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Keeping Market Volatility in Perspective

When markets are volatile, sticking to a long-term investing strategy can be a challenge. Though past performance is no guarantee of future results, it might help you keep the ups and downs in perspective to see how recent market action compares to previous market cycles.

Bears versus bulls

Corrections of 10% or more and bear markets of at least 20% are a regular occurrence. Since 1929, there have been 18 previous 20%-plus bear markets (not including 2011 market action). Losses on the S&P 500 in those markets ranged from almost 21% in 1948-49 to 83% during 1930-1932; the average loss for all 18 bears was 37%.*

However, since 1929, the average bull market has tended to last almost twice as long as the average bear, and has produced average gains of about 79%.* Individual bull market gains have ranged from 21.4% at the end of 2001 to the nearly 302% increase registered during the 1990s.* The worst annual loss--47%--occurred in 1931, but the all-time best annual return--a capital appreciation gain of just under 47%--happened just two years later in 1933.**

Points of reference

Last year's volatility rattled even seasoned investors. For example, during a single week in August, 2 of the Dow's 11 best days in history alternated with 2 of its 11 worst daily point losses ever.***

While by no means normal, the highs and lows are hardly unprecedented. Even though the 634-point drop on August 8 felt historic, it didn't begin to match the real record-holders. The single biggest daily decline occurred in September 2008, when the Dow fell 778 points. The biggest percentage drop was October 1987's "Black Monday," when the Dow fell almost 23%; that makes the Dow's 5.5% loss on August 8, 2011, seem relatively tame by comparison. And August 8 was followed by the Dow's 10th best day ever, with a gain of 430 points. While that upward movement may seem exceptional, the Dow's best day ever came during the dark days of October 2008, when a

936-point move up on October 13 represented a gain of more than 11% in a single day.***

Stocks versus bonds

The last decade has been a challenging one for stocks. Between 2001 and 2010, the S&P 500 had an average annual total return of just 1.4%, while the equivalent figure for Treasury bonds was 6.6%.**** For much of that time, interest rates were falling, helping bonds to outperform stocks. However, interest rates are now at record lows, and rising rates could change the relative performance of stocks and bonds.

While there may be ongoing volatility in the markets that needs to be monitored, it's important to keep things in perspective. Your ability to meet your goals could be affected if you change your overall long-term game plan with every new headline.

Past performance is no guarantee of future results. Market indices listed are unmanaged and are not available for direct investment. All investing involves risk, including the risk of loss of principal, and there can be no guarantee that any investment strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The Standard & Poor's 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.

*DATA SOURCES: *Bull and bear market time frames, gains/losses: all calculations based on data from the Stock Trader's Almanac 2011 for the Standard & Poor's 500.*

***1931 and 1933 annual stock returns: based on Ibbotson SBBI data for capital appreciation of S&P 500.*

****Based on data from the Stock Trader's Almanac 2011.*

***** 10-year rolling stock returns: based on Ibbotson SBBI data for annual total returns between 2001 and 2010 of S&P 500 and an index of U.S. Treasury bonds with an approximate 20-year maturity.*

March 2012

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Retirement Plan and IRA Limits for 2012



A number of retirement plan and IRA limits are indexed for inflation each year. Many of the limits have increased for 2012.

Many retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2012 are discussed below.

Elective deferrals

If you're lucky enough to be eligible to participate in a 401(k), 403(b), 457(b), or SAR-SEP plan, you can make elective deferrals of up to \$17,000 in 2012, up from \$16,500 in 2011. If you're age 50 or older, you also can make a catch-up contribution of up to \$5,500 to these plans in 2012 (unchanged from 2011). (Special catch-up limits apply to certain participants in 403(b) and 457(b) plans.)

If your 401(k) or 403(b) plan allows Roth contributions, your total elective contributions, pretax and Roth, can't exceed \$17,000 (\$22,500 with catch-up contributions). You can split your contribution any way you wish. For example, you can make \$10,000 of Roth contributions and \$7,000 of pretax 401(k) contributions. It's up to you.

If you participate in a SIMPLE IRA or SIMPLE 401(k) plan, you can contribute up to \$11,500 in 2012 (unchanged from 2011). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2012 is \$2,500 (unchanged from 2011).

Contribution limits: 2012 tax year*		
Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), govt. 457(b) plans	\$17,000	\$5,500
SIMPLE plans	\$11,500	\$2,500
Traditional and Roth IRAs	\$5,000	\$1,000

*Contributions can't exceed 100% of your income. Special catch-up rules apply to 403(b) and governmental 457(b) plans.

