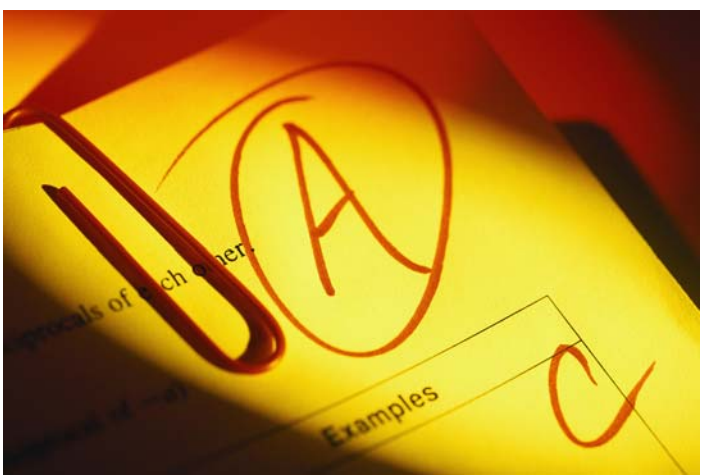


REPORT



11 HANOVER SQUARE, NEW YORK, NY 10005 T: (212)742-7900 F: (212) 742-9423 www.traversokeefe.com

Going Back to School on Investments MONEY MANAGEMENT



When you first started school, you were taught the three R's: reading, 'riting and 'rithmetic. Now that you are an adult, you must learn three important investment principles: research, review and rebalance. Let's follow a quick primer on the fundamentals.

Before you invest any of your hard-earned money, you should diligently research the investment. Do not give short shrift to the offering prospectus—dig in until you truly understand the terms and the nature of the investment. Naturally, you will not want to invest in any

fly-by-night companies or issuers without a proven track record.

Next, it is important to review your portfolio in light of the investments you are currently contemplating. If you have followed the basic investment principles of diversification and asset allocation, you will want to examine the breakdown after you have made the investments. Are the investments you are considering in line with your objectives for the future and your tolerance for risk? If not, it may be wise to pass on the opportunity.

After thoroughly researching the investment and reviewing it, you may decide to go ahead with the transaction. In that case, the addition to your portfolio may throw your preferred mix of assets out of kilter. Furthermore, even if you do not

change the mix of assets through a purchase or a sale, one type of investment may have increased or decreased significantly in value. That means it may be time to rebalance your portfolio.

Hypothetical example: Suppose that your personal investment strategy is to keep about 70% of your portfolio in stocks, 20% in bonds and the remaining 10% in cash equivalents (e.g., money market funds). Over the last few years, the value of your stocks has dropped to 55% while the value of the bonds has increased to 30%, and the value of the cash equivalents has risen to 15%. Based on your preferred allocation, you may decide to direct more funds into stock investments showing a potential for future growth.

Of course, this (*continued on page 3*)

Inside This Issue:

Going Back to School on Investments	1
When You Might Give Away Life Insurance	1
Deducting a Mixed Bag of Expenses	2
Protection for the Family: Naming a Guardian	2
Roth IRAs: New Spin on Tax-sheltered Savings	3

When You Might Give Away Life Insurance

Who should you name as the beneficiaries of a life insurance policy? You may choose one or more family members, such as your spouse and children. However, in some cases, you might decide to name a favorite charity as a beneficiary (or transfer an existing policy to a charity). What are the rewards for

being so generous? There are several benefits for the donor.

*Ease of transfer: You do not have to draw up a will or amend an existing will to make your charitable gift. All you have to do is assign ownership of the policy to a charity.

INSURANCE IDEAS

*No loss of current income: You do not lose any income as you would with gifts of dividend-paying stock or other forms of income-producing property. In fact, your cash flow may increase if the charity takes over payment of premiums. (*continued on page 3*)



Protection for the Family: Naming a Guardian

Critical question: What happens if you die without naming a legal guardian for minor children? The state will choose one for you. This could create some problems for the rest of the family. For instance:

*The person chosen by the state might not be your first choice. As a result, your children could be raised differently than you had expected.

*Your family may be drawn into a legal battle over the custody of the children. The cost of the court proceedings can cut into your estate.

*When a child reaches the legal age of majority in the state, he or she receives the money in a lump sum—whether the child is ready to handle it or not.

If possible, you should choose someone whose values and child-rearing ideas are similar to your own. Of course, there are a number of other factors to consider, including the person's financial experience, age, existing relationship with your children, willingness to assume the responsibility and so on.

