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Money Matter$

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Legacy-Building, Big Ideas

by Adam Sommers

We've discussed a few ideas with clients this tax season in regard to legacy-building. A common plan to build a family legacy is to utilize the 529 college-savings plan. In Oregon, you can deposit up to $310,000 per future student into their Oregon College Savings account.

It seems pretty ridiculous to give a one-year-old $310,000 today in their education fund, as we would hope it would at least double to more than $600,000 over the next 17 years. And really, who spends more than $600,000 on post-secondary schooling? And what if that one-year-old doesn't attend college for some reason, or they get a full-ride scholarship? Fortunately, that $6XX,000 college fund can be passed to any immediate family members. If they pass it on to their children, it will hopefully more than double again to more than $1.5 million by the time their children hit college-age. You can see how your family tree may never have to worry about tuition costs.

The 529 College-Savings Plan is a neat planning vehicle, but I want to highlight another legacy building idea: the Roth IRA for children. We have one business-owner client that has been able to contribute to their son's Roth IRA since he was born (A young Roth IRA account owner can only contribute up to 100% of 'earned income', or $5,000, whichever is less). We are eager to see the value of his account at age 59.5, after which he can take TAX-FREE withdrawals. Imagine contributing just $500 per year for 20 years; you only have to earn an average return of 8% to accumulate nearly $500,000 by the time Junior reaches age 60.

Even if you wait until your child begins earning money at a real job, you can help them get a jump start on a tax-free retirement by matching every dollar they earn, contributing it to their Roth IRA. If Junior works at the local gas station while in high school, for every dollar he earns (likely at a 0% income-tax rate, making a Traditional IRA deduction useless), reward him by allowing him to spend some of it on life experiences, while you fund his Roth for 100% of his earned income, up to $5,000 per year.

Bonus: Roth IRAs, unlike Traditional IRAs, pass on to heirs income-tax free. And one final note: IRAs are not reported on the FAFSA, so it does not count against the child for college financial-aid purposes. What are you waiting for?

"You can see how your family tree may never have to worry about tuition costs."

ETF Extra — Vanguard MSCI Emerging Markets ETF (VWO—43.47)

Vanguard MSCI Emerging Markets ETF seeks to track the performance of a benchmark index that measures the investment return of stocks issued by companies located in emerging market countries. The fund employs a passive or indexing investment approach by investing substantially all (normally about 95%) of its assets in the common stocks included in the MSCIÂ® Emerging Markets Index, while employing a form of sampling to reduce risk. The index includes approximately 748 common stocks of companies located in emerging markets around the world.

VWO's Notable Statistics

3-Year Return (2/29/12):	32.3 %
YTD Return (2/29/12):	16.8 %
Median Market Cap:	$ 16.2 Bil.
Total Assets in the Fund:	$ 54.3 Bil.
Estimated Annual Expense Ratio:	0.22 %
Median P/E Ratio:	11.1
Dividend Yield:	2.4 %
Earnings Growth Rate:	15.2 %

12 Month Rates of Return

Dow Jones Industrial 30 Average:	7.2 %
S&P 500 Large Company Index:	6.2 %
NASDAQ Composite Index:	11.2 %
Russell 2000 Small Company Index:	- 1.6 %
SFM's 'MODEL 25' PORTFOLIO:	10.8 %

