

# THE SUCCESSFUL INVESTOR

A PUBLICATION OF WAYPOINT WEALTH PARTNERS

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## *From Roth to 'round the world*

**F**all brings brisk mornings, yellow school buses and rowdy football games. As our clients settle into a new routine, Waypoint Wealth Partners strives to continue to provide excellent customer service, sound financial advice and peace of mind.

One way we do this is by providing this easy-to-read and informative newsletter to you each quarter. Our fourth-quarter issue is jampacked with information.

We start by tackling new Roth IRA regulations, which will take effect in 2010. Check out Annette's column on page 2 to learn more.

If you or someone you know is unemployed,

you may be interested in learning how to navigate the health insurance quagmire. Maureen McNally offers some practical advice on page 5.

We also have a profile of Dimensional Fund Advisors that explains why we chose this firm to help us manage your money. You'll understand more about this dynamic mutual fund company when you read about them on page 7.

If you'd prefer to grab a cup of tea and curl up, flip to page 4 and read about the adventures and philosophies of the Nédérovique family. They just returned from a 14-month odyssey around the world that was filled with delightful people, fascinating places and lessons learned. —



Chuck Bowes, Principal



Annette Brinton, Principal



Ed Runyon, Principal

*"Wise men learn more from fools than fools from the wise."*

— Cato

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# To Roth or not to Roth? ... that is the question

Income limitations on Roth IRAs are changing, but what's that mean for you?



Annette Brinton  
Principal

As we approach 2010, you're going to be hearing a lot about Roth IRA conversions and many of the advantages are going to sound downright irresistible. However when you're dealing with the tax code, it's never that simple. To determine whether to Roth, or not to Roth, there are several considerations to take into account.

First off, what is it about a Roth IRA that is so enticing? By far the most attractive feature of a Roth is the tax-free growth of contributions and the tax-free nature of withdrawals.

To put that in context, let's say you're 30 years old and contribute \$5,000 to a Roth IRA and you get an average annual return of 8 percent for the next 35 years. By the time you are 65, you would have \$73,926 in your account and all withdrawals would be tax-free. Not bad for an initial contribution of \$5,000.

So what's happening in 2010 and why should we care? In one word: eligibility.

Up until this point, Roth IRAs were limited to people with income under a certain level; in 2009, that level is \$166,000 for married couples and \$105,000 for singles. And if you're looking to convert a traditional IRA to a Roth, your income must be under \$100,000 whether you're single or married. That has left many people unable to participate in a Roth.

However in 2010, the income limitation for a Roth conversion is being permanently eliminated. That means you can convert some or all of your traditional

## 2010 and beyond

Roth eligibility and what's changing in 2010

### Today

- To be eligible to contribute to a Roth IRA, your modified adjusted gross income (MAGI) must be under \$105,000 for a single taxpayer and \$166,000 for a married couple filing jointly.

- To be eligible to convert a traditional IRA to a Roth IRA, your MAGI must be under \$100,000 for both single taxpayers and those who are married filing jointly.

### 2010

- In 2010, the income limitation for Roth conversions will be eliminated.

- For conversions made in 2010 only, taxpayers will have two additional years to pay the tax on assets converted.

IRA into a Roth, pay the tax now on the assets you convert and then all the future growth and withdrawals from the Roth will be tax-free. As a further incentive, the government is allowing taxpayers two additional years to pay the tax on conversions made in 2010 only.

Therefore if you convert \$100,000 of your traditional IRA in 2010, you can elect to report that income equally over two years on your 2011 and 2012 tax returns and pay the corresponding tax in 2012 and 2013. What a deal! Or is it?

Now comes the hard part: Does it make sense to pay tax today in exchange for tax-free growth and withdrawals in the future? If so, should you convert all or part of your traditional IRA to a Roth? When should you convert; now or at some point in the future? And if you convert in 2010, should you elect to pay the tax over two years?

The answers to these questions are entirely based on your unique situation.

The key decision points that we have to work with are: your current tax rate, your expected future income needs, your expected future income sources, your expected future tax bracket, your estate tax situation and your legacy goals.