IRA limits remain the same for 2012

The amount you can contribute to a traditional or Roth IRA remains at \$5,000 (or 100% of your earned income, if less) for 2012, and the maximum catch-up contribution for those age 50 or older remains at \$1,000. You can contribute to an IRA in addition to an employer-sponsored retirement plan. But if you (or your spouse) participate in an employer-sponsored plan, your ability to deduct

traditional IRA contributions may be limited, depending on your income. Roth contributions are also subject to income limits.

Some other key numbers for 2012

For 2012, the maximum amount of compensation your employer can take into account when calculating contributions and benefits in qualified plans (and certain other plans) is \$250,000 (up from \$245,000 in 2011).

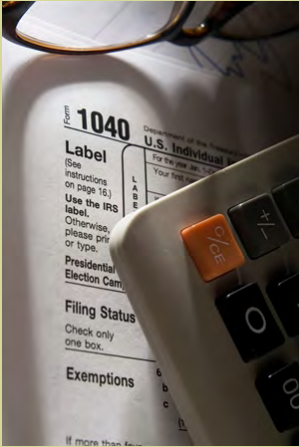
The maximum annual benefit you can receive from a defined benefit pension plan is limited to \$200,000 in 2012 (up from \$195,000 in 2011).

And the maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit-sharing plan) in 2012 is \$50,000 (up from \$49,000 in 2011), plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Income phaseout range for determining deductibility of traditional IRA contributions in 2012	
1. Covered by an employer plan	
Single/head of household	\$58,000-\$68,000 (\$56,000-\$66,000 for 2011)
Married filing jointly	\$92,000-\$112,000 (\$90,000-\$110,000 for 2011)
Married filing separately	\$0-\$10,000
2. Not covered by an employer plan, but filing joint return with a spouse who is covered	\$173,000-\$183,000 (\$169,000-\$179,000 for 2011)
Income phaseout range for determining ability to fund Roth IRA in 2012	
Single/head of household	\$110,000-\$125,000 (\$107,000-\$122,000 for 2011)
Married filing jointly	\$173,000-\$183,000 (\$169,000-\$179,000 for 2011)
Married filing separately	\$0-\$10,000



2011 Tax Season Considerations



Roth recharacterizations

Did you convert a traditional IRA to a Roth IRA in 2011, only to see the account drop in value as a result of ongoing market volatility? Wish you could go back in time so that you wouldn't have to pay tax on the value of the IRA assets that was lost in the downturn? Turns out, you can.



You don't want to pay more in taxes than you have to. That means taking advantage of every deduction and credit that you're entitled to, and recognizing potential opportunities to save. It also means staying on top of deadlines, and avoiding mistakes that could prove costly down the road. So, here are some things to keep in mind this filing season.

Due date: April 17, 2012

The due date for 2011 federal income tax returns is April 17, 2012 (April 15 is a Sunday, and April 16 is Emancipation Day--a Washington, DC, holiday). Whether you're preparing your own taxes or paying someone else to do them for you, you'll want to start pulling things together sooner rather than later. That includes gathering a copy of last year's tax return, W-2s, 1099s, and deduction records.

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*. Filing this extension gives you an additional six months (to October 15, 2012) to file your return. Don't make the mistake of assuming that the extension gives you additional time to pay any taxes due, though. If you do not pay any taxes you owe by April 17, 2012, you'll owe interest on the tax due, and you may owe penalties as well. Special rules apply if you're living outside the country or serving in the military outside the country on April 17, 2012.

There's still time to contribute to an IRA

You generally have until the due date of your federal income tax return to make contributions to either a Roth IRA or a traditional IRA for the 2011 tax year. That means there's still time to set aside up to \$5,000 (\$6,000 if you're age 50 or older) in one of these retirement savings vehicles. It's worth considering, in part because contributing to an IRA can have an immediate tax benefit. That benefit comes in the form of a potential tax deduction--with a traditional IRA, if you're not covered by a 401(k) or other employer-sponsored retirement plan, you can generally deduct the full amount of your contribution. (If you're covered by an employer-sponsored retirement plan, whether or not you can deduct some or all of your traditional IRA contribution depends on your filing status and income.)

A Roth IRA is a little different; if you qualify to make contributions to a Roth IRA (whether you can contribute depends on your filing status and income), the contributions you make aren't deductible, so there's no 2011 tax benefit.

Nevertheless, a Roth IRA may be worth considering, because qualified Roth distributions will be completely free from federal income tax.

Roth conversion regret?

Did you convert a traditional IRA to a Roth IRA in 2011, only to see the account drop in value as a result of ongoing market volatility? Wish you could go back in time so that you wouldn't have to pay tax on the value of the IRA assets that was lost in the downturn? Turns out, you can.

