

THE SUCCESSFUL INVESTOR

A PUBLICATION OF RUNYON & BOWES FINANCIAL CONSULTING

WINTER 2009



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New Year offers chance to look forward

Ah, a new year always offers a fresh, clean slate and after the turmoil of 2008, we don't know anyone who isn't looking forward to, well, looking forward.

Although the markets and the economy are still uncertain, we will be watching closely for planning opportunities as the Obama administration's bold new plans take shape. Our investment philosophy certainly has helped us navigate these uncertain times.

Part of our philosophy is our belief in measuring investment success through time-weighted returns. It's not the most glamorous topic but an important one to address and help our clients understand. See Ed's partner column on page 2.

The new year also brings tax documents in the mailbox and the reminder that tax season is just around the corner. CPA Sharon Rubens tackles the subject of alternative minimum tax, which most have heard of but many don't understand. You can learn more about it on page 5.

Once you've learned about AMT and time-weighted returns, you can sit back and peruse our two profiles. The client profile tries to keep up with the sporty Becketts on page 4 and you can meet R&B's newest team member, Stephanie Platt, on page 7.

As always we are here for you so please don't hesitate to contact us for any reason. We look forward to working with you in 2009 and beyond. [R&B](#)



Ed Runyon, Principal



Chuck Bowes, Principal



Gabriel Brenner, Principal

"A bank is a place that will lend you money if you can prove you don't need it."
— Bob Hope

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Going with the flow: plain talk about performance

Learn why "time-weighted return" is best way to measure investment results



Ed Runyon
Principal

The past two issues of this column have dealt specifically with the struggling economy and volatile stock market. A natural reaction is for investors to want to understand how their portfolio performed and begin to take a close look at performance metrics.

So this quarter we delve into an explanation of how we calculate and report your investment results. This topic warrants discussion as there are different reporting methodologies used in the financial management industry.

In early 2008 we significantly upgraded our performance reporting capabilities. The performance standard that Runyon & Bowes uses is called time-weighted return. Basically this means the effect of time is considered in the representation of performance calculations rather than the effect of contributions and withdrawals.

Why does this matter? It matters, because the timing of cash inflows and outflows to your account are neutralized in the calculation for reporting the performance of your investments.

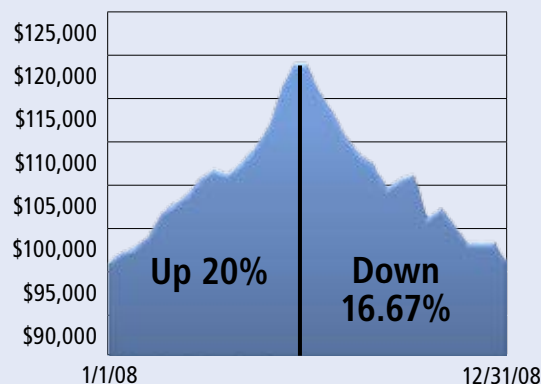
This is important to be able to evaluate your results independent of when you make deposits or withdrawals. Since the dollar flows are neutralized in the time-weighted return computation, the only number reported is the pure investment return of the advisors investment strategy.

A SIMPLE CASE STUDY

Let's start with a simple case of a new client who invests \$100,000 on January 1.

For the first half of the year the portfolio appreciates by 20 percent, for a value of \$120,000 on June 31. The second half of the year wasn't very kind and the investment strategy gave back nearly 17 percent,

bringing the portfolio back to its original valuation of \$100,000 at December 31. Since there were no deposits or withdrawals to this portfolio, all widely accepted performance methodologies will yield the same results: a zero percent return over the year.



Regardless of the volatile swings of the portfolio returns during the year the account is worth exactly the same as at the beginning and end of the year. Computing returns when there are not any deposits or withdrawals is relatively simple, so let's consider a more likely scenario.

CASH FLOWS DURING RISING MARKETS

Let's say that another client invests \$10,000 on January 1. For the first half of the year, the markets don't perform well and the strategy declines 5.75 percent, turning the \$10,000 into \$9,425 on June 31.

