Mallard Investment Management is More Accessible

Last year the Investment Advisory Division (Newark office) introduced RetirementGPS™, making active portfolio management available beginning at $50,000. By lowering the minimum portfolio size, RetirementGPS™ delivers affordable active management from the Newark office to an expanded base of investors. The name was chosen to emphasize that, like a GPS device to help you drive to your desired destination, RetirementGPS™ enables you to stay on course, no matter how bumpy the road.

You may have several retirement accounts, perhaps a few IRA's, 401k's, and 403b's from past employers, which are sitting out there 'drifting,' that can be combined into a single RetirementGPS™ account. You determine at the start how much of your retirement savings to invest in stocks and how much in bonds, and RetirementGPS™ does the rest. We have built an All-Star Team of mutual funds, regularly reviewed and updated, to provide you with our current best globally-balanced stock portfolio for your stock money, and our best globally-balanced bond portfolio for your bond money.

This program is designed to be a low-cost, low-minimum, investment-only solution, best suited for retirement accounts. Most clients with portfolios of $250,000 or more will wish to receive the financial planning and tax-efficiency that comes from Newark's Gold and Platinum services. Go to http://www.retirement-gps.net/ for more information.

Qualified Charitable Distributions

Paul S. Baumbach

You have less than six months to go to utilize the QCD, Qualified Charitable Distributions. This was available in 2006 through 2008, and has been extended for one more year. This permits taxpayers age 70½ and older to make a contribution from their IRA **directly** to a charity (but not to a foundation, nor a donor advised fund). The distribution will **not** be treated as a taxable IRA distribution, **nor** will it be available as an itemized deduction.

Who benefits the most from this? First, you need to want to make a charitable contribution. Second, you need to benefit from avoiding the taxable income more than you miss out on losing the charitable deduction (in many cases this is 'a wash,' making no net impact on your taxes).

One common way to meet this requirement, and to save in taxes, is **if you don't itemize your deductions**. When you use the standard deduction, you get no income tax benefit from your normal charitable contributions, but you would if you use a QCD in 2009. If you don't itemize, your taxable income may be modest, and as such, you may be able to **reduce the portion of your Social Security benefits that is taxable**. For example, if a QCD can get a couple's combined income below $44,000, then they can reduce to under 85% the taxable portion of their Social Security benefits.

A second strategy to use a QCD in 2009 is to benefit from **reducing your adjusted gross income (AGI)**. There are many tax implications of your AGI. You are only able to deduct (if you itemize) medical expenses that exceed 7.5% of your AGI. You can only perform a Roth conversion if your modified AGI is under $100,000. There are education tax credits that are limited or eliminated if your AGI is too high. You may be able to drive your AGI down enough to obtain one or more of these tax benefits, by using a QCD, as opposed to taking a normal IRA distribution and then paying the charity/charities with a check.

A final avenue to benefit from making a Qualified Charitable Distribution in 2009 is when **your planned normal charitable contribution would be limited in 2009**. Normal charitable deductions are limited in the year of donation to a percentage of your AGI, adjusted gross income. The limit is 50% or 30% or 20%, depending on the circumstances. Unused contributions can be carried forward up to five years. If you wish to make a large charitable contribution, larger than you could deduct in 2009, you may wish to consider utilizing a QCD. This would reduce your IRA balance, and therefore your future required minimum distributions (RMDs).

Qualified Charitable Distributions, QCDs, provide some interesting planning opportunities that can justify the hoops that are required to utilize this program, for both higher and lower income taxpayers. You only have until this December 31st to set one (or more) up. As they are relatively new, expect to spend more time working with your IRA custodian to get the paperwork just right.

Paul Baumbach is the managing partner of Mallard Advisors' Investment Advisory Division

MALLARD ADVISORS, LLC

The Mallard Flyer

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Inside This Issue

July 2009

Notices

Newark Office:
Paul and Pam will be camping in Jim Thorpe, PA from July 30th to August 2nd. Ed Mink will be on vacation from July 20th to the 31st. Susan Lehnerd will be on vacation from August 19th to the 21st.

