DICKINSON
Investment Advisors

www.dickinsoninvestments.com 712.256.4856

First Quarter 2013

Give Yourself The Greatest Gift: Become Debt Free

If you are nearing retirement, the greatest gift you can give yourself is to become debt free. When you don't owe anything on your credit cards or a mortgage, there's no interest to pay and no monthly payments to drain away dollars that you'd much rather spend on things you really need or want. You'll be amazed at how much extra money this will put at your disposal.

But unless you win the lottery or get a big inheritance, becoming debt free requires careful financial planning, sound investment choices, determination, commitment—and, in most cases, several years to get the job done.

Where do you start? Begin by taking a look at the Big Three:

1. Credit card debt
2. Car payments
3. Home mortgage

Get rid of your plastic debt first. Credit cards tend to carry high interest rates, and using a card to pay for everything from groceries to online purchases can build up a large account balance almost before you know it. Paying down that debt probably will require a systematic plan—for example, budgeting for a particular monthly payment and making it religiously until your balance hits zero. But it also will help if you at least temporarily stop using your credit cards. You can start paying with plastic again once you've reached your goal, but even then, make sure you're able to pay all that you owe each month. Many accounts don't charge interest if you pay the full balance, and you'll avoid rebuilding the debt that you've worked so hard to eliminate.

Next, turn to your car loans. You may not be paying as high an interest rate on these as on your credit card accounts, but the monthly payments still can be substantial. If you adjusted your budget to free up extra money to retire credit card balances, you could now use that cash to accelerate paying off your vehicle loans. Keep your cars as long as the upkeep costs don't become prohibitive, and then consider using savings rather than another loan to buy replacements.

Once vehicle debt is eliminated, you're ready to tackle the big one: your monthly home mortgage payments. Expert opinions differ about whether it's wise to pay off a mortgage as quickly as possible. If inflation rises at a rapid pace, for example, it may be better to keep the mortgage, because you'll make future payments with dollars that have lost some of their value. Also, interest rates on home loans are extremely low now, and you could lock in a rock-bottom rate that will reduce your long-term interest expenses. But if you're planning to stay in your home indefinitely and you like the idea of a debt-free retirement, you could refinance for a shorter loan term or make extra principal payments to pay off the house more quickly.

If you don't plan to stay in your current home, the expense of refinancing may not be warranted, and

(Continued on page 4)

Keep Calm And Carry On

The markets are at an inflection point.

Given the carryover of so much *uncertainty* from our economy last year, questions remain regarding what actions our leaders will take.

Structural issues – including legislation impacting efforts to lower the federal debt and to develop a federal budget, actions by the Federal Reserve, and initiatives aimed at lowering the unemployment rate – will not solve themselves. Leadership will be required to maintain what confidence remains and restore what has been lost.

Accordingly, these are some of the key issues we are watching in 2013: (1) Geopolitical risks, particularly in the Middle East. (2) Actions by the Central banks. (3) Initiatives by the new leadership regime in China. (4) How well American companies will bring jobs back to North America. (5) Actions by both political parties. (6) Consumer sentiment. (7) The energy revolution in the United States.

No matter how tumultuous the markets become, we believe in the motto of the British government during W.W. II: "*Keep calm and carry on.*"

More than ever, we are committed to carrying out our mission – to help you turn your retirement dreams into reality through proven, time-tested investment solutions.

Ron Dickinson

Take A Closer Look At Your RMDs

The IRS allows you to build up a sizeable nest egg for retirement inside your traditional IRAs. But then the other shoe drops: Whether you want to or not, you must begin taking "required minimum distributions" (RMDs) once you reach a certain age. Otherwise, you could be socked with a hefty tax penalty.

But the tax law does provide some flexibility. Depending on your situation, you might decide to withdraw funds from one of your IRAs, all of your IRAs, or any combination you prefer.