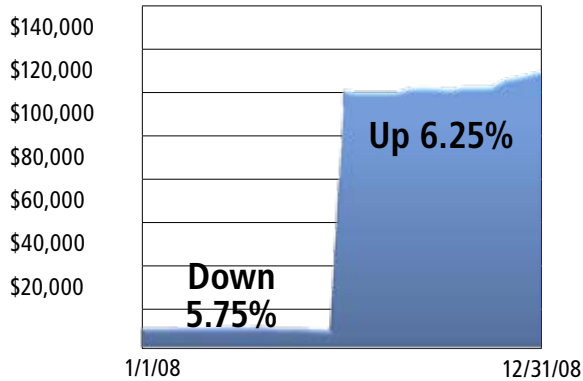
On July 1, an additional \$100,000 transfers in. The second half of the year is much better and the portfolio appreciates 6.25 percent bringing it to a value of \$117,120 on December 31.

For the year, counteracting the effect of cash flows, the investment strategy had a time-weighted return of 0.0014 (effectively a break-even return).

However, because of the timing of the cash flows, the

Continued on page 3

cash invested in the second half of the year was exposed to a greater return period and thus the client earned \$7,120 over that period. This can be misleading when attempting to calculate your return based on a simple division. For example, it would be incorrect when evaluating the performance of your investment over the course of the year to simply divide the \$7,120 earned, by the total amount invested of \$110,000 and conclude that the investment strategy returned nearly 7 percent when, as previously shown, the return of the investment strategy over the course of the year was virtually break-even (zero).



CASH FLOWS DURING DECLINING MARKETS

The inverse condition often occurs and is usually a more difficult conversation to field: When an advisor reports a positive return, yet the portfolio is worth less than the net of all the contributions. This can occur when a small amount was managed during an up market and a significantly larger amount was managed during a down market over the course of the period being evaluated.

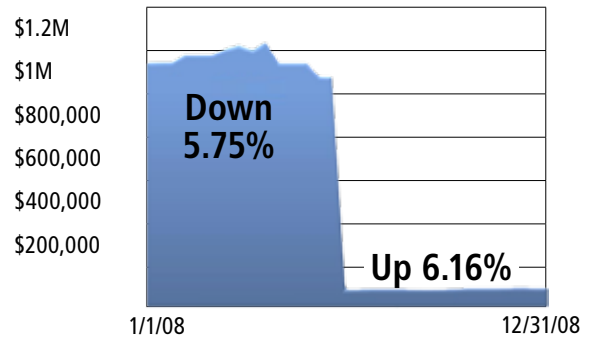
As an example, consider the following scenario:

On January another client deposits \$1 million. The market then proceeds to correct immediately following the large deposit and within a couple of weeks the portfolio has declined by 5.75 percent turning the portfolio into \$942,500.

The client then withdraws \$850,000, so on June 31, the portfolio is now valued at \$92,500. The market stages a considerable recovery during the second half of the year and generates a 6.16 percent return, turning the portfolio into a value of \$98,200.

Over the course of the entire year the advisor managed this portfolio, the recommended investment strategy effectively yielded a break-even return (+0.58 percent).

Nevertheless, it's hard to explain to the client who has a net contribution of \$150,000 (\$1 million - \$850,000) with a portfolio valued at \$98,200 that the investment strategy was slightly positive for the year.



New quarterly reports from R&B



R&B recently made significant upgrades to our quarterly performance reports. These new reports are straightforward, easy to understand and provide a comparison of your portfolio to a relevant benchmark.

These new reports will be delivered to you electronically via a secure online portal. This portal also will provide you with instant access to view your accounts, daily values and current asset allocation — all at the click of a few keys.

Each quarter you'll receive an e-mail from us letting you know that the reports are ready and how to review them. As always, please let us know if you have any questions or concerns.

IN SUMMARY

It is important to consider the significance of time-weighted returns and the role it plays in communicating performance, which is why we are explaining it to you in this column.

The time-weighted return methodology we use in our reporting is designed to demonstrate the value of the investment strategy, process, implementation and investment vehicles selected, while eliminating the distortions associated with cash flows.

After each quarter end, you receive an e-mail from us that your performance report has been placed in your secure Web portal. The report format is .pdf and can be printed or saved to your desktop. If you need assistance accessing your quarterly report, please don't hesitate to call. [R&B](#)

Skiing, trekking through life with the travelling Becketts

Paul and Judy Beckett live life exactly how they want – one mogul and one trail at a time.