Many of you may be asking yourselves, how in the world do I know what's going to happen in the future? The answer is you can't know for sure, but

Continued on page 3

through the planning work we've done with many of our clients, we know what your expected retirement income is (for basic living needs and other identified goals) and where we expect that income to come from (401ks, IRAs, pensions, Social Security, your investment portfolio, etc.) and how that income is likely to be taxed (ordinary income vs. capital gains). So we can arrive at some pretty reasonable assumptions based on what we know today that can help guide this important decision.

For many of you, converting to a Roth may make a lot of sense. For example, if you're in a lower tax bracket now and expect to be in a higher tax bracket when you retire. That might be the case if you've changed careers and your income is ramping back up. Or you've started a business and have flow through losses in the early years. Or you sell property with suspended losses that you can recognize to drive down your income.

Another scenario where a Roth conversion may make sense is if you expect to be in the same tax bracket when you retire but you believe that tax rates will increase in the future. This could easily be the case as the Bush tax cuts are due to expire at the end of 2010 and it's likely that they won't be renewed.

If you factor in some of the other attractive benefits of a Roth like tax rate diversification, flexibility around withdrawals before age 59½, no required minimum distributions, and the ability to pass tax-free assets to heirs and reduce estate taxes, you might have a strong case in which paying tax now in return for tax-free

### Key advantages of Roth IRA

- Tax-free growth
- Tax-free withdrawals
- Tax rate diversification
- Flexibility around withdrawals
- No required minimum distributions
- Tax-free assets to pass to heirs
- Potential to reduce estate taxes



growth and tax-free withdrawals is a very good decision.

There are other circumstances in which a Roth conversion is not a good idea. For example, if you need to use IRA assets to pay the taxes on a conversion, it's almost always a bad deal.

Or if you're in a higher tax bracket now, 33 percent or 35 percent, and you expect to be in a lower tax bracket in retirement. That might be the case if a significant portion of your retirement income will come from taxable investment accounts where capital gains and qualified dividends are taxed at lower rates. Or, if you're living in California, or another high-income tax state, and you plan to move to a state with lower taxes or no income tax, doing a Roth conversion may not make sense.

In summary, a Roth IRA offers many attractive benefits and the changes coming into effect in 2010 will allow many of you to participate in a Roth for the first time. The decision, however, should be made carefully, based on your unique situation as there's no one solution and no one right answer.

We will be reaching out to our clients who we believe may benefit from a Roth conversion over the next several months. And we welcome the opportunity to work with our allied professionals to help you guide your clients around this important decision as well.

As always, we're here to answer your questions, so please feel free to contact us. We look forward to hearing from you. ☺

## IRAs: A little history lesson

**1970s:** U.S. government realized that many Americans did not have pension plans available through their employers, and Social Security would not provide enough income for the average American to retire and enjoy a comfortable lifestyle.

**1975:** Traditional IRA was created.

**1997:** Roth IRA established by the Taxpayer Relief Act of 1997. It was named for its chief legislative sponsor, the late Senator William Roth of Delaware.

**2010:** New regulations that eliminate the income limitation for Roth IRAs.

## Souvenirs not regrets

When Claude Nédéroviqne was growing up in Avignon, France, he used to clip brightly colored photographs of places around the world. He dreamed of traveling the globe and recently returned from doing just that.

"It's better to have souvenirs than regrets," says Claude, with a rich French accent. By souvenirs, he isn't referring to tacky trinkets but rather the experience of traveling, connecting with people and learning about different cultures.

He and his wife, Valérie, and two children, Marinca (10) and Stello (6), just returned to their home in San Francisco after traveling the world for 14 months. From France and Israel to Egypt and Thailand, the family trekked to distant lands, met wonderful people and experienced the world firsthand.

Valérie, a teacher at French school Lycée Français La Pérouse in San Francisco, home schooled the children while on their travels. Valérie's teaching credential goes through fifth grade, which gave the Nédéroviqnes a personal deadline to make this trip a reality. Claude met Valérie when he hired her as a teacher for the French-American School of Silicon Valley, which he founded in 1992.