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

SFM's ORIGINAL "Model 25" <u>STOCK Only</u> Portfolio

Company Name	Value Grade	Cash Flow	Risk Grade	Market Cap
AstraZeneca	B	A-	C	Large
BHP Billiton	C	A-	B	Mega
Caterpillar	B+	B+	C	Large
Conoco-Phillips	A-	C	B+	Mega
CSX	A-	B-	B	Large
Chevron-Texaco	A-	B	B	Mega
Ford	A-	C	A-	Large
GE	B+	B-	B+	Mega
Halliburton	A	B	C	Large
IBM	C	B-	A+	Mega
Intel	B	A-	A-	Large
JPMorgan Chase	A-	B+	B	Mega
Methanex	A+	A-	D	Small
Microsoft	C	A-	A+	Mega
Phillip Morris International	D	A-	A+	Large
Qualcomm	D	A-	A-	Large
Rio Tinto	A+	A-	C	Large
Siemens	A+	B-	C	Large
Companhia Siderurgeria	A+	C	D	Mid
Taiwan Semiconductor	C	A+	A	Large
Unum Group	A	A-	C	Mid
Vale	C	A+	B	Large
Vodafone Plc	B	B-	A-	Large
ExxonMobil	A-	C	A	Mega

SFM ORIGINAL Model "25" Portfolio

vs. A Relevant Benchmark

	SFM <u>Model 25</u>	S&P <u>500 Index</u>
3 Month Return:	**16.6 %**	12.0 %
12 Month Return:	**10.8 %**	6.2 %
3 Year Average Annual:	**23.6 %**	25.5 %
5 Year Average Annual:	**7.6 %**	- 0.2 %
Since Inception (6/1/2003):	**18.0 %**	5.2 %

Commentary & Ramblings

by Adam Sommers

Thank Dodd for taxes. And Frank—Barney Frank—the infamous former Chair of the House Financial Services Committee, who so badly wanted every American to own a home that I feel he bears much of the responsibility for the recent housing crisis. In 2003, he said about Fannie Mae and Freddie Mac, now under the stewardship of the government and being fed billions of taxpayer dollars every quarter, "These two entities are not facing any kind of financial crisis." Frank also stated "I do not want the same kind of focus on safety and soundness [in the regulation of Fannie Mae and Freddie Mac] that we have in the Office of Thrift Supervision. I want to roll the dice a little bit more in this situation towards subsidized housing." In July 2008, Frank said in an CNBC interview, "I think this is a case where Fannie and Freddie are fundamentally sound, that they are not in danger of going under."

Hindsight is 20/20. Now that I've had a chance to wade through preparing a 2011 tax return, I see in hindsight that the Dodd-Frank Act—passed in a rush when both houses of congress and the White House were controlled by the same party—created even more misery for investors. At least both Dodd and Frank resigned their offices subsequent to passing this behemoth. Thanks to these two well-meaning bureaucrats, what was formerly a one page Form 1040, Schedule D to report capital gains and losses now turns into a five page Schedule D. Five pages?!?!?!!! As you might imagine, Schedule D is one of five common schedules, along with Schedules A, B, and C, and E. These schedules are attached to Form 1040, which is two pages in itself. So now, a typical client must fill out 13 pages, which include circular calculations that are difficult to interpret without CPAs and/or computer software.

How is it that lawmakers feel it's necessary—or even okay—to burden an average middle-class taxpayer with 13 pages for a tax return? TurboTax generated more than a 100-page income tax return for little old me. I remember giggling at Rick Perry during a few of the debates, but when he flashed that postcard in one hand and said that's all that would be required to file an income tax return if he were elected, I stopped laughing. A guy can dream, can't he?

Our two most likely candidates for President of our grand United States in 2012 don't decry the need for an overhaul of the tax code—but sadly spout about more special tax breaks for this industry or that behavior, and lower rates for "us", and of course higher rates for "them". Sheesh. The tax-code is already over 72,000 pages.

While I liked Herman Cain's 9-9-9 idea, it seems like a flat tax, with per-head exemptions would be best. Something like 20% on all income above $10,000 per head in your household. Even a 3-tier progressive tax might work, 10%-20%-30%. Heck, anything to simplify and reduce the time we have to spend enduring the process of calculating how many of our hard-earned dollars will be spent at the whim of politicians and their "friends" in D.C. would be a positive change. One can only hope. Oh, and by the way, I become eligible to run for President this year. Sommers in 2016, anyone?