 1.3%). For partnership and S corporation returns, the audit rate was 0.4% (virtually the same as in 2009).

Mathematical errors. The IRS caught about 10.5 million math errors on 2009 returns. Of these, 60.8% were attributable to the Making Work Pay Credit, 9% were for calculating other taxes, 4.9% were related to personal exemptions, and 1.3% were related to the first-time homebuyer tax credit.

Penalties. The IRS assessed 27.1 million civil penalties against individual taxpayers in the 2010 fiscal year (up from 26.4 million a year earlier). Of these, 57.3% were assessed for failure to pay taxes, 27.3% were for underpaying estimated taxes, and 13% had to do with delinquent payments. For businesses, 145,931 civil penalty assessments were made (up from 970,098 in 2009). Of those, more than four in 10 were for failing to pay taxes or underpaying estimated taxes.

Criminal cases. The IRS launched 4,706 criminal investigations in 2010 (up from 4,121 the previous year). This resulted in 3,034 referrals for prosecution (up from 2,570). Of those who lost criminal cases, 81.5% ended up being incarcerated (up from 81.2%).

These statistics and trends can’t protect you from an IRS audit, but they do point toward potential trouble spots, and underscore the importance of minimizing mistakes on your return. ●

you have the right amount of coverage.

7. Incorporate estate tax changes. This could be the last year for generous exclusions from gift and estate tax liability, with an individual exemption for 2012 of \$5.12 million. So talk with your attorney to get your estate plan is up to date.

8. Close unnecessary bank accounts. Banks have been ramping up fees, and if getting rid of unneeded accounts saved you \$10 a month, say,

investing the savings at an annual 7% rate could give you almost \$12,000 after 30 years.

9. Go paperless with your

financial records. Keeping track of bank and investment accounts electronically is faster and more secure.

10. Do what you love to do. What better time to resolve to trade a dead-end job for one that utilizes your skills *and* fuels your passions?

11. Educate yourself. The more you know about investing and

other financial matters, the more likely you’ll make informed decisions.

12. Develop a plan. You’ll be more likely to keep your financial resolutions if you put them down in writing and track your progress throughout the year. ●



Use Virtual Credit Card Numbers Online

Massive data breaches such as those that recently occurred at Sony Playstation Network and TJX Companies Inc remind us how vulnerable we are to identity theft when we shop online. According to the nonprofit Identity Theft Resource Center, there were 142 such incidents nationwide during the first four months of 2011 that exposed more than 9.5 million personal records. And while many merchants encrypt credit card data, making it more difficult to steal, security may be less stringent at the sites of smaller companies.

What can you do to protect your information? One effective approach is to sign up for a virtual credit card number program that will prevent data thieves from ever seeing your actual credit card number. Offered through most financial institutions, such programs allow you to create a temporary card number when you buy online. That number is linked to your actual credit card account, but the merchant—or a data thief—won't know the number is virtual. Anyone

who tries to use the temporary number to buy something or to obtain information about you will be out of luck.

With most programs, you can set up your account to provide a new virtual number every time you make a purchase. This service is generally free, and the hassle is minimal—you just have to switch over to the program when you're ready to pay for a purchase. All of the major credit card issuers, including Citibank, Bank of America, and Discover, offer virtual credit card number programs.

There are also new companies, called secure payment agents, offering similar services that let you register all of your credit cards and bank accounts with a single company. These agents then

generate anonymous, temporary card and account numbers that enable you to pay bills and make purchases across the Internet. With these companies, you're likely to be charged a fee following a free trial period.

The Identity Theft Resource Center has endorsed the use of secure payment agents, which can end the threat of "phishing" emails, render stored user data useless in case a storage database is breached, and provide secure authentication methods.

One limitation of virtual credit card numbers is that they can't be used to order services that then require you to produce your physical credit card at a later time.

For instance, if you buy tickets to an event online and have to show your credit card to pick up the tickets, the virtual number used online won't match the number on your card. That may also be a problem if you purchase goods online, but agree to pick up your purchase at a retail store. But in most other situations, using these services brings a needed level of protection to online shopping. ●

Major Data Breaches, 2011

Company/Organization	Date Revealed	# of Records Exposed
Texas Comptroller	March 31	3.5 million
Health Net – IBM	March 15	1.9 million
Eisenhower Medical Center	March 11	514,000
Cambridge Who's Who Publishing	January 25	400,000
Cord Blood Registry	March 4	300,000
Laredo (Texas) School District	January 21	164,406
Oklahoma State Dept. of Health	April 6	133,000

Source: Identity Theft Resource Center

4 Reasons To Reexamine

(Continued from page 1)

is easier than trying to mix and match investments in several, and you can hold all of your money in an account that meets your priorities regarding investment choices, fees, service, and other factors. Just keep in mind that rollovers must be completed within 60 days to avoid current taxes, and in order to avoid having taxes withheld in a transfer from an account at work, you need to arrange for a "trustee-to-trustee" transfer in which you never touch the money. (Otherwise, you'll have to wait until you file your taxes to recoup the withheld amount.) The same rules apply whether you're moving from a 401(k) to an IRA or moving money between two IRAs. But if you

roll over funds from one IRA to another, you can't do another rollover involving those accounts for at least a year.

4. A Roth IRA might be a better fit.

If you established an IRA before 1998, a Roth IRA wasn't an option, and before 2010, converting a traditional IRA to a Roth may not have been possible because of a \$100,000 ceiling for modified adjusted gross income in the year of conversion. But now, anyone can convert an IRA to a Roth IRA, which provides tax-free distributions during retirement. To get that advantage, you'll have to pay income tax on the previously untaxed funds you move

from a traditional IRA. Whether a conversion makes sense for you depends on several factors, including

whether you expect to be taxed at a higher or lower rate during retirement, and whether you intend to leave all or part of your retirement account to your heirs.

You can also decide to make only a partial

conversion, or to move the money gradually over several years.

Your retirement accounts are an essential part of your overall financial picture, and we'll work with you to make sure your money is deployed in a way that makes the most sense for your situation. ●