"Finding places to study went from terrible to magnificent," explained Claude. Crowded train stations and noisy airports were challenging to navigate, but they brought books and materials, studied in trains and planes, and absorbed different cultures and people.

The people were the most incredible part of the journey.

"After traveling a lot, you realize it's not about the monuments and places," Claude says. "It's about the people."

The people in Laos and Myanmar made a lasting impression on the family as they were so kind and gentle despite their harsh living conditions.

It was rare to meet other families while traveling, but when they did, it was often magical. They met another French family on a bus in Laos. After a long bus ride, the family asked the Nédéroviqnes to join them in the Mekong's 4,000 Islands, at the most southern tip of Laos, so they changed their plans and the families had a "delicious time" together.

The family was able to stay present during their travels and not



Claude, Valérie and their two children, Marinca and Stello, as they made their way through the thickly forested landscape of Laos, a "truly magical place" where they spent 30 days. They had several exceptional encounters with locals and their experience here is why Laos is top on the list for microloans, Claude's next venture.


get caught up in the worldwide economic meltdown. Claude thinks they left for their trip at "the perfect time" in June 2008 as the economy was spiraling.

While gone, Claude put his companies, Paris For Rent ([www.parisforrent.com](http://www.parisforrent.com)) and Paris Luxury Rentals ([www.parisluxuryrentals.com](http://www.parisluxuryrentals.com)), in the capable hands of a strong team. He and Valérie vowed to focus on the trip and "this exceptional opportunity to be together as a family."

"There is a moment when you need to fulfill your dream and this was the time," says Claude (50). "There's always a reason not to do it. We could have postponed it forever but decided to go for it."

From the jungles of Laos to the savannah in Tanzania, the family was together 24/7 — an opportunity many families never experience. Claude and Valérie appreciated the complete freedom that travel allows and the children both came to understand the world is a big place with many answers to a single question.

After fulfilling his life-long dream, Claude is crafting his next venture — moving into the nonprofit world to provide microcredit loans in Laos and Guatemala, two countries he loves.

"I feel I've been very lucky, especially in the U.S.," says Claude, who has dual citizenship. "Now it's time to do our share." 

## No health insurance? Here are tips for the uninsured

**W**ith unemployment rates reaching double digits (10 percent in California in September), thousands of unemployed workers are trying to navigate the maze of health insurance. As an insurance broker, I receive hundreds of calls and e-mails each month. Following are the most frequently asked questions I encounter.

**Q: I lost my job and my group health insurance is going to be terminated. What do I do?**

**A:** The first thing to do when you find out your group health insurance coverage is being terminated is to consider all your options.

In 1986 the U.S. Congress passed the Consolidated Omnibus Budget Reconciliation Act, commonly referred to as COBRA. Under COBRA, you may be entitled to keep your group health insurance plan for 18 to 36 months depending on if you are an employee or eligible beneficiary and the size of your company.

For groups with two to 19 employees, Cal COBRA (additional legislation passed in California) may apply.

A good source of information regarding your rights under COBRA can be found at the Department of Labor Web site, [www.dol.gov](http://www.dol.gov).

Also ask your employer if you qualify for The American Recovery and Reinvestment Act (ARRA) of 2009 subsidy. If you are eligible, then the U.S. government will pay 65 percent of your COBRA or Cal COBRA premiums for a period of time.

**Q: I accidentally paid my COBRA or Cal COBRA premium payment one day late and they canceled my coverage. I have a heart condition. Can I ask them to reinstate my coverage since I was only one day late?**

**A:** You can ask the COBRA administrator to reinstate your coverage. However, unless they've made a mistake, the COBRA administrator typically won't reinstate a policy that has been canceled for late payment. The reason for this is a legal one. If they reinstate your policy and don't do it for other customers, they are

being discriminatory. So to be safe, pay your premiums early — or you could lose your coverage.

**Q: My company is shutting down and no COBRA or Cal COBRA will be offered. I went online and applied for an individual medical plan and was turned down due to my pre-existing health conditions. What can I do?**

**A:** If you are in good health, you should qualify for an individually underwritten plan. If not, then there are HIPAA (Health Insurance Portability and Accountability Act of 1996) plans to protect you.

