



A Unique Community Banking Experience

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To Convert or Not to Convert, That is the Question



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A Registered Representative
of Financial Network
Investment Corporation

Not all IRAs are created equal; there is the traditional IRA and the Roth IRA. Traditional IRA contributions are made with pretax dollars, therefore, lowering your taxable income for the year of contribution. They grow tax deferred and are taxable as ordinary income at distribution.

Roth IRA contributions are made with after tax dollars. Therefore, they do not lower your taxable income for the year of the contribution. They grow tax deferred and if left for five or more years the distributions are tax free. This could be a great advantage for those who want or need a portion of their retirement income to be tax free. However, in the past if your adjusted gross income was above certain limits your contribution to a Roth IRA was reduced or prohibited altogether.

As of January 1, 2010, Congress eliminated the income limitation on conversions. Anyone who owns a traditional IRA is now eligible to convert it into a Roth IRA regardless of their income. In addition, certain employer sponsored retirement plans, such as 401(k) plans, will also be eligible for the same Roth IRA treatment.

When you convert a traditional IRA to a Roth IRA it is a taxable event and since the entire amount that is converted will add to your ordinary income you should discuss this issue with your tax advisor before making a decision to convert. The good news is that taxpayers who convert their IRAs this year will have a choice of paying the taxes on the conversion over a one or two year period.

If this is something you would be interested in considering and would like to discuss it, please call me at (209) 406-9488. If you would like, we can conference with your tax preparer to find out if this is a good plan of action for you.

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*Publication 590 "Individual Retirement Arrangements (IRAs)" and Publication 17 "Your Federal Income Tax" of the IRS code used as reference in this article.

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Market Indices ¹	March Change	Year-to-Date (03/31/10)
S&P 500	5.9%	4.9%
MSCI EAFE	5.8%	0.2%
Dow Jones Industrial Average	5.2%	4.1%
Russell 2000	8.0%	8.5%

All Eyes on Washington

Markets continued to march higher as most of the investment community, and the country as a whole, was focused on Washington. After months of debate, the House voted 219-212 in favor of the healthcare reform bill. President Obama subsequently signed it into law, marking the passing of one of the most sweeping pieces of legislation in decades. The immediate effects of the new laws are likely to be much smaller than the long term outcomes. Strategists are generally uncertain as to what the impact will ultimately be to the numerous sub-sectors that make up the healthcare industry as it is simply too early to tell at this point. In addition, the legislation is likely to face a number of legal fights over the years. For example, fourteen states have already filed legal challenges as to the constitutionality of the bill. While most analysts don't think that these challenges will ultimately be successful, it nonetheless is indicative of the ongoing battles that are likely to be waged in the future.

Now that the healthcare legislation has passed, attention is turning toward financial market reform. Senator Chris Dodd, the Chairman of the Senate Banking Committee, recently unveiled his version of the financial reform bill. It would give the government power to seize and dismantle failing financial services companies and would require banks to contribute to a fund to pay for it. In addition, it would create a "Consumer Financial Protection Bureau" within the Federal Reserve. In its current form, it does not have the bipartisan support that many had hoped for. None of the ten Republicans on the banking committee endorsed the plan. However, there is general agreement that legislation in some form needs to be passed. The question is not if something will be done, but what shape it will take and how it will ultimately impact financial markets.

Government Budget Deficits

Governments around the world borrowed and spent heavily during the financial crisis in an effort to reduce the impact of the global recession. These efforts were likely an important factor in the recovery. But they also resulted in much higher deficits for many countries, including the U.S. Greece was the first country to spark fears of a debt crisis when it announced a budget deficit equal to 12.7% of GDP for 2009. This is more than four times higher than the European Union's 3% limit. In the U.S., that figure was 9.9% of GDP. Some strategists argue that, at least here in the U.S., future economic growth and spending restraint will be enough to tame these deficits. Others,

however, think more drastic measures will need to be taken. Social Security and Medicare reform, they argue, will ultimately be required in order to rein in spending. For now, however, efforts in Washington will likely continue to be aimed at more immediate concerns such as financial market reform, energy legislation, and national security.

1. Wall Street Journal, 04/01/10

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SAVE THE DATE

2010 INVESTMENT SEMINAR

Pulse of the Market: Changing Times for Investors
will be presented by Dave Borelli, from OppenheimerFunds.
After the presentation Linda Specht and Dave will be available for questions.



Wednesday, May 12, 2010
Brentwood Branch
740 First Street
12:00 - 1:15pm

Tuesday, May 18, 2010
BAC Plaza
2021 W. March Lane
12:00 - 1:15pm

For more information, call (209) 373-2524



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