From skiing and hiking to windsurfing and golfing, these Southern California natives seize every opportunity to romp through the continent's generous menu of outdoor sports.

"I'll never be a Tiger Woods," laughs Paul, who says they enjoy many different activities but probably aren't masters of any particular one.

They have lived in Hermosa Beach for more than 20 years, enjoying the outdoor play land of California.

Now retired, Paul launched his career at Principia College, a liberal arts college in Illinois. He earned his master's degree in physics at the University of California, Los Angeles and spent the next 35 years at Hughes Aircraft Co. where he worked on a team that developed night vision systems for the military.

Judy graduated from The College of Idaho, then went on to get a teaching credential from UCLA and eventually attended Loyola Marymount for her MA in counseling and her administrative credential.

She spent her 35-year career with Los Angeles Unified School District, where she was a physical education teacher, a counselor and an assistant principal. She still does consulting in the district.

"We've been lucky in that we've been able to go on some great travels," Judy says.

And travel they have. They often plan their vacations around their favorite sports — skiing in the winter and wind surfing in the summer. Often they will coordinate with friends and take on the mountains or the wind in a group.

"We love Whistler [British Columbia] for the good skiing," Paul



The Becketts love of travel have taken them around the globe, including a recent visit to Peru and Ecuador.

says. "But it's our great friends that keep us coming back."

The Becketts bought a second home in Whistler last year. After making the trip for the past eight years, they realized it makes the perfect place to enjoy the spectacular skiing in winter and the hiking and biking trails in summer.

They also enjoy skiing at Sun Valley, Idaho and Snowbird and Alta ski areas in Utah.

When they aren't schussing down the slopes, you can find them

windsurfing with friends in Maui or on the Columbia River Gorge.

But the travels don't stop there. In addition to sport vacations, Paul and Judy love to explore the world and learn about other cultures.

Last year they made an eight-week trek to Peru and Ecuador. From the peaks of Machu Picchu to the Galapagos Islands, they were enamored by these South American countries.

"I tried eating Alpaca but decided it wasn't my favorite," Paul says. He also was adventurous enough to nibble on cuy, or guinea pig, but said he felt like he was eating a friend's pet.

They have tried delicacies the world over and still have a long list of places they'd like to visit.

A few years back they spent a month in India to experience The Char Dham, the most important Hindu pilgrimage circuit in the Indian Himalayas. The Hindus revere their river gods, and have temples located where they flow from the glaciers amidst 20,000 foot peaks.

"It was an incredible experience trekking with the Hindu pilgrims," Paul says.

But you can't help but wonder whether Paul and Judy, while soaking up the culture, didn't long for two pairs of skis. **R&B**

Alternative Minimum Tax: Past, Present, Future

Most of us have heard of alternative minimum tax (AMT), and most of you have probably even paid AMT in the past. In fact, you probably will be subject to it again for the 2008 tax year. Even though so many are paying alternative minimum tax, relatively few people really understand this stealth tax.

WHAT IS AMT?

As the name suggests, alternative minimum tax is an alternative way to calculate taxes. People are required to calculate their taxes under both the regular tax method and the alternative minimum tax rules. As we all expect in our dealings with the Internal Revenue Service, taxpayers must pay the higher of their regular or alternative minimum tax.

AMT is calculated by starting with "regular" taxable income and adding back certain items such as:

1. Certain income from exercise of stock options;
2. Real estate taxes;
3. State income taxes and
4. Miscellaneous itemized deductions (e.g. investment-related expenses and employee business expenses), just to name a few.

Our "regular" tax structure calculates tax using a graduated or progressive tax rate structure from 10 to 35 percent. The AMT rates are "basically" flat at 28 percent.

	Regular Tax	AMT
Taxable Income:	\$400,000	\$400,000
Add Back:		
Real Estate Taxes	N/A	\$ 20,000
State Income Taxes	N/A	\$ 30,000
Tax Base	\$400,000	\$450,000
Federal Tax	\$110,000	\$123,000
Alternative Minimum Tax		\$ 13,000

When the maximum regular tax rate (35 percent) is so close to the flat AMT rate (28 percent), it does not take long before the loss of certain deductions creates a higher alternative minimum tax base and we're paying AMT.