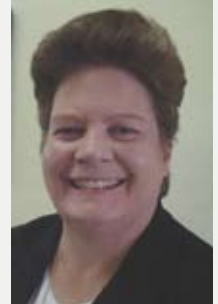
HIPAA plans are available to eligible individuals who have fully expired their COBRA and Cal COBRA options. If a business discontinues its group health insurance plan or goes out of business, this may also trigger your HIPAA rights. HIPAA plans are beneficial to individuals with health issues as they allow these individuals to purchase health insurance coverage regardless of their health history. There are a number of HIPAA plans to choose from, including Kaiser, Anthem Blue Cross, Blue Shield and Health Net.

**Q: COBRA is so expensive. Should I take the COBRA or enroll in an individual plan?**

**A:** Use your 60-day COBRA election period to check out individual plans. You may call an experienced agent/broker or look up the plans online and enroll. I suggest that you work with an experienced agent/broker. If you have health history or are taking medications, the individual plan underwriter may approve your application for a medical plan but offer you a plan at a higher rating tier based on your health history.

The best way to navigate health insurance is to stay within the time frames (60-day election period for COBRA, 63-day election period for HIPAA plans) and to find someone knowledgeable who can assist you with your insurance needs. —e—

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# Top rankings, community, sports filled summer days



In the July/August issue, "Wealth Manager" magazine published the 2009 Top Wealth Manager rankings (formerly the Top Dogs) and Runyon & Bowes LLC was No. 187 on the ninth-annual ranking. There were 407 firms on the list, ranked by average assets under management per client. You can check out the complete list at [www.waypointwp.com](http://www.waypointwp.com) or [www.wealthmanagerweb.com](http://www.wealthmanagerweb.com).

Annette served as the first grant cycle director for Full Circle Fund's new Global Economic Opportunity (GEO) Circle. Launched in November 2008 by Nobel Prize winner and author Muhammad Yunus, the GEO Circle kicked off their first grant cycle in February and concluded in September with three outstanding grantees: SIRUM, Self Help and La Cocina.

Chuck attended an all-day retreat with city officials and Oakland WildFire Prevention District to review the organization's strategic plan. Chuck, a resident of the Oakland Hills, serves on the OWFPD.

Ed Recently attended the Orange County Estate Planning Council meeting and plans to attend future monthly meetings.

Chuck is the ultimate soccer dad. He coaches 8-year-old son C.J.'s team and cheers on 6-year-old daughter Genny at her games.

In August, Annette rode the Tour of Napa, a 100km bike ride through the vineyards (and hills!) of the Napa Valley.



This summer the Runyon family visited Yosemite. They hiked, enjoyed the beautiful vistas and got wet at nearby Bass Lake.

Rachelle Runyon (11) is playing on both the all-star softball team and all-star soccer team. Blake Runyon (9) is gearing up for the upcoming basketball season. Ed and Blake are still active in the YMCA Indian Guide program with many father/son campouts planned during the school year.

Forget the chickens, let's talk tomatoes. Farm Bowes continues to produce juicy heirloom beefsteak tomatoes, fragrant basil and enough potatoes to feed all of Ireland. Yummm, you can almost taste it.

Annette had an exciting 10-day vacation in Vancouver and Alaska with her husband, Adrian, and her whole family. Highlights included a helicopter tour around the mountains and glaciers of Juneau, ice climbing on the Mendenhall Glacier, kayaking around the Tatoosh Islands, and enjoying the great food and wine of British Columbia. ☺



## Fascinating Financial Facts: Fumbling Financial Literacy

In December 2008 The Center for Economic and Entrepreneurial Literacy (CEEL) released results from a national survey that showed a disturbing number of Americans are unable to answer simple questions about borrowing, interest rates and even basic math. Many respondents also admitted to making poor decisions with their own finances.

**65%** of respondents could not identify what would remain if you subtracted 25 percent from 8. One in three respondents could not identify what 1 percent of 50,000 was.

