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2010 CLIENT UPDATE

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Happy New Year – or better said, “*Happy that 2009 is behind us!*” Who would have believed 2009 would have been such a turbulent year in the markets, politics, government policy, and the like? Also, who would have believed a market that had declined by -26.6% (1/1/2009 through 3/9/2009 according to the Wall Street Journal) would come back the same calendar year, helping investors recover some of their 2008 losses.

So getting right to the point, what should be our strategy this year? First let’s look at some key issues facing us. Each of these issues could shape our financial planning and investment strategies. And throughout the year we will do our best to update you on these key points and our ongoing observations.

- **Israel and Iran.** Could this be the year Israel deals militarily with Iran’s looming nuclear threat? According to Joel Rosenberg and other global news sources it may be only a short time away unless world leaders do a “miracle deal” disarming Iran’s nuclear threat. Also news sources report the Obama administration has told China that the U.S. Administration can’t hold Israel back much longer. Many experts believe if a military action happens, world oil markets, global stock markets, and the world currency exchanges could see extreme volatility and fear. Possibly certain investment strategies may help with these potential risks.
- **Roth IRA Conversion.** You’re probably hearing something similar to this everyday on the news or from other sources, “2010 offers a one-time opportunity to convert taxable IRAs into a Roth IRA without consideration taxable income limits.” This strategy could provide a significant income tax strategy as well as an excellent estate planning tool for many including high net-worth individuals and families. However, converting IRAs into a Roth IRA *won’t benefit everyone* and could be a costly mistake if the wrong decision is made. To make the right decision each investor should review a cost/benefit analysis and consider how their personal situation could be impacted.
- **No Death Taxes in 2010.** That’s correct, if you die in 2010 current law states that you will pay no estate tax, no matter how large your estate is. This is according to the Economic Growth and Tax Relief Reconciliation Act of 2001. However, if Congress fails to act, starting next year the estate tax exemption drops back to \$1 million and many estate plans could require revisions and new strategies. This is an important area to keep in eye on in regards to your overall financial plan.
- **Slow to Flat US Economic Growth.** It’s simple... high unemployment, a frightened U.S. consumer, and potentially higher taxes typically lead to slower than desired U.S. growth. Many small businesses report that they don’t plan to hire additional employees anytime soon with the impending threat of higher taxes and the uncertain economy. Remember many business owners want to see long-term predictability and support from Washington rather than “front and center” infighting, political business bashing, and legislating bigger government. So our economy is not out-of-the-woods yet, as there is still the possibility of slipping back into another recession. Could possibly becoming less dependent on U.S. equities and diversifying into other asset classes with more global exposure provide investors what they need? We will see!

- **International Debt Problems could continue to mount in small European Countries.** You may have heard the headlines about Greece recently as an example. While circumstances such as this could provide some relief to the U.S. dollar compared to the euro, currency risks are a continued consideration.
- **A continued Mish-Mash of Washington Politics.** Whether it's Obama's next political payback with Cap-and-Trade, bashing of another industry, or the 2010 Elections the new norm appears to be here for at least the next several years. Remember the principle of "unintended consequences" that plays out over-and-over in government. Also remember the market hates the lack of predictability. Hopefully our politicians will embrace this principle sooner than later. Its quite possible the January Massachusetts Congressional election will serve as a catalyst to get our economy and Washington back on the right track. Again, we will see!
- **Opportunities will always come and go.** Looking back over last year, what seemed a danger for one investor provided to be an opportunity for another. Or better said, one man's trash can become another man's treasure. The gains garnered last year by the patient, diversified investor, buying when many were selling in panic, may have proved this point.
- **Higher Taxes in 2011 and beyond.** Whether its capital gains rates, state income taxes, federal income taxes, or indirect tax increases – the consensus is that higher taxes are coming. And it could become even more imperative to raise taxes simply to maintain credit ratings. So the tax strategy to shift income into this year and delay losses to next year could prove helpful. But ultimately we will just have to wait and see what tax legislation is passed.
- **Increasing Interest Rates.** Right as we began 2010 we saw mortgage rates jump approximately 0.50%, as the Fed announced their desire to discontinue the government mortgage repurchase program this spring. Now with some recent negative economic news interests rates have settled back some. All this goes to show how any piece of significant news can quickly affect interest rates. Nevertheless, at some point interests rates will have to rise.
- **Potentially higher commodity/raw material prices.** Just last week we saw China announce their strategy to slow down their economic growth to head-off future inflation and economic bubbles. But whether its grain, oil, coal, natural gas, and precious metals (gold, silver, platinum, etc.) non-US countries will eventually order more materials as their economies recover from recession. Additionally these items may provide one investor added risks while another investor might see this as an opportunity. Nevertheless, eventually there could be the need to hedge against inflationary pressures.

So what can you do with all this uncertainty? Well quite possibly we will all need to be better "risk managers". So begin by re-assessing your situation... your tolerance for market risks, your current financial situation, your goals, and your desire for strategies to possibly help offset some of these risks. On this subject, we are finding more and more clients who are unable or unwilling to accept the risks we have seen in the last year or so. Another way to put it, since 2008 their tolerance for risks has dropped. Therefore we will engage our clients on this subject to devise their particular plan of action.

Second, get real and honest about your situation. My suggestion is to use what's happened to provide your "catalysts" for a better tomorrow. Reflect on life's "bumps in the road" for some answers. For instance, the day after Christmas I found myself experiencing some medical symptoms I never felt before. So after a day in the hospital a simple prescription provided my cure. But as normal the many "what if" thoughts ran through our minds.

So whether it's your investment portfolio (reconsidering how much market risks you can handle), your level of spending, your amount of debt, outside factors, or lack of motivation to consider what might help let us encourage you to engage this subject to develop your "best" plan of action. If you will give us the time and commitment needed, we will commit our expertise and time to help you plan your course to potentially get you where you want to be.

In closing, may you have a very good and blessed 2010. And if we can help you in any way please don't hesitate to call.

Respectfully yours,

MASCAGNI & COMPANY, INC.

A handwritten signature in black ink, appearing to read "Randall", written in a cursive style.

J. Randall Mascagni, MBA, CFP®
President