Bill's Schedule / Hockessin Office:
Bill will be on vacation in Cape May, July 13th to the 17th. Sherry will be on vacation July 30th to August 2nd.

Next Newsletter:
The next newsletter will be mailed in early October.

What is the Shelf-Life of Your Portfolio?

William D. Starnes

Investment Advisor Magazine had an excellent analogy several years ago about the shelf-life of a portfolio that went something like this:

Tuna fish has a long-shelf life. My family eats a lot of tuna fish. But because it comes in cans, we can stockpile it if necessary. For example, if we normally pay $1.25 per can and ACME is having a blow-out sale selling the same cans for $0.75, what do we do? Well, we don't try to sell all of the cans in our pantry on eBay for $0.75 each! We don't feel regret because we bought the other cans for $1.25, and we don't swear off tuna fish for life. No, instead, we stock-up on cans of tuna fish in order to take advantage of the sale price because we know we can hold the cans for quite a long time.

We know we will need the tuna to feed us for many years and therefore, the sale provides an opportunity. We understand that the low price is an opportunity to buy. We know that prices will continue to rise. Why is it not the same for stocks? Stocks also have a long shelf-life because we only invest in stocks those dollars we won't need for several years. We should not have to open our can of "smaller-cap stocks" since our fridge should be full of fresh green "cash". Our clients have cash and bonds—enough to sustain their appetites for several years.

Therefore, there is no need to let our daily emotions dictate our investment strategy and therefore sabotage our returns. Many investors are on an emotional roller coaster ride as illustrated in the graphic on the next page. These emotions are normal and human. But they are also irrational and volatile and, if we invest according to these emotions, we are likely to receive sub-par investment results. So many studies (Dalbar being the most popular) show the huge difference between the returns of

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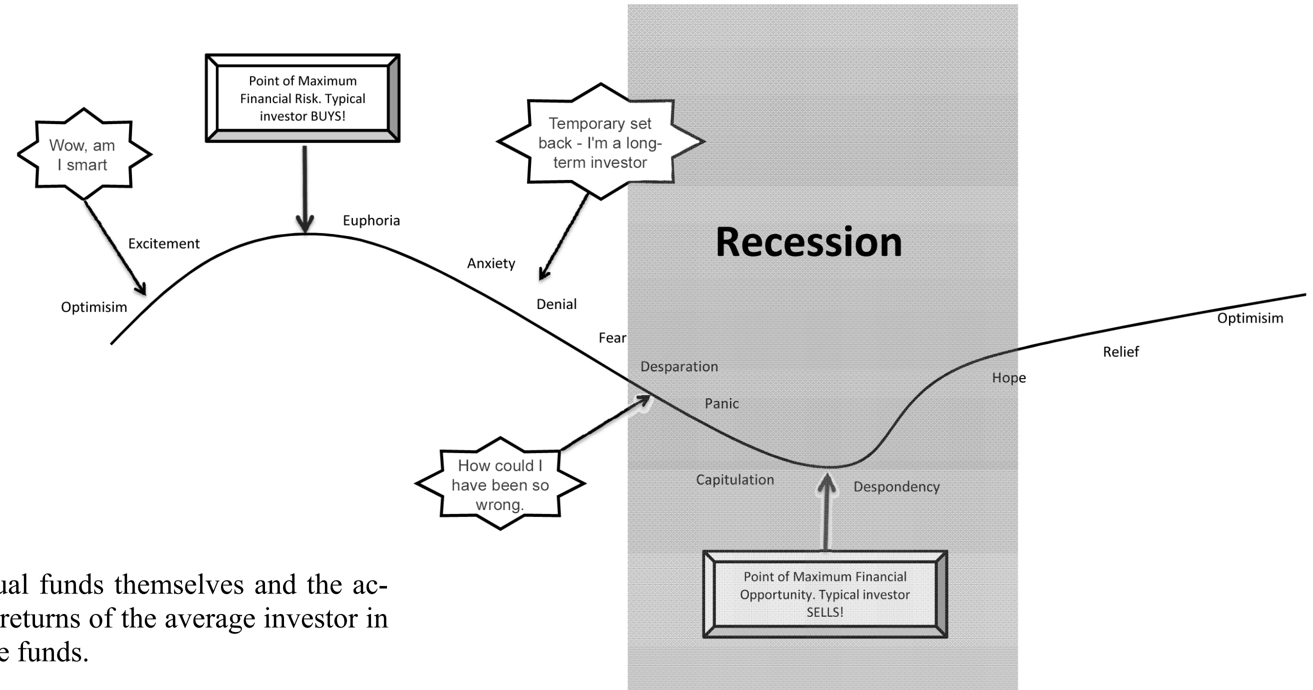
Mallard Announcements