### Illiteracy to blame

"Economic illiteracy is at the heart of our current economic crisis."  
— James Bowers, managing director for CEEL

**56%** of respondents could not identify FICO score as the most important factor in getting a loan.

**54%** of respondents could not define a subprime mortgage.

**75%** did not know that when in need of short-term emergency cash, bouncing a check costs more than wire transfers, credit card advances and short-term payday loans.

Data from The Center for Economic and Entrepreneurial Literacy, [www.econ4u.org](http://www.econ4u.org)

## How Dimensional Fund Advisors works for you

One of the most valuable services we provide clients is the selection of excellent investment managers. There is a never-ending supply of fresh ideas, economic strategies and products in the investment world. Our job is to sift through this tsunami of information and select the very best managers for our client portfolios.

Occasionally we will profile the investment managers we have selected to help give our clients a deeper understanding of who is helping us manage your money and grow your investments.

Dimensional Fund Advisors (DFA) is a Santa Monica-based mutual fund company with offices in Austin, Santa Monica, Chicago, Sydney, London and Vancouver. DFA is the nation's 12th largest mutual fund company with more than \$127 billion under management.

There is a lot to like about DFA, including its business model, investment philosophy, track record, low cost and history of innovation.

DFA has a unique business model because it only distributes investment vehicles through a small number of independent, fee-only advisors who have been fully vetted and maintain a high level of continuing education.

Why limit distribution and therefore its ability to attract and manage more assets? Two primary reasons: to keep costs down and to avoid knee-jerk reactions to random events that are common with individual investors and many investment managers.

These emotional reactions result in larger than normal cash inflows and outflows. Irrational cash flows create havoc for investment managers and result in higher taxes and greater cost for investors. We agree with DFA that the intelligent, disciplined investor should not have to pay for the naïve mistakes common by individual investors and less-disciplined advisors.

In terms of investment philosophy, DFA is unique in its view that you can outperform a benchmark without making market timing

calls or picking stocks — and it has the track record to prove it. Since the early 1980s, DFA has consistently outperformed key market indexes after all fees (see box).

To put this in perspective, if you invest \$1 million for 20 years and instead of earning 8 percent you earned 9.5 percent (only 1.5 percent annualized "over performance"), you would have earned an additional \$1.5 million! Who couldn't use an additional \$1.5 million?

### Successful funds

The examples below show the annualized (each year) out performance of three representative DFA funds:


- Since 1982 DFA Micro Cap Portfolio has outperformed its benchmark by 1.71 percent after fees. The 10 years ending June 30, 2009 it has outperformed by 3.46 percent.
- Since 1995 DFA International Small Cap Value has outperformed its benchmark by 4.38 percent. The 10 years ending June 30, 2009 it has outperformed by 5.82 percent.
- Since 1998 DFA Emerging Markets Value has outperformed by 6.34 percent. The 10 years ending June 30, 2009 it has outperformed by 3.34 percent.

The recent extreme volatility caused by the economic crisis and resulting great recession has shown DFA can outperform during both rapid market declines and subsequent recoveries. If you are interested in learning how DFA can provide these results and why we are confident it will continue to do so, please contact us as it would take far too long to explain here.

Other key reasons we like DFA include its very low cost, excellent tax efficiency and proven ability to develop innovative solutions to client challenges.

Some examples of DFA's innovation include a small-cap asset class fund years before the first small cap index (Russell 2000) was created, the first commercially available emerging markets small-cap and value portfolios, the first commercial available CORE portfolios that incorporate size and value exposure, and the list goes on and on.

This steady pattern of innovation is related to DFA's unique relationship to some of our country's premier educational institutions including Stanford, University of Chicago, Harvard and Dartmouth. DFA's board of directors reads like a who's who of modern financial minds, including several Nobel laureates.

While we think very highly of DFA, it is important to realize that it is only one of the managers we use (Vanguard, PIMCO, Goldman Sachs and others will be the focus of future articles). We are constantly challenging ourselves to ensure there is no better solution for our clients. And we will not hesitate to change managers if we believe it is in the best interest of our clients. 

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To **Roth** or not to **Roth**? ... that is the question

Health insurance **101** for the uninsured

Around the world in **14 months**

**2+2=5**: Financial illiteracy in America

*Find out more inside...*



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