For example, assume you converted a fully taxable traditional IRA worth \$100,000 to a Roth IRA in 2011, but that Roth IRA is now worth only \$60,000. If you don't undo the conversion you'll pay federal income tax on \$100,000, even though the current value of those assets is only \$60,000. If you undo the conversion, you'll be treated for tax purposes as if the conversion never happened, and you'll wind up with a traditional IRA worth \$60,000--and no resulting tax bill. You generally have until the due date of your 2011 return, including extensions, to recharacterize your 2011 Roth conversion (note that special rules allow individuals who file timely 2011 returns to recharacterize up until October 15, 2012--talk to a tax professional for details).

If you do recharacterize your 2011 conversion, you're allowed to convert those dollars (and any earnings) to a Roth IRA again ("reconvert") but you'll have to wait 30 days, starting with the day you transferred the Roth dollars back to a traditional IRA. If you convert in 2012, then all taxes due as a result of the reconversion will be included on your 2012 federal income tax return.

Expiring provisions

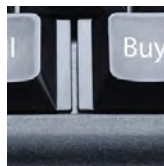
A number of key provisions have expired. So, without additional legislation, 2011 will be your last chance to take advantage of these opportunities. These now-expired provisions include increased "bonus" depreciation and IRC Section 179 expense limits that drop significantly in 2012. Additionally, 2011 will be the last year that individuals who itemize deductions will be able to elect to deduct state and local general sales tax in lieu of state and local income tax. And, both the above-the-line deduction for qualified higher education expenses and the above-the-line deduction for up to \$250 of out-of-pocket classroom expenses paid by education professionals will not be available starting with the 2012 tax year.

Ask the Experts

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Will my broker calculate my cost basis for DRP stocks?

If you think you don't need to track cost basis on your own because brokers must now report to both you and the IRS the cost basis for any stock sold, there are some potential pitfalls to be aware of.

First, new cost basis reporting requirements are being phased in. New regulations requiring brokers to report cost basis generally apply only to stocks bought after January 1, 2011. (Mutual funds will become subject to the same provisions in 2012; bonds and options will follow in 2013.) However, for a stock bought as part of a dividend reinvestment plan, or DRP, the new provisions will apply only to purchases made on or after January 1, 2012. As a result, for most DRP stock purchased before that date, in most cases you or your tax preparer will still be responsible for calculating accurate cost basis information.*

Because DRPs typically involve many purchases over a long time, calculating the cost basis for a DRP stock could be challenging. Fortunately, there's also a provision that makes the calculation easier. For stocks held in DRPs, the cost basis of all purchases in the plan can

be averaged to determine the cost basis for individual shares sold.

The ability to average sales from a DRP applies only to plans whose documents specify that at least 10% of every dividend paid must be reinvested in identical stock. To be considered identical, the stock must have the same CUSIP number, which would not apply to purchases of the same stock made outside the DRP.

Even after adjusted cost basis reporting is available for DRP stocks, you can still specify which shares are considered the ones sold for tax purposes. However, you must do so before the trade settles--typically, three days after the transaction.

You can include any transaction costs paid as part of your adjusted cost basis. And even though your adjusted cost basis may be calculated by someone else, it may still be a good idea to keep documentation of any purchases or sales to make sure it matches the information being supplied to the IRS.

***Note:** The reporting regulations already apply for DRPs that do not require reinvestment of at least 10% of every dividend paid.



Are there exceptions to new cost basis reporting rules?

New provisions that went into effect in 2011, requiring brokers to track and report adjusted cost basis for stocks, have special provisions that apply in certain situations.

Wash sales: A wash sale occurs when a substantially identical security is purchased within 30 days before or after the security it replaces is sold; when that happens, any losses resulting from the sale are not immediately deductible for tax purposes. The new regulations still require taxpayers to comply with the IRS regulations governing wash sales. However, brokers are required to adjust the cost basis of a wash sale only if the newly acquired securities are identical to the securities sold (meaning the securities involved share the same CUSIP identification number).

Brokers also are not required to report adjusted cost basis for wash sales when the purchase and sale transactions occur in different accounts. However, taxpayers are still responsible for accurately reporting the proceeds of any wash sale transactions, regardless of whether the purchase and sale are made in the same account.

Short sales: In the past, the IRS required brokers to report a short sale for the year in which the short position was opened; however, the proceeds of a short sale generally were taxed in the year in which it was closed. The new regulations correct that discrepancy. In addition to requiring brokers to track cost basis, the new regulations mandate that the cost basis of a short sale will now be reported in the year in which the short is closed. For example, if you initiated a short position in July 2011 that was closed two months later, the cost basis should appear on the 1099-B form for 2011 that brokers must submit to the IRS in early 2012. However, if the position has not been closed before January 1, 2012, the cost basis will be reported to the IRS only after the position is closed. If you close the position after January 1, 2012, it would appear on the 1099-B due in early 2013.

Even though brokers must now supply additional information about the net proceeds of a stock sale, it's worth remembering that the individual taxpayer is still responsible for accurately reporting information to the IRS.