Bill Appears in *Money Magazine*
Bill was quoted in the June 2009 issue of *Money Magazine*. The article was titled, "Discover Your Budget Style" and discussed a few different budgeting systems.

Ed & Pam Pass the Test!
Ed Mink and Pam Baumbach both passed the comprehensive CFP® examination they sat for in March. They are not yet permitted to use the designation after their names, but they are on course. Congratulations!! When you call the Newark office, don't be surprised to hear some new voices—UD senior finance major Kevin Muto, or Paul and Pam's son Mike.

What is the Shelf-Life of your Portfolio?....continued



mutual funds themselves and the actual returns of the average investor in those funds.

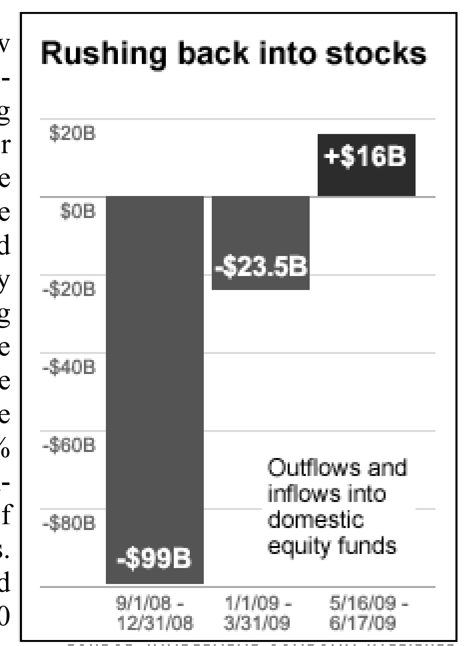
For example, even Peter Lynch, retired manager of Fidelity's Magellan Fund, has said that a shocking percentage of his fund's investors actually lost money during his tenure. So, even those lucky investors who owned one of the most successful mutual funds of all time lost money due to being attracted into the fund when performance was soaring and bailing out when its performance was waning. But all the investors really needed to do was to stay invested.

We can all likely relate to the above pattern of stock market changes, emotions, and investor thoughts / behavior.

While it is not possible to use the above cycle to better time the market (although a little contrarian investing may be called for), it is possible to remove the emotions from decision making and instead follow a more disciplined approach that is based upon valuations (i.e., buying stocks when they are on sale, or selling them when they are fairly or over priced), and rebalancing.

While emotional investors are feeling optimistic or euphoric, the disciplined investor will evaluate the rationality of the prices and at the very least rebalance, by moving money out of overvalued top performers and moving money into underperforming quality investments.

Also, when stock prices are down or undervalued and the emotional investor is panicky, the disciplined investor will re-balance again.



The chart below shows recent evidence supporting investor behavior consistent with the above visual. These are outflows and inflows for equity mutual funds during three recent time periods. During the first period, the S&P 500 lost 30% of its value and investors bailed out of stock mutual funds. During the second period, the S&P 500 lost 12%, and investors continued to bail out. Then after coming off the bottoms reached in March, investors are beginning to move back into stocks.

Bill Starnes is the managing partner of Mallard Advisors' Financial Planning Division.