You have to start taking RMDs from your IRAs by April 1st of the year after the year in which you turn age 70½. In other words, if your 70th birthday was on June 1, 2012, you must take an RMD for the 2012 tax year by April 1, 2013. Then you still have to take another RMD for the 2013 tax year by December 31, 2013.

The amount of the RMD is based on the value in your accounts on December 31st of the tax year and is calculated according to IRS-approved life expectancy tables. For example, if you have a total balance of $1 million in your IRAs and your age is 76, the distribution period under the life expectancy table is 22 years. Divide $1 million by 22, and you arrive at an RMD of $45,454.55 for the current tax year.

The penalty for failing to take a timely RMD is equal to 50% of the required amount of the distribution (minus any distribution you actually received). Going back to our example, suppose you've taken an RMD for 2012 of $20,454.55, or $25,000 less than the required amount. In this case, you would owe a penalty of $12,500 (50% of $25,000) on top of the regular income tax. If you're in the 35% tax bracket in 2012, that's a whopping total of $28,409 ($15,909 + $12,500)!

Comparable rules apply to tax-deferred earnings within a tax-qualified retirement plan such as a 401(k). But you may postpone RMDs from qualified plans (not IRAs) if you continue working past age 70½ as long as you don't own more than 5% of the company that employs you.

The amount of your annual RMD reflects the value of all your IRAs, but you can actually withdraw the funds from one or more of the IRAs. If you're maintaining separate IRAs with different beneficiaries, you might want to keep the balances in all of them equal—and they may have gotten out of whack because of withdrawals, contributions, fees, and investment performance. So, for instance, if you have three IRAs and you've designated a different beneficiary for each one, you could withdraw the entire RMD amount from the IRA with the highest balance. Or you could get rid of underperforming assets in one of your accounts by liquidating those to provide cash for the RMD.

Keep in mind that you must give explicit instructions about your RMDs to each IRA custodian, and please call us if you have any questions. ●

"Ghost Story" Can Haunt Your IRA

The rules for contributing to an IRA are relatively simple. You put in the money for each tax year by the required deadline—the tax return due date for the year of the contribution—and tell the account custodian how you want the funds invested. In addition, you might roll over funds to an IRA from a 401(k) or another kind of "qualified plan" at work when you change jobs or retire. That way, your money can continue to grow without being eroded by taxes until you make a withdrawal.

The rules for *distributions*, in contrast, are extremely complex. In particular, complications may arise as you approach the time for taking "required minimum distributions" (RMDs) from your IRA. Make the wrong moves and your heirs might be forced to receive payouts based on your "ghost life expectancy."

For IRA owners, the "required beginning date" (RBD) for RMDs is April 1st of the year after the year in which they turn age 70½. For instance, if someone reaches that age on June 1, 2013, the RBD is April 15, 2014. The amount of the RMD is based on the value of your accounts on December 31st of the tax year of the RMD—in this example, 2013—and is calculated according to an IRS-approved life expectancy table. And here's where things get complicated.

If you die *before* the RBD and have designated a "qualified beneficiary" such as a child or spouse, the RMDs are generally based on the beneficiary's life expectancy. (Surviving spouses also have the option of rolling over the funds into their own IRAs.) However, if you haven't designated a beneficiary or you named a "non-qualified beneficiary" such as your estate, the IRA must be emptied out in five years. Conversely, if an IRA owner dies *after* the RBD, payments to a beneficiary are still based on the beneficiary's life

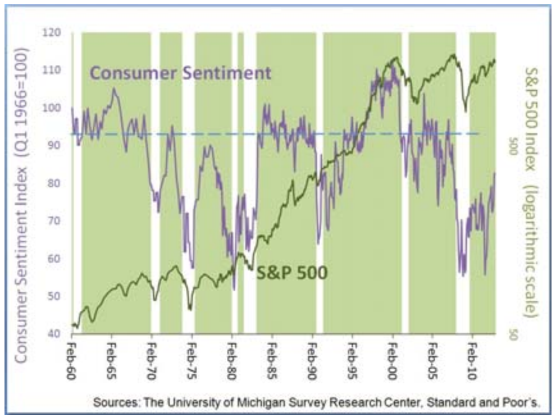
Investors Flee Stocks At The Wrong Time

The percentage of American households owning stock mutual funds dropped to 46.4% in 2011, and it has fallen every year since 2008, according to Investment Company Institute. In addition, outflows from domestic stock mutual funds in 2012 neared the record-breaking pace of 2008, the worst year ever for outflows.