THE PAST

When AMT was introduced in 1969, the goal was to catch a few hundred millionaires who took too many deductions and didn't pay their "fair share." With high regular tax rates (up to 50 percent) and a flat AMT rate, very few taxpayers were caught in AMT. It was not intended for the middle class that it is impacting today.

THE PRESENT

AMT has largely been ignored by Congress while regular tax rates have declined substantially. With this small gap between maximum tax rates of 35 percent and flat AMT of 28 percent, AMT is now capturing many middle-class Californians.

WHAT CAN I DO IF I AM IN AMT?

Very little. Many taxpayers find themselves in AMT without any opportunity to pull themselves out. When you are in AMT, there is generally no benefit to accelerating real estate taxes or paying state income taxes early. There are still "good" tax deductions for AMT "victims," such as charity and retirement contributions.

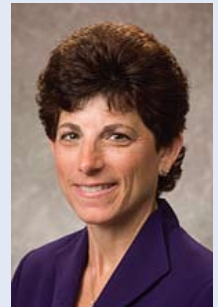
If you think tax rates are going up, you might try to accelerate income into a year that you're paying AMT and only pay federal taxes of 28 percent.

So, if you are in AMT, what should you do? Maybe enjoy it.

THE FUTURE

President-elect Barack Obama's tax plan proposes restoring the maximum tax bracket to 39.6 percent. This should go a long way toward reducing the number of people impacted by alternative minimum tax. Likely you will still be paying the same amount of tax or more — it just may not have the dreaded AMT label that evokes such passion. [R&B](#)

Sharon S. Rubens is a partner with Lafayette-based Rubens Nunnemaker LLP, a boutique CPA and consulting firm specializing in accounting and tax matters for high-net worth individuals, trusts and businesses. Sharon can be reached at srubens@RNCPAS.com or (925) 287-1313.



Sharon Rubens

Re&B studying, planning and going ‘Clark Griswald’

Ed has completed half of his requirements for his Chartered Life Underwriter designation, the world’s most respected designation of insurance expertise. This effort is part of Runyon & Bowes commitment to fine-tune and broaden their expertise in a variety of financial areas to better serve their clients.

Chuck is on the conference committee for the FPA NorCal Conference to be held May 26-27 at the Palace Hotel in San Francisco. The Financial Planning Association is the leadership and advocacy organization connecting those who provide, support and benefit from professional financial planning. The NorCal group is made up of six Bay Area chapters including Sacramento, East Bay, Marin, San Francisco, Silicon Valley and Monterey. This committee is tasked with putting together the nationally recognized conference, which hosts more than 800 financial planners.



Gabe went completely “Clark Griswald” this year with holiday lights for his home. Although the family loved the festive abode Gabe suspects undoing his work will be considerably less fun. “Christmas was an absolute

kick,” Gabe said. “Our favorite present that Santa brought was Aquasaur, 350 million-year-old creatures that come in an envelope and reconstitute in water. The current population in the tank is about 100. But as they grow to two inches and are cannibals, we have held off on naming as just yet.”

The Bowes Family are active members of the Beaconsfield Canyon

restoration project. Little used and undisturbed, Beaconsfield Canyon is a small gem in the Oakland Hills. They meet the last Saturday of each month to rid the canyon of ivy, broom and other non-native plants. They also clear debris from the creek and shore up hiking paths to make the canyon more accessible. The Bowes family pitches in and helps whenever they can.

Ed’s daughter, Rachele, 10, is showing off her new braces. Surprisingly, she was looking forward to getting them. She is now second guessing her wish, as the reality of a sore mouth is setting in.



Chuck is coaching 8-year-old son C.J.’s futsal team. Futsal is an indoor version of association football or, in simple terms, it’s indoor soccer with a larger ball on a basketball court. Chuck’s soccer coaching experience was tapped for this international game and he and son C.J. are having a blast scooting around the court.

Ed’s son, Blake, 8, has recently taken up basketball. He loves sports and the basketball season fits perfectly between football and baseball.

It just wouldn’t be a complete newsletter without an update from Farm Bowes. “We have eggs!” exclaimed Chuck one rainy afternoon in December. Those cute lil’ clucking chickens have started producing and, after a quiet start, are churning out two to three eggs a day. The kids are ecstatic and are enjoying small, bright yellow eggs nearly every day. 