What happens if your guardian dies, becomes incapacitated or wants to give up the job? You are essentially back where you started. For that reason, it is important for your will to designate contingent guardians in case your first choice is no longer able to fulfill the duties. In addition, you can devise a letter (or videotape) with detailed instructions on how you want your children raised. For instance, this letter can spell out your views on religion, education and other issues. However, be aware that the letter or videotape is not legally binding.

Assuming you intend to eventually bequeath property to your children, you may want to utilize other estate-planning techniques besides a will. For example, you may have named your spouse as the primary beneficiary of your life insurance policies and retirement plans with your children as the contingent beneficiaries. If you and your spouse both die, the proceeds will be distributed to the children in the manner directed by state law.

One alternative: To avoid adverse complications, you can name a trust as the beneficiary of the property instead. The trustee you appoint will manage the assets for your children according to your specific directions. As a result, you can determine when the funds are distributed to the children. Similarly, a life insurance trust is often used to shield life insurance proceeds from estate tax. For smaller estates, you might consider a custodianship established under the state law for transfers or gifts to minors.

There are a number of other estate-planning options to consider, so be sure to seek professional assistance in this area. With proper guidance, you can provide the optimal protection for your

family.



TAX TALK

Deducting a Mixed Bag of Expenses

Most tax deductions, such as the deductions for charitable donations and medical expenses, are easily recognized. However, there are a number of deductible expenses that do not fall neatly into a single category: miscellaneous itemized expenses.

Miscellaneous expenses are generally not big-ticket items—although there are several key exceptions—but they can add up to a sizable deduction at tax return time. There is, however, one catch: Your annual deduction is limited to the excess above 2% of your adjusted gross income (AGI) for the year. For instance, suppose that your AGI for 2005 is \$100,000 and you incur \$1,800 in miscellaneous expenses during the year. In that case, your deduction is zero. If you have \$2,500 in miscellaneous expenses, your deduction is limited to \$500.

Although there are a few “stray” deductions, most miscellaneous expenses are attributable to the production of income or

employee business costs.

Production-of-income expenses: This group includes expenses related to the production of income through investments, financial planning, retirement planning and tax assistance. Although this list is not all-inclusive, some common examples are safe-deposit rentals to store non-tax-exempt securities; accounting fees and legal fees to produce or preserve income; custodial fees for income-producing property and individual retirement accounts; fees paid to collect interest or dividends; hobby expenses (up to the amount of hobby income); fees for investment and tax counsel; appraisal fees for charitable contributions and casualty losses; and the cost of services, periodicals, manuals and other materials related to tax assistance. Note that the cost of having your tax return prepared by a professional is deductible as a miscellaneous expense.

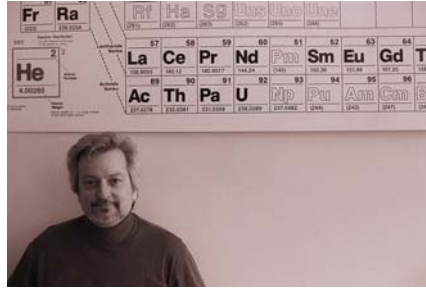
Employee business expenses: (continued on page 4)



Going Back to School on Investments (*continued from page 1*) is a mere illustration and not indicative of any preferred asset allocation mix or the performance for any particular investment. Also, be aware that rebalancing your portfolio could result in income tax consequences (e.g., capital gains realized on the sale of investments).

Actually, there's another principle starting with the letter "R" for investors to consider: risk. Every person's tolerance

for risk should be factored into investment decisions.



RETIREMENT REVIEW

Roth IRAs: New Spin on Tax-sheltered Savings

This isn't your father's (or mother's) individual retirement account (IRA). The Roth IRA, first introduced back in 1998, is a souped-up version of the traditional IRA.

Basic premise: If you earn compensation during the year, you may be able to contribute up to \$4,000 to a Roth IRA (less any regular IRA contributions) for the 2005 tax year. An extra \$500 contribution is allowed if you are age 50 or over. There is no current income tax on the buildup of earnings within the Roth IRA. Also, qualified distributions are completely free of income tax if they are made from a Roth IRA in existence for at least five tax years. Note: Unlike traditional IRAs, there are no minimum distribution requirements for a Roth IRA owner during his or her lifetime.

However, you cannot take advantage of a Roth IRA if your modified adjusted gross income (AGI) exceeds a certain level. The maximum allowable contribution for joint filers is phased out for a modified AGI between \$150,000 and \$160,000 (\$95,000 and \$110,000 for single filers). Also, pre-age 59½, withdrawals (other than qualified distributions) are subject to the 10% tax penalty.

