CFM UPDATE

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THE QUARTERLY NEWSLETTER OF CARTER FINANCIAL MANAGEMENT AND CARTER ADVISORY SERVICES

ROTH IRA CONVERSIONS — PLANNING FOR NEW OPPORTUNITIES

By Bob Berg, CFP®, Senior Vice President

Bob Berg, CFP®

With the lure of tax-free distributions, Roth IRA's have become popular retirement savings vehicles since their introduction in 1998. But if you're a high- income tax payer, chances are you haven't been able to participate in the Roth revolution. Well, that's about to change.

What are the current rules?

There are currently three ways to fund a Roth IRA — you can contribute directly, you can convert all or part of a traditional IRA to a Roth IRA, or you can roll funds over from an eligible employer retirement plan (more on this third method later).

In general, you can contribute up to $5,000.00 to an IRA (traditional, Roth or a combination of both) in 2008 and 2009. If you're age 50 or older, you can contribute up to $6,000.00 in 2008 and 2009. (Note, though, that your contributions can't exceed your earned income for the year.)

But your ability to contribute to a Roth IRA depends on your income level ("modified adjusted gross income" or MAGI), as shown in the chart below:

If your federal filing status is:	Your 2009 Roth IRA contribution is reduced if your MAGI is:	You can't contribute to a Roth IRA for 2009 if your MAGI is:
Single or head of household	More than $105,000 but less than $120,00	$120,000 or more
Married filing jointly or qualifying widow(er)	More than $166,000 but less than $176,000	$176,000 or more
Married filing separately	More than $0 but less than $10,000	$10,000 or more

Regardless of whether you contribute directly to a Roth IRA, if your MAGI is $100,000 or less, and you're single or married filing jointly, you can convert an existing traditional IRA to a Roth IRA. (You'll have to pay income tax on the taxable portion of your traditional IRA at the time of conversion.) But if you're married filing separately, or your MAGI exceeds $100,000, you aren't allowed to convert a traditional IRA to a Roth IRA.

What's changing?

In 2006 President Bush signed the Tax Increase Prevention and Reconciliation Act (TIPRA) into law. TIPRA repeals the $100,000 income limit for conversions, and also allows conversions by taxpayers who are married filing separately. What this means is that, regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA. The bad news? This provision of the new law doesn't take effect until 2010.

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OIL AND GAS … SHOULD THEY BE PRICED ALIKE?

By Sue Spellman, CFP®, Senior Vice President

Sue Spellman, CFP®

In the past, prices for natural gas and crude oil have often gone up and down in tandem. The BTU (British Thermal Unit) per barrel of oil is approximately 5.8 times the BTU of a million cubic feet (MCF) of gas, so the price of oil has often traded between six to ten times the price of natural gas.

That pattern began to change in 2009. In 2008, the contract price for a barrel of oil peaked at $145 while natural gas posted a price of $13.50 per MCF. Subsequently, oil decreased to approximately $46 per barrel at year end 2008. Natural gas followed, closing 2008 near $6 per MCF. Oil in 2009 has rebounded to around $70 a barrel. In contrast, natural gas prices have dropped another fifty percent to below $3 per MCF, a price last seen in 2002, when oil was trading around $30 a barrel.

Will the two fossil fuels return to trading in tandem? Not necessarily. The supply (availability) and demand (consumption) characteristics of crude oil and natural gas differ in many ways.

Supply of Crude Oil

OPEC nations such as Saudi Arabia, Iraq, Nigeria, and Venezuela

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PRESIDENT'S LETTER Fall 2009

Bill E. Carter, CFP®, ChFC, CLU®

For the first time in a long time, investors may open their monthly brokerage statements and in fact, they may actually enjoy the experience.

These past eighteen months have had a substantial affect on everyone. The experience was so severe that many believe investor and consumer habits have been permanently changed. Perhaps. I have come to agree with those that specialize in behavioral finance that most people frame their financial decisions on what they have experienced in the past three to four years.