Fascinating Financial Facts: U.S. Presidents

In the spirit of an exciting election season and the coming inauguration, we decided to share a few tidbits about our presidents.

6’4”

Abraham Lincoln was the first president to wear a beard and the tallest president at 6’4”.

\$400,000

Salary for the U.S. president. The most recent raise in salary was approved by Congress and President Bill Clinton in 1999 and went into effect in 2001; prior to the change, the president earned \$200,000, plus expense accounts.

53: The number of films Ronald Regan, the first actor elected president, was in before he became prez.

2.5 million: Expected crowds for the inauguration of President Barack Obama, the nation’s first black president. Lyndon B. Johnson’s inauguration holds the attendance record at 1.2 million.

2,000

President Jimmy Carter is a speed reader, having been recorded reading 2,000 words per minute.

Data from the U.S. Dept. of the Interior, news reports, opensecrets.org.

Focus on customer service brings Platt to the team

Sensible, dependable back-end voice belongs to Stephanie, newest R&B staff

Most Runyon & Bowes clients have heard the cheery voice of Stephanie Platt at one point or another. She's the backbone of office operations for Runyon & Bowes, allowing Chuck, Ed and Gabe to spend their time managing your money and growing your assets.

She's been with the firm since the summer of 2008 and works hard to make sure clients receive top-notch customer service. Helping clients is second nature for Stephanie, having worked in the financial services industry for 16 years. From banking and stock brokerage to working with independent agents and broker/dealers, her experience, coupled with a degree in finance and economics from Kent State University, provides a breadth of knowledge to assist our clients.

She now runs her own firm and helps more than a dozen financial advisors, including Runyon & Bowes, with back-end operations.

Her career has transitioned as her family has grown. She has three children, Kaelyn, 19, Haleigh, 10, and Gabriel, 5 and has balanced her career to accommodate her family.

Stephanie and her husband, David, have been married for 13 years and live in an old farmhouse in Berlin Center, Ohio. The 1870 farmhouse sits on 5 1/2 acres and, although most of the acreage isn't used ("we only mow about an acre and half"), they have a thriving garden and an A-frame chicken coop that is home to seven hens and one feisty rooster.

"I love to garden and my garden gets bigger every year," says Stephanie. "Each season I experiment with new crops and have started sowing seeds in my small greenhouse as our last frost is in late May."

Her garden has been home to potatoes, beans, beets, peas, zucchini and squash. When she's not tending her garden or

scooping up eggs from her chicken coop, Stephanie and her family love to travel.

"We bought a camper last summer and we love it," Stephanie says. "Before that we used to tent camp, which was fine but the camper really makes a difference." They have trekked to Lake Erie to relax, Dayton to visit the Air Force Museum and Butler to see Malabar Farm, where Stephanie has childhood memories.



The Platt family: Stephanie, David, Haleigh and Gabriel.


Stephanie grew up in Twinsburg, Ohio, south of Cleveland. Her family is all within a few hours, so gatherings occur regularly. They just had a large family celebration to commemorate two of her children's birthdays, which are in December – a busy month for the Platt family.

When Stephanie has a moment to herself, which isn't often, she's a passionate quilter. She's self-taught and has been creating, learning and loving the craft for the past seven years. She has several sewing machines but loves to quilt by hand.

"I'm a bit traditional in that respect," she says.

She's looking forward to a quilting weekend away in February. She and her quilting buddies will escape for the weekend to sew, learn and commune while working on their quilts.

If she's not actually quilting in her spare time, you might find her curled up on the couch with a warm blanket and a cup of tea reading a book about quilting — or any number of topics. She's an avid reader and her book shelves are overflowing with business books, gardening manuals and lots of nonfiction, although a few novels sneak into the mix.

Stephanie's most important job and favorite way to spend time is with her family. You'll experience that sense of warmth when she tends to your needs and makes sure that everything is just right. 

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*“Do you know what Barack Obama’s **annual salary** will be when he becomes the 44th U.S. president?”*

*“Want to learn about **time-weighted returns**?”*

*“Who’s behind that **new voice** you hear at Runyon & Bowes?”*

*“Learn about the past, present and future of **AMT**.”*

Find Out More Inside...