Optimizing Social Security Benefits

Paul S. Baumbach

This article does NOT explain how to maximize **your** Social Security benefits. No single article can cover all of the factors that need to be examined to maximize your SSA benefits. Here I focus on one common scenario, which may apply to you. Importantly, it is a strategy which has received very little press coverage—this may be the first time that you have heard of this strategy. I expect that it will become more common as more and more Baby Boomers reach Social Security retirement age, and spend more time closely examining this important question.

Meet the Smiths—Joe and Jane Smith are both 66 years of age (their 'full retirement age' according to SSA rules), and are both recently retired. Joe's work record is more extensive than Jane's, and his projected monthly benefit ($1,800 monthly at age 66, normal retirement age) is about 40% greater than Jane's ($1,290 monthly). Neither has thus far applied for SSA benefits. Joe and Jane are both in relatively good health. Joe's father was a regular smoker and died in his 60s, but his mother lived to 89. Jane's father died at 72, and her mother is still alive at 92. Joe and Jane wish to maximize their SSA benefits, especially should one or both of them live a long time. They are planning to wait until age 70 to jointly apply for SSA benefits ($2,340 for Joe and $1,670 for Jane), in order to best meet this goal. [Note that in this article I ignore the annual inflation adjustment to SSA benefits, to keep the math much simpler.]

Spousal Benefit—Generally a spouse is entitled to the greater of the benefit based on their own work history, or 50% of the benefit based on their spouse's work history. In this case, as Jane's benefit is more than $900 (50% of Joe's benefit), her normal benefit would be based on her own work history.

Survivor Benefit—Again, generally, a surviving spouse is entitled to the greater of the benefit based on their own work history and the benefit based on their (deceased) spouse's work history. In this case, if Joe dies first, Jane would begin receiving Joe's benefits for the rest of her life, and if Jane dies first, Joe will continue to receive benefits based on his own work history (since this benefit is greater than the benefit based on Jane's work history).

Traditional Approach—A common approach is to first try to delay both Joe and Jane from applying for benefits until they turn age 70. This is the approach that the Smiths plan to follow. The next-best common approach is to have Jane (the spouse with the smaller benefit) apply for benefits as soon as she reached normal retirement age (now in this case), but have Joe wait to apply for benefits until he reaches age 70. This is typically done when couples cannot go without any SSA benefits until they turn 70.

Spousal Benefit Strategy—The following strategy is valid, and is based on optimizing the use of the spousal benefits built into the Social Security system. With this strategy, Jane would apply for benefits based on her own work history now ($1,290 monthly), and Joe also apply for benefits now, but Joe would apply for benefits now as Jane's spouse. He would therefore get $645 monthly (50% of Jane's benefit). Then, when Joe turns 70, he could reapply for benefits, this time on his own work history ($2,340). Since he does not receive benefits on his own work history until he turns 70, his benefit (from his own work history) is maximized.

Using this approach, the Smiths are able to receive Joe's maximum benefit ($2,340 monthly) as long as either is alive, for even if Joe dies first, Jane will then be able to apply to receive 100% of Joe's benefit for her remaining life. They are able to receive $1,935 monthly for the next four years, without reducing Joe's maximum benefit upon reaching age 70. From age 70 until the first of the Smiths passes away, they will receive $3,630 monthly—Joe's $2,340 monthly benefit and Jane's $1,290.

The primary risk is that if both Joe and Jane live a long, long life together, decades of Jane's benefit only being $1,290 monthly rather than $1,670 monthly level it would have been if neither applied for benefits until they turned 70 would overcome the positive impact of the first four years of $1,935 monthly benefits. The breakeven point is a little over twenty years. Thus the Smiths would be worse off using this Spousal Benefit Strategy only if both of them live more than twenty years. Otherwise, the Spousal Benefit Strategy would be the best approach for them.

Social Security benefits are a cornerstone to most retiree's financial planning. For this reason, it is important to examine your choices, and to carefully determine how best to proceed. More information is available at www.ssa.gov.

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