Can the American public learn how to spend less, have less debt, and invest more for their future? For the next three or four years I think the answer is a resounding "YES." After that, we will just have to wait and see. I am hoping that these trends will be long-term, but have to admit I am somewhat skeptical.

Back to the markets. The most frequently asked questions are, "Is this market rebound real, or are we destined to have another downturn?" and "Are we going to have a "V" a "U" or a "W" type recovery?" The answer depends on whom you ask. The W group is not as big as it used to be, but the U group is growing and is led by Bill Gross and Mohamed El-Erian at PIMCO, a leading global investment firm. The continuing recovery crowd is probably the minority but is still made up of some respected investors.

There are some areas where I find myself in agreement with Gross and El-Erian. Those two, along with the research team at PIMCO, have coined a new phrase "The New Normal." You may have already heard of this because it is getting a lot of coverage in the financial media.

For those of you not familiar with "The New Normal," I have included an excerpt from the PIMCO quarterly letter that outlines the major premises of "The New Normal."

> *Can the American public learn how to spend less, have less debt, and invest more for their future? … I think the answer is a resounding "YES."*

Key Themes

PIMCO believes the world has embarked on a journey of change that over the next few years will be characterized by the following features:

- **Slow Growth in Developed Economies –** Growth rates in developed economies are likely to be lower, as household debt and deleveraging by financial institutions will make it difficult for the global economy to adjust to the economic crisis. Potential growth in the U.S. could fall from 3% in the recent past to around 2%.
- **Politics Matter –** Productivity and output growth will slow as the public sector overstays as a provider of private sector goods, and as regulation and taxes increase. Government involvement, while necessary, has made the global economy highly vulnerable to policy mistakes.
- **Emerging Economies to Bifurcate –** The balance of economic power will continue to shift toward important emerging countries and away from the major developed ones. Emerging economies will likewise divide into two groups; financially weaker countries, which will return to old paradigms of austerity and instability; and those in stronger condition, such as China, which will continue to grow, though not at the torrid pace of recent years.
- **Short-Term Deflation, Long-Term Inflation –** Near-term deflation risks, caused by the severe collapse in global demand, should give way to inflation risks later in PIMCO's secular horizon, particularly as policymakers struggle to withdraw the massive levels of stimulus.
- **U.S. Dollar Risk –** U.S. inflation and currency risks are linked. Should policymakers fail to drain the system of emergency liquidity at the appropriate time, confidence in the dollar as the world's reserve currency could erode.
- **Bank/Finance to Shrink –** With regulation more expansive, the financial sector will be de-risked, deleveraged, and subject to greater burden-sharing by politicians.
- **Favor Front End of Yield Curves –** Yields on short maturities are likely to be anchored near current low levels for a longer period than what is now priced into forward interest rate curves. Policymakers in many countries are likely to overstay with loose monetary policy.
- **Emphasize Income-Producing Instruments –** An environment of low growth and political uncertainty favors high-quality, yield-oriented securities over those offering mainly capital gains. With regard to credit risk, it will make sense to stay relatively high up in capital structures, as yield premiums and valuations of equities and subordinated securities will reflect heightened risks of burden sharing and contract disruptions.
- **Focus on Global Securities –** Diversification outside the U.S. will likely yield benefits. U.S. bonds, especially Treasuries, will

face greater sovereign risk as the U.S. debt burden mounts and inflation expectations start to rise later in our secular time frame.

- **Hedge Against Weaker U.S. Dollar –** Investors should look to protect themselves against the risk that U.S. policymakers will not be able to prevent erosion in the value of the dollar. The magnitude of the dollar's depreciation against other currencies could be outpaced by the dollar's fall against real assets.

Whether PIMCO is right or wrong, I believe they have clearly outlined the key factors we must pay attention to over the next several years.

