KAM COMMENTS

KRUSE ASSET MANAGEMENT, LLC

## ROTH IRA CONVERSION UPDATE: DON'T TRIP UP

To recap, withdrawals from a traditional IRA are taxed at ordinary income tax rates. On the other hand, because deposits in a Roth IRA have already been taxed, "qualified" withdrawals from a Roth IRA are tax-free. Converting is largely an estate planning decision: one benefit of a Roth IRA is that there is no Required Minimum Distributions for the owner (although upon the owner's death, tax-free RMD's kick in for the beneficiary). Accordingly, money in a Roth IRA can grow tax free without RMD's until the owner's death. Another benefit may be better tax rates: if income taxes increase in the future, paying taxes at 2010 rates may decrease your tax bill.

Converting from a traditional IRA to a Roth IRA is a taxable event. The amount converted is subject to ordinary income tax. Therefore, the amount of income tax is dependent on the value of the account converted. For example, if you convert a traditional IRA account in January 2010 when it is worth $100,000, you owe income tax on $100,000. If, however, you wait until December 2010 after the account has grown to $120,000 (that would be nice), you owe income tax on $120,000 (but if it loses value, you pay less). In sum, converting when the value of your IRA is lower will decrease your taxes.

Because converting increases your income, converters need to examine how to pay their 2010 estimated income tax to avoid underpayment penalties and interest. While 2010 converters have a special option to pay the tax on the 2010 conversion income in 2011 and 2012, rising tax rates may make this less attractive.

Because taxes on a conversion may need to be paid throughout 2010 to avoid underpayment of income taxes, planning for those payments must start immediately. If selling assets is necessary to pay the 2010 tax bill, consider the benefits of liquidating assets in 2009 versus 2010.

Withdrawals from a Roth IRA are only tax-free if they are "qualified." To be "qualified," a withdrawal must be made after the "Five-Year Period" **and** is made after the investor turns 59½ (or the investor dies or becomes disabled). Importantly, **any** Roth IRA the investor owns will start the "Five-Year-Period clock" ticking. However, if the only Roth IRA the investor owns is created in 2010, the investor will not be able to make a "qualified" withdrawal until the Five-Year Period has run.

**This short summary of selected topics is incomplete and does not provide the information for investors to make Roth conversion decisions. Investors considering a Roth conversion should talk with a tax professional about these and other issues before converting.**

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**Did you know?**

* Prior to this past decline, since the 50's, the lowest 10-year average annual return for the S&P 500 occurred from July, 1964 - July 1974? -2.8%
* After July, 1974 through July, 1991 the average 10-year rolling average return for the S&P 500 was 11.8%! During that time, the worst 10-year average annual return was 7.3% per year.

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*“Principles that Outperform”*

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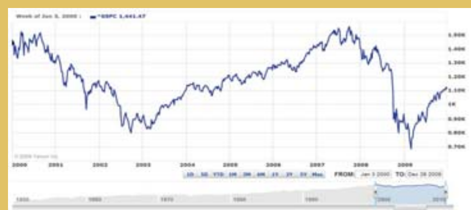
**Matt Kraus**

*“You have to know the past to understand the present” — Dr. Carl Sagan*

## THE LOST DECADE

We have been hearing that this past decade has been “lost” from the investor’s point of view. The S&P 500 has declined by an average of 2.6% since the beginning of 2000 (see chart below):



However, the decade was only lost for those who were not truly diversified — unfortunately, that was (and still is) most investors.

Being diversified does not mean holding a variety of stocks or mutual funds. True diversification comes when an investor takes on exposure to a variety of assets classes — not just domestic large-cap stocks and bonds.

Asset classes that are often over-looked, but that would have turned that negative number positive are developed and emerging international equities and bonds, commodities, real estate, currencies and hedge funds.

Our research shows that a modest investment into international equities, real estate and commodities would have improved the average investor’s returns by almost 8% per year!

## KAM EVENTS!

Kruse Asset Management is planning to host an upcoming client appreciation event :

| | |
|---|---|
| **Where*:** | The Tasting Room , 1415 W. Randolph Street (tentative) |
| **When*:** | March 4th, 6:00 - 8:00 p.m. |
| **Why:** | Because we’re appreciative |
| **RSVP:** | Kaitlynn at 312-775-6000 or Kaitlynn@KruseAssetManagement.com |

**Subject to Change*

## SOUND PORTFOLIO CONSTRUCTION

Afraid of investing in area that you don’t understand? Try “Principle-Protection.”

Some banks structure CDs that are linked to various investments (like commodities, currencies, emerging markets, etc.) If held to maturity, the CDs will give you the return of the underlying investment if it goes up; however, if that investment goes down, you get all of your money back…principle protection.

Down sides are that any profit is interest and taxed at your ordinary income level and you take the credit risk of the issuing bank. Upside is that these CDs are FDIC insured.