

BEYOND THE HORIZON

2nd Quarter, 2009 Issue

THE STIMULUS CREDIT — HOW IT MIGHT AFFECT YOUR TAX LIABILITY

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On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act to help stimulate the economy. One of the provisions of the Act was the “Making Work Pay Credit”. This was designed to provide individuals with earned income a refundable income tax credit for the 2009 and 2010 tax years of \$400 (\$800 for a joint return). The credit is to be paid out by reducing the amount of federal tax withheld from employees’ paychecks.

However, the change in withholding is based on the employee’s payroll withholding election (i.e. single or married) and not the actual filing status. As a result, the lower withholding may cause some to receive more credit than allowed. This might be the case for taxpayers with more than one job, two-earner married couples, and those with income in excess of \$75,000 (for singles) or \$150,000 (for marrieds). For these individuals, it may be advisable to submit a Form W-4 to your employer to increase the withholding election in order to offset any credit you may be receiving in excess of the limit.

MARKET OUTLOOK

The past six months have been some of the toughest for investors to endure. We’ve been through tough times before, most recently during the last bear market of 2000 - 2003. But what made this one tougher to endure was that much of the downturn occurred in a matter of six months versus three years. What was also different for many of us this time was that we are all a little older, closer to retirement, and had more money in the market than we did eight years ago.

But those who have hung in there may already be benefitting. Thus far, the Dow has rebounded nearly 22.5% from its current low when the Dow hit 6,440.08 (occurring on March 9, 2009) to its current level of 7,886.57 (closing value on April 22, 2009). Though we are not out of the woods, we feel we have turned the corner.

Since the beginning of the year, there are pieces of good news starting to surface. A number of companies are reporting positive earnings for the first quarter of this year. Housing prices have experienced increases for the second month in a row. The rate of unemployment losses is beginning to slow. Stimulus

dollars are beginning to trickle into the economy. The Treasury and Congress are trying to work out a plan to remove toxic assets off the bank's balance sheets. The Treasury has been "stress-testing" the major banks. With nearly two weeks before Treasury releases its findings, Treasury Secretary Geithner has told Congress that "the vast majority of banks have more capital than they need".

There will be no quick fix for this economy and the current global recession. But remember — the stock market will begin to recover before the economy does. It will also begin to improve before the news turns positive. History shows how rapidly the market can turn after hitting bottom. American Funds looked at returns in the S&P 500 after bear market lows as far back as June 1, 1932. 16 low points to follow until 10/9/2002. In looking at the seventeen low points in the S&P 500, the median gain was +18.73% three months after the low, 29.87% six months after, and 45.46% twelve months after. At this point, the only way to recover is to stay invested.

Disclaimer: The opinions expressed herein do not necessarily reflect those of Trustmont Financial Group/Trustmont Advisory Group.

Sources: Marketwatch.com; Wall Street Journal 4/22/09; American Funds Winter 2009 issue of 'insights'.

THE POWER OF DOLLAR COST AVERAGING

Many of you may be employing one of the most fundamental and successful investment techniques available - "dollar cost averaging". Dollar cost averaging (or DCA) is the practice of investing a fixed dollar amount on a regular basis (usually monthly) into a particular investment or portfolio.

There are several advantages to dollar cost averaging. First, it takes the guesswork out of when the right time to invest might be. Because you are investing on a regular basis, you are buying shares at various prices. No matter which direction the market heads, dollar cost averaging can put market fluctuations to work for you by reducing the average cost of your portfolio over time. It is important to remember that this process neither ensures a profit nor protects against loss in declining markets; you should consider your willingness to keep investing when share prices are declining.

There are other advantages of the DCA process. Making smaller investments is easier on the budget and, thus, makes it easier to reach an investment goal. Also, most accounts allow for a systematic purchase plan to be established. Withdrawals are automatically made from a bank account into the investment, which makes it more convenient for the investor. Lastly, dollar cost averaging can potentially improve investment return. American Funds provided an example in their recent shareholder newsletter. They compared investing \$10,000 two different ways. The first was as a lump sum investment. The other was using a systematic purchase plan of \$250 each month. Both investments used the S&P 500 for the period beginning January 2000 and ending September 2007. The ending value of the lump sum investment was \$11,536. The ending value of the systematic purchase plan (using the DCA approach) was \$15,267.

Dollar cost averaging is most effective when saving for a longer-term goal. It can be used as an effective technique to save for a child's education inside a 529 plan or Coverdell Education Savings Account. It can also be used to accumulate monies for retirement inside a Roth, Traditional IRA, or SEP IRA. If you would like to discuss where you can use dollar cost averaging, please call our office.

Sources: American Funds Winter 2008 shareholder newsletter, "insights".