There are those who do not agree with PIMCO. For example, Will Deener with *The Dallas Morning News* believes the American public is repeating an old bad habit of buying last year's returns. He writes, " The New Normal is leading the rush into the relative safety of bonds to the almost total exclusion of stocks.

"In fact, I think it's safe to say most of us won't live long enough to ever see this kind of disdain for stocks again.

"So far this year, investors have poured a record $220 billion into bond mutual funds, according to the Investment Company Institute. That compares to a paltry $12 billion into domestic stock funds.

"The previous record for money flows into bond funds was $140.6 billion in 2002 after another blistering bear market. So barring a dramatic shift in investor sentiment over the next three months, this year will surpass the old record by at least $100 billion."

"Obviously, the reason investors are embracing bonds is because of the losses they sustained in the stock market the past year and also because bonds have outperformed stocks for the last 10 years."

1. "Put another way, investors are doing what they seem to always do, which is chase performance."
2. "They are betting that bonds will continue to outperform stocks because bonds have outperformed stocks. That is the behavior of the uninformed as they use performance as the ultimate decision maker."
3. "That's a risky bet," says Eric Bjorgen, research analyst at the Leuthold Group, a respected Minneapolis money management company.
4. "Bonds are going to lag stocks over the next 5, 10, 15 and 20-year periods. I have no doubt," Bjorgen said.

I agree with Will that the easy money has been made in the bond market. However, in the next few years will the return in equities over bonds be large enough to justify the volatility associated with equities? This is the important question, especially for retired clients.

There are other bulls out there. For example, Jim Grant, editor of Grant's Interest Rate Observer and author of "The Trouble with Prosperity", who has been bearish for some time, has turned bullish. Below are a couple of quotes from him I think you will find interesting.

"As if they really knew, leading economists predict that recovery from our Great Recession will be plodding, gray, and jobless. But they don't know, and can't. The future is unfathomable."

"Not famously a glass half-full kind of fellow, I am about to propose that the recovery will be a bit of a barn burner. Not that I can really know, either, the future being what it is. However, though I can't predict, I can guess. No, not 'guess.' Let us say infer."

Dr. David Kelly, who I recently listened to on a conference call and Marci Rosell, who I recently hear speak at the FPA National Convention, do not agree with The New Normal theory. They believe this recovery will be traditional. In every recession since the Great Depression, we have experienced strong growth as we came out of the recession. Dr. Kelly and Ms. Rosell share this view.

While we have enjoyed the rally in the market, we are still dealing with a complex economy. As you can see from the above quotes, there are many different opinions regarding the future of the economy and the

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FINANCIAL TRENDS	9/30/08	12/31/08	3/31/09	6/30/09	9/30/09
Dow Jones Industrial	10,850.66	8,776.39	7,608.92	8,447.00	9,712.28
NASDAQ	2,082.33	1,577.03	1,528.59	1,835.04	2,122.42
NAREIT Composite	147.15	90.94	62.58	81.08	97.28
Russell 2000	679.58	450.21	422.75	508.28	604.28
MSCI-EAFE	1,553.15	1,237.42	1,056.23	1,307.16	1,552.84
Prime Rate	5.00%	3.25%	3.25%	3.25%	3.25%
Gold	$884.50	$869.75	$916.50	$927.00	$1,008.00
10-Year U.S. Treasury	3.83%	2.24%	2.68%	3.52%	3.21%
30-Year U.S. Treasury	4.30%	2.69%	3.56%	4.32%	3.97%
1-Year Certificate of Deposit	2.90%*	1.55%*	1.50%*	0.55%*	0.55%*

*Past performance may not be indicative of future results. Source of Information: Issues of the Investment Book and The Wall Street Journal. *Bank of Texas rate*

"President's Letter"
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markets. We are still experiencing a confusing path. However, if you use history as a guide and look back at prior recessions, you will see they were all followed by strong recovery periods. Many people think history will repeat itself. As I try to point out in this letter, those that believe in The New Normal think the economy will not come back as quickly or as strongly as it has in prior recoveries.

