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Money Matter$

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Roth IRA Now Available to All Income Levels

By Adam Sommers

With some bit of fanfare, 2010 began a new era in regard to Roth IRAs for high income earners. While those single income tax filers earning more than $122,000 and couples earning more than $179,000 are still not eligible to *contribute* to a Roth IRA, anyone is eligible to *convert* existing Traditional IRA dollars into a Roth IRA.

While this opportunity was rolled out last year to great media attention, the conversion opportunity continues, albeit without the ability to spread the tax liability incurred from the conversion over two years. While this may not seem like a big deal, **in effect it allows high income earners to actually fund a Roth IRA in 2011**. Here's how it can work:

Anybody with earned income, at any level, can contribute to a Traditional IRA. So a high income earner, while not allowed to contribute to a Roth IRA, can contribute to a Traditional IRA, then immediately convert it to a Roth IRA, potentially tax-free. **This allows a high income earner to access the Roth IRA's key benefit of tax-free growth**.

So will everyone earning boo koo bucks plan on engaging this strategy in 2011? Probably not. While it appears yet another boon to the rich (and—gasp– during the Obama administration), there is a catch: Taxes on conversions are on a pro-rata basis. Let me explain by providing an example.

Joe has a Traditional, deductible IRA worth $300,000. In 2011, because he is a high income earner, Joe is only allowed to fund a non-deductible IRA for $5,000. His intent is to convert that $5,000 to a Roth IRA, thereby using the newly allowed back door Roth rules. **On the surface, it would appear to be a great strategy**.

However, the IRS says Joe must take into consideration his $300,000 IRA. So if he chooses to convert $5,000, which is less than 2% of his total IRA balance, he would only avoid taxes on less than 2% of the converted amount—a savings of a measly $29 in income taxes at a 35% rate.

In this situation, I'd likely advise Joe to simply purchase a stock or tax-efficient ETF rather than fund an IRA. Those investments get preferential future capital gains treatment, as opposed to ordinary income tax rates levied from a future IRA distribution. A discussion with Joe's tax advisor and investment advisor is surely warranted, if he is considering a "back door" Roth IRA.

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Five-Year Average Annual Returns

Dow Jones Industrial 30 Average:	**2.2 %**
S&P 500 Large Company Index:	**0.8 %**
NASDAQ Composite Index:	**5.5 %**
Russell 2000 Small Company Index:	**2.8 %**
SFM's 'MODEL 25' PORTFOLIO:	**7.7 %**

(see back page for current stock holdings in the Model Portfolio)

ETF Extra — Powershares Emerging Markets Debt ETF (PCY—27.10)

Emerging market bonds typically offer greater yield than developed markets. This ETF trades commission-free at TD Ameritrade and is included in our Fixed Income model. The PowerShares Emerging Markets Sovereign Debt Portfolio is based on the DB Emerging Market USD Liquid Balanced Index. The Index tracks the potential returns of a theoretical portfolio of liquid emerging markets U.S.-dollar-denominated government bonds issued by approximately 22 emerging-market countries. The countries in the Index are selected annually pursuant to a proprietary index methodology, and the membership list is rebalanced quarterly.

PCY's Notable Statistics

One Year Return (as of 3/31/11):	6.8 %
Year-to-date Return (as of 5/31/11):	4.4 %
SEC 30-day Yield (as of 3/31/11):	5.5 %
Total Assets in the Fund:	$1.1 Bil.
Estimated Annual Expense Ratio:	0.50 %
Average Years to Maturity:	13.9
Effective Duration:	8.09
% of fund that is investment grade:	60 %

SFM's ORIGINAL "Model 25" STOCK Only Portfolio

Company Name	Value Grade	Cash Flow	Risk Grade	Market Cap
Abbot Laboratories	B-	B	A	Large
American Movil	B-	A-	A	Large
AstraZeneca	C	A-	B	Large
Bank of New York Mellon	B	A+	C	Large
Colgate-Palmolive	D	B	A+	Large
Clorox	B-	B	B	Mid
Chevron-Texaco	A	C	B	Mega
Freeport McMoran	A-	A	B	Large
Gap Stores	A-	B-	B	Mid
Hewlett Packard	A-	C	B	Mega
Johnson & Johnson	C	B	A+	Mega
JPMorgan Chase	B-	A+	B	Mega
Medtronic	C	B	A	Large
Microsoft	B	B+	A+	Mega
Oshkosh	A+	A-	D	Mid
Philippine Long Distance	C	A	C	Mid
Rio Tinto	A-	A-	B	Mega
AT&T	B+	B	A	Mega
Telefonica	A-	A-	B	Large
Taiwan Semiconductor	D	A	A	Large
United Parcel Service	B-	B	A	Large
US Mobility	A-	A-	D	Micro
Visa	D	A+	B	Large
Walmart	A-	C	A+	Mega
Western Union	C	B	A+	Mid

SFM ORIGINAL Model "25" Portfolio

vs. A Relevant Benchmark

	SFM Model 25	S&P 500 Index
3 Month Return:	**- 1.1 %**	- 0.4 %
12 Month Return:	**24.6 %**	28.1 %
3 Year Average Annual:	**2.4 %**	1.1 %
5 Year Average Annual:	**7.7 %**	0.8 %
ROR Since 6/1/2003:	**16.3 %**	4.5 %

Commentary & Ramblings

by Adam Sommers

I was thinking the other day about how the federal government and the Federal Reserve Bank continue to discuss stimulating our ailing economy with plans such as QE3 and another round of fiscal stimulus. Why is it that some central body (government) thinks they can "create jobs" with policy? The reality is that businesses create jobs; government can only assist with regulation and tax policy.

Fiscal stimulus and the printing of money are two temporary ways to "create jobs". Once the stimulus is spent, the jobs created don't have 100% sticking power. With quantitative easing, the money supply must be contracted at some point to avoid hyper-inflation, meaning quantitative easing is simply—by design—a temporary creator of jobs as well. Keynesian governments assume that a temporary lift is all we businesses need to get the ball rolling.

I believe that since the "Great Recession" in 2008-2009, the ball hasn't rolled because we've become such a global economy, and the United States simply isn't competitive. One of the main reasons for this is our punishingly high corporate tax rates.

You see, when Cisco Systems or Coca-Cola sell products overseas, as long as that money doesn't come back to the United States, Cisco and Coke avoid those profits being taxed at the 35% repatriation rate. This causes Cisco to currently hold more than $37 billion overseas. When Cisco wants to reinvest that money and build a new plant, or pay for research and development, where do you think they'll choose to set up shop? Not here in the good old USA. That $37 billion would be reduced by taxes to $25 billion available for job creation in the U.S.

Some will say I am advocating lowering taxes on "big corporations". The problem is, at 35%, no company— with the ability to achieve similar production overseas—will ever bring money earned outside the U.S. home again. So if I were to suggest reducing the corporate tax rate on repatriated dollars to zero, it would not change what the government will actually receive in tax revenue from repatriated dollars, since it is nearly zero today.

What a reduction in corporate taxes will do is cause *billions* of dollars from other countries (each year!) to circulate into the United States' economy to build new plants, improve new properties, and hire new employees.

I admit the idea for my solution came about from the likes of John Chambers, CEO of Cisco systems, who has implored our elected officials to allow him to stimulate the U.S. economy by repatriating money Cisco has earned overseas. If they won't listen to "big business", will they listen to little old me?