COMMONLY ASKED ESTATE PLANNING QUESTIONS

Many of the commonly asked questions of us, as advisors, center around the issue of estate planning. We are often asked: How do I avoid probate? Does avoiding probate mean avoiding taxes? Should I have a Living Trust? Should I put my house in my children's names? What happens if I die without a Will?

To answer these questions, we should begin by explaining what probate is. Probate is the legal process of settling the affairs of a deceased person. During this process bills are paid, claims are resolved, and the deceased's assets are then distributed according to their Will. Remember, probate is a legal process and has nothing to do with taxes incurred by an estate. So why do many feel that probate is something to avoid?

There are costs, such as court, attorney, and administrative fees, incurred during the probate process. Additionally, it takes some time to probate an estate, which will delay the distribution of the decedent's assets. However, the costs and delays depend on the size and complexity of the estate.

Whether or not assets go through probate depends on how they are titled. For example, an asset with a named beneficiary, owned as "payable on death", or jointly owned with another individual will not enter probate because it passes directly to another person. Avoiding probate could be appropriate for assets you want paid outright to someone at the time of your death. But avoiding probate on all assets may not be advisable. For example, you may need a certain amount of liquid money available at the time of your death in order for your Executor/Executrix to pay expenses. That is why we often recommend keeping a certain amount in bank accounts titled in the client's name without a co-owner or beneficiary designation so these monies are available to the estate at death.

Assets held by a Living Trust will also avoid probate at death. However, Living Trusts are most commonly recommended to avoid or reduce a Federal Estate tax liability, which, under current law, is only applicable for estates in excess of \$3.5 million. Living Trusts can also be used to provide for an heir who is not able to manage their inheritance or to distribute a complex estate.

As for a home, we seldom recommend transferring ownership due to the potential income tax consequence. Gifting appreciated assets, such as a home, means you are transferring your basis (or cost) to that individual. When the recipient sells the property, they are responsible for the potential capital gain on the property. On the other hand, when appreciated assets are inherited, any gain at death is forgiven (referred to as a step-up in basis).

If you die without a Will, assets you own that have a named beneficiary, are owned as "payable on death", or jointly owned with another individual will pass directly to that person as described above. However, any other assets without a beneficiary or ownership designation will be distributed according to State law. The consequences of not having a Will are that your assets may not be distributed according to your wishes. Additionally, the cost and time involved in distributing these assets increases.

Whether or not you should avoid probate, establish a Living Trust or gift appreciated property depends on your individual circumstances. If you or a family member have questions and or would like to discuss these issues, please contact your attorney or call our office.

Disclaimer: The information provided above should not be construed as legal advice. It should be used for informational purposes only.

INVESTMENT CORNER

This section of our quarterly newsletter is dedicated to featuring an idea we think could be beneficial to our clients. At times, we will feature a financial planning tip or technique. At other times, we will feature a specific investment product or service. This quarter, we are highlighting a product called the "MoneyGuard Reserve" offered by Lincoln National Life Insurance Company. The MoneyGuard Reserve is a flexible premium, adjustable universal life insurance policy. But it is different than the typical life insurance policy. In addition to a tax-free death benefit, the policy can reimburse the owner for long-term care expenses. It can also provide a guaranteed return of principal, unlike many policies. Because of its flexibility, it can be used for a number of different clients. However, we feel it is best suited for seniors because of its ability to protect assets against long-term care expenses. Let's take a look at the following example.

A female client, who is age 65 and a non-smoker, decides to invest a lump sum of \$65,000 into a MoneyGuard Reserve policy. There are essentially three components to the policy. First, her investment provides a death benefit to her heirs of \$108,000. Second, the policy can reimburse for long-term care expenses up to a maximum of \$4,500 per month for a period of up to six years (for a total long-term care benefit of \$324,000). Lastly, should the client at anytime choose to cancel the policy before receiving long-term care or death benefits, she is able to receive her original investment back of \$65,000.

Keep in mind that if you draw on the policy for long-term care benefits, the amount withdrawn will reduce benefits paid later at death. For example, if the above client received \$60,000 from the policy for long-term care expenses then passed away, her heirs would get the remaining death benefit of \$40,800. There is a minimum death benefit, however. For the above client, the minimum death benefit is \$10,800. So if she withdrew more than \$108,000 from her policy for long-term care expenses then passed away, her heirs would be entitled to the minimum death benefit of \$10,800.

If you are interested in learning how this plan could work for you, call our office for a quote. Because this is an insurance policy, payouts are based on age and health.

Highlighting this product in no way implies that it is suitable for everyone. FOR A QUOTE OR MORE INFORMATION ON THIS OR OTHER SIMILAR PRODUCTS, PLEASE CALL OUR OFFICE.

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