While I appreciate all points of view, my contention for a long time has been that it is impossible to know what is going to happen following this recession because I do not know of anyone that can model the substantial actions taken by the Federal Reserve and other central banks around the world. Combine these actions with those taken at treasury and congress, then you have an unprecedented response to a crisis.

All groups make good arguments and, once again, the answer is "only time will tell." My personal opinion is that the structural damage done to the U.S. economy will take years to repair, and the recovery will continue with periodic corrections but at a slower pace than in previous recoveries. Let me be quick to add that if there is a surprise, I think it will be a surprise to the upside.

Back to the theory of a "V", "U" or "W" type of recovery. So far we have experienced a "V" recovery in the market. I highly doubt this will continue without a correction. I think that a correction will be a good, not a bad thing; otherwise the market will develop into its own bubble. At some point, we will hit fair value in the market, in fact we generally overshoot it resulting in a market correction.

I encourage you to attend the Carter Investment Conference on November 21, 2009 at CityPlace in Dallas. We have an outstanding group of speakers lined up, and all of these topics will be discussed in some detail. This is our 30th Carter Investment Conference, a conference I personally consider one of the premier client educational events in the country. It will be as outstanding this year as in the past. On a personal note, it is hard for me to believe this is our 30th year of hosting the conference. It is going to be educational and entertaining. You don't want to miss it. I look forward to seeing you there.

Bill Carter

Bill E. Carter, CFP®, ChFC, CLU®
President

Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Any opinions are those of Bill Carter and not necessarily those of RJFS or Raymond James. Investments mentioned may not be suitable for all investors. Past performance may not be indicative of future results.

CFM LENDING A HAND AT WYNNEWOOD COMMUNITY SERVICES CENTER

By Sue Grissett, Executive Assistant

"All for One & One for All" was the theme on August 6, 2009 as Carter Financial Management volunteers participated in their Summer 2009 Charity Day at Wynnewood Community Services Center in Dallas.

Wynnewood Community Services Center is a ministry of Buckner International. They work to serve inner-city, low-income children and families in South Dallas through an after-school program, food pantry, counseling services, GED classes, job readiness training, senior citizen activities, spiritual enrichment, and much more.

Cheryl Williams, Wynnewood's recently appointed director, led CFM staff through the day with an abundance of exuberance and enthusiasm. She is the anchor at Wynnewood.

Employees focused mainly on cleaning and organizing including:

- Cleaning, organizing, and cataloging the two on-site food pantries
- Cleaning and organizing all of the storage closets
- Organizing books in the library
- Hauling off debris
- Furniture moving, picture hanging, and other odd jobs

To learn more about the great things Wynnewood Community Services Center is doing, visit: *www.buckner.org/enews/index.php/2009/07/bringing-change-to-south-oak-cliff* ■

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FIRST-TIME HOME BUYER CREDIT ENDS NOVEMBER 30TH*

By Tara Scottino, CFP®, Senior Vice President

Tara Scottino, CFP®

Are you or someone you know planning on buying a new home? Well, now is the time to act! If you wait much longer, you might miss out on some free cash from the government. Approved in February 2009 as part of the federal government's American Recovery and Reinvestment Act, the first-time home buyer tax credit is available to qualified first-time homebuyers who close on their home before December 1, 2009*. The credit is equal to 10 percent of the home's purchase price up to a maximum credit of $8,000. This is a dollar for dollar credit and is refundable, meaning that even if you do not owe any tax you will receive a refund check for the amount you qualify for. If you buy a house that costs $80,000 or more you could erase $8,000 of tax liability come April 2010.