What is a qualified distribution? It is a distribution made after age 59½, upon death or disability, or to pay for first-time home-buyer expenses (up to a lifetime limit of \$10,000).

Example 1: Mary Jones, single and age 42, contributes \$3,000 (*continued on page 4*)

When You Might Give Away Life Insurance

(*continued from page 1*)

***Affordability:** If you are just paying the premiums for the insurance policy, you can afford to give a much larger gift than you normally could. For example, the cost of a policy with a death benefit of \$100,000 should only cost a fraction of \$100,000.

***Income tax deduction:** Assuming you do not retain any rights in the policy, you can claim an income tax deduction for the value of the policy.

***Privacy:** Unlike a gift that is made by will, which is open to public inspection, no one has to know about a gift of a life insurance policy.

***Administrative expenses:** Since the proceeds are not subject to probate, your family saves on legal fees and administrative expenses.

***No limits:** Depending on state law, there may be limits on transfers to charity by will. However, arranging to have life insurance proceeds payable to a charity generally is exempt from such legal challenges.

Caution: Under the insurable interest rule, life insurance policies may only be acquired if the purchaser and the insured have marriage, blood or financial ties. While many states recognize charities as having insurable interests in the lives of others, some do not. In those

states, the donor might want to transfer the policy to the charity after acquiring it in his or her own name.

What if the donor cannot pay the premiums after the policy has been acquired? The gift still may be valid. For example, you can structure things so that the charity can choose to assume the premium payments. In the alternative, the charity may elect to take either the cash value or the paid-up value of the policy.



Can a life insurance policy be used to fund a scholarship or special project? Yes. In fact, the gift of an insurance policy may have an edge over stocks, bonds or other investments that may fluctuate in value. Reason: The charity generally knows the exact amount of cash that will be available and can plan accordingly.

This is not a do-it-yourself proposition. Be sure to obtain professional advice with this approach.

Roth IRAs: New Spin on Tax-sheltered Savings

(continued from page 3) a year to a Roth IRA for 25 years. Mary is in the 25% tax bracket. Assuming the contributions earn 8% per year compounded annually, Mary will have accumulated \$236,863 in her account after 25 years.

Compare that to a taxable investment that is earning the same 8%. For simplicity, let's assume Mary stays in the 25% bracket. After 25 years at an after-tax rate of 6%, she would have accumulated only \$174,469. Of course, these figures are hypothetical and not indicative of any investment.

If distributions are made from a Roth IRA that has not been in existence for at least five tax years, the funds are treated as being withdrawn as follows: contributions first, any amount converted from a regular IRA second and earnings third.

Example 2: John Smith, married and age 60, contributes \$3,000 to a Roth IRA for four years. John is in the 28% tax bracket. Assuming the contributions earn 8% per year compounded annually, John will have accumulated \$14,600 in his account after four years.



If John then withdraws \$5,000, the distribution is completely tax-free, no matter how the money is used. However, if he withdraws the entire balance of \$14,600, only \$12,000 is tax-free. The remaining \$2,600 is subject to income tax. Result: John must pay \$728 in income tax. Again, these figures are hypothetical and not indicative of any particular investment.

Of course, the Roth IRA is not necessarily the best option for every individual. Consult with a retirement-planning professional with respect to your situation.

GIVE US A CALL! DO YOU HAVE ANY QUESTIONS OR COMMENTS ABOUT PERSONAL WEALTH REPORT OR YOUR INDIVIDUAL SITUATION? PLEASE DON'T HESITATE TO CONTACT OUR OFFICE. WE WOULD BE GLAD TO SERVE YOU IN ANY WAY THAT WE CAN.



Deducting a Mixed Bag of Expenses *(continued from page 3)* The other main group of miscellaneous expenses consists of unreimbursed employee business expenses. It includes such expenses as dues paid to professional societies; union dues; employment-related education; malpractice insurance premiums; qualified home-office expenses; subscriptions to professional journals and magazines; work clothes or uniforms; cellular phones and home computers (when required as a condition of employment); and qualified travel and entertainment expenses (but only 50% of entertainment costs are eligible for the deduction).

Furthermore, the cost of seeking employment—for example, employment agency fees and resume services—is deductible as a miscellaneous expense, even if you do not end up with the job.

Of course, there are several exceptions to these general rules, so be sure to obtain expert tax assistance with respect to your personal situation. Reminder: This cost is deductible as a miscellaneous expense.