Pessimism has been rampant. As 2013 begins, worries persist over the long-term federal deficit. Modern Portfolio Theory, the intellectual underpinning embraced by academia for evaluating investments for the long run, is now derided by many pundits. The Wells Fargo/Gallup Investor and Retirement Optimism Index turned negative at -8 in November 2012, down from double-digit positive scores earlier in 2012. A belief that America's best days are behind her seems pervasive.

How worried should you be? Maybe not as worried as so many others seem to be. Looking back at the historical performance of the consumer sentiment index versus the Standard & Poor's 500 stock index indicates that periods of extreme pessimism are actually good times for stocks.

The most recent data from University of Michigan's consumer sentiment index shows that that you would have to go back more than 30 years — to 1980 — to find consumer sentiment as low as it has recently dipped.



The accompanying chart shows the consumer sentiment index dating back to 1960, and about the only time sentiment was as negative as it has been over the past couple of years was in 1980. The plunge in consumer sentiment in 1980 followed a recession, an oil shortage sparked by the American hostage crisis in Iran, an annual inflation rate of 14%, and the bursting of a bubble in the price of silver after the Hunt brothers failed to corner the market in the precious metal. That confluence of calamities in 1980 kicked off a raging bull market.

Today's economic worries are similar in many ways to 1980's woes. Global turmoil related to America's struggle with terrorism and Muslim fundamentalists dominates the headlines, threatening oil production in the Arab world. Massive monetary stimulus by the Federal Reserve has sparked inflation fears and the price of gold spiked higher than ever in the last couple of years. America seems unable to muster the strength to fight its fiscal crisis.

But just as happened in 1980, stocks over the past couple of years have marched higher. And, as the accompanying chart assembled by Fritz Meyer Economic Research illustrates, it's not unusual for stocks to rise steadily higher precisely when consumer pessimism is at its worst.

Investor perceptions and consumer sentiment are often at odds. Wall Street reality—earnings growth and rising stock prices—governs stock prices. As a result, even as consumer sentiment plunges, you could see a rally in stocks.

To be sure, economic and political problems plaguing the U.S. are serious and must be addressed. The federal debt, downgrading of the U.S. Government's credit rating, and threat of terrorism remain very real problems. But the pessimism these problems engender doesn't necessarily stop the stock market from rising if corporate earnings growth holds up, and that's what occurred in recent months.

In the aftermath of the 2008 global financial crisis, consumer sentiment has recovered. As history shows, however, it can take years for a full recovery in consumer sentiment to take hold. In fact, stock prices must rise for an extended period before consumer sentiment fully recovers following economic trauma. Stock prices are always out in front of consumer perceptions.

So, when you hear news about the extreme pessimism over the economy and record outflow from stock mutual funds, remember these lessons from history. The stock market in 2012 showed an astounding total return of 16%, while investors fled stock mutual funds in droves. Investors historically leave the stock market and become pessimists at precisely the wrong time. While past performance is never a guarantee of future results, it appears that familiar pattern was repeated in 2012. ●

expectancy, but payments to a non-qualified beneficiary must use the owner's ghost life expectancy.

A ghost life expectancy isn't as scary as it sounds. It's how long the IRA owner would be expected to live—if he or she hadn't already died. But using an older owner's life expectancy table will still drain the IRA faster than usual.

Suppose that Walter Mason, age 80 and single, has $750,000 in his IRA. Walter named his estate as the beneficiary of his IRA. He dies on July 1, 2013 without taking an RMD for the 2013 tax year.

Because Walter designated a non-qualified beneficiary, RMDs for 2013 and future years will be based on his ghost life expectancy. The payment for 2013 under the single-life expectancy table is $40,107. Under this method, payments will be greater than the amounts that would have been required if Walter had designated a qualified beneficiary.

Good planning can minimize the impact of RMDs and help preserve your retirement nest egg. ●

The Benefits Of Working With An Advisor

People who work with a financial advisor are far more likely to understand the situation they will face after they retire, according to a recent survey by Franklin Templeton Investments.

Two out of three people who work with a financial advisor know the amount of retirement funds they will withdraw each year after they retire. That's almost twice the proportion of those who've never worked with an advisor who have that knowledge, according to the Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey, taken in September 2011.

Volatile world markets and changes in the way people build retirement assets make it more important than ever for pre-retirees to understand their retirement picture, says Michael Doshier, vice president of retirement marketing for Franklin Templeton.

"Sixty-seven percent of respondents were more concerned about investment volatility than they were prior to the recession that began in 2008," Doshier said. "People's worries varied by age, gender, and income level, but from a general standpoint, some of their specific worries related to health expenses, Social Security, and simply running out of money.

"Our survey also showed, however, that working with a financial advisor can make a clear difference in how Americans think about retirement planning. By sitting down with a financial advisor, identifying and prioritizing one's retirement goals and concerns, and writing down a simple plan to address them, people can take meaningful steps toward confident action."

The RISE survey was conducted online among 1,020 men and 1,026 women. Here are other findings:

- 38% of respondents who never have worked with a financial advisor said Social Security will provide the most income during their retirement, compared with 19% of people who work with an advisor.
- Just 4% of people who never have worked with a financial advisor said IRA funds will provide the most income during their retirement, compared with 13% of people who work with an advisor.
- 35% of people who never have worked with an advisor said they do not think about how they will approach different sources of retirement income.
- Running out of money in retirement is the top concern of 35% of people who never have worked with an advisor, while 24% of those who work with an advisor cited it as their top concern.
- Of those respondents who never have worked with an advisor, 41% said they don't think they have enough money to need one, and 30% said they prefer to handle their finances on their own.
- 79% of Americans currently do not work with a financial advisor, but 47% of respondents said they would consider going to a financial advisor or switching their current advisor if the advisor prepared a written retirement income plan. ●

Give Yourself Greatest Gift

(Continued from page 1)

depending on how much equity you've built up, you may be able to eliminate your mortgage by downsizing to a less expensive home. Moving away from an area with high housing costs could make a big difference, and you might realize enough on the sale of your current home to retire the mortgage and pay cash for your next property. And though depressed values in many areas mean you may not get top dollar for your current home, you'll likely pay less for the new one than you would during boom times for real estate.

If you take this approach, and if you've lived in your home for quite a while, it could make sense to make targeted renovations to prepare for a sale. You'll almost certainly want to do some exterior and interior painting and make other cosmetic improvements that will show off the house to its best advantage.

Undertaking larger improvements—putting in a new kitchen or bathrooms, for example—may be less likely to pay off immediately, though that can depend on your local market.

In any case, you'll need to choose your contractors and designers with great care. That's especially true in retirement-heavy states such as Florida, Texas, Arizona, Nevada, and California, where homeowners sometimes have had to contend with fly-by-night outfits that do substandard work or leave projects undone.

To avoid problems, get multiple estimates for the work you're doing and interview each candidate carefully. Talk with other homeowners who've used the contractors' services and take a look at the finished projects if you can. All of this takes time, but it will be well worth it if you find someone who does good work at a competitive price.

Eliminating all of your debt could take several years, so the sooner you get started, the more likely you'll achieve your goal before you retire. Good luck! ●