Below are some of the eligibility requirements:

- A first-time homebuyer is defined as someone who has not owned a home within the last three years. In the case of a married couple, neither spouse can have owned a home within the last 3 years or both are disqualified.
- Income requirements are based on your Modified Adjusted Gross Income (MAGI). The income limit is $75,000 for single tax payers and $150,000 for married tax payers filing a joint return. The phase out range is $20,000, so single buyers can qualify for part of the credit up to a MAGI of $95,000 and married filing jointly up to $170,000. For example, if you are single and your MAGI is $85,000, your credit would be $4,000.
- All types of homes qualify including single-family, townhomes, and condominiums.
- You must maintain the home as your primary residence for three years or you will have to pay all or a portion of the credit back.
- You must close and take ownership of your home before December 1, 2009*.

If you meet the eligibility requirements for the tax credit buying a house offers more tax benefits than ever before. Also, with interest rates at historic lows and an overload of homes on the market this is a great time to consider buying a home.

This article is for educational purposes and not intended to substitute for professional advice. Please contact the appropriate professional regarding your unique situation before making a decision. ■

** Congress has extended the November 30, 2009 deadline to April 30, 2010. Please visit www.cascfm.com for updates.*

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So why concern yourself with this now?

Even though the new rules don't take effect until 2010, there are steps you can take now if you want to maximize the amount you can convert at that time. If you aren't doing so already, you can simply start making the maximum annual contribution to a traditional IRA, and then convert that traditional IRA to a Roth IRA in 2010.

Even though the new rules don't take effect until 2010, there are steps you can take now if you want to maximize the amount you can convert at that time.

Your ability to make deductible contributions to a traditional IRA may be limited if you (or your spouse) is covered by an employer retirement plan and your income exceeds certain limits. But any taxpayer, regardless of income level or retirement plan participation, can make non-deductible contributions to an IRA until age 70 ½ . And because nondeductible contributions aren't subject to income tax when you convert your traditional IRA to a Roth IRA, they make sense for taxpayers contemplating a 2010 conversion even if they're eligible to make deductible contributions.

And don't forget that SEP IRA's and SIMPLE IRA's (after two years of participation) can also be converted to ROTH IRA's. You may want to consider maximizing your contributions to these IRA's now, and then converting them to Roth IRA's in 2010. (You'll need to set up a new IRA to receive any additional SEP or SIMPLE contributions after you convert.)

But there's a taxing problem

If you've made only nondeductible contributions to your traditional IRA, then only the earnings, and not your own contributions, will be subject to tax at the time you convert the IRA to a Roth. But, if you've made both deductible and nondeductible IRA contributions to your traditional IRA, and you don't plan on converting the entire amount, things can get complicated.

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"Oil and Gas…Should they be priced alike?" continued from page 1

control most of the largest reserves of petroleum. These countries, because of political and economic issues, can be difficult trading partners, thus sometimes jeopardizing our interest because we import nearly 60% of the petroleum consumed in this country. We compete with Europe, China, Japan, and Australia for oil, and the price is affected by the world economy, the rise and fall in the value of the Dollar, transportation, weather, and political unrest.

Our nation is a spider web of highway systems and streets connecting suburban communities that have remained dependent on gasoline powered vehicles.

Supply of Natural Gas

Much of the natural gas consumed in the U.S. is produced domestically. We currently import only 16% of our natural gas, principally from Canada by pipeline. As Canada begins to use more of its supply domestically, the U.S. will possibly need to add imports in the form of LNG (liquefied natural gas), a much more expensive alternative to domestic or Canadian gas because of the shipping costs. The U.S receives a tiny amount of LNG currently, mainly from Trinidad/Tobago.

Fortunately, a large increase in domestic supply of natural gas has occurred since 2006. Whereas the domestic petroleum reserves have not increased, and have been dropping for more than a decade, techniques to recover more natural gas have allowed the supply to expand substantially. The development of modern, horizontal drilling technology now being used in large shale gas fields such as the Barnett Shale in the Fort Worth area and the Haynesville Shale in east Texas and Louisiana has resulted in the dramatic increase.

As of August 2009, inventories of working natural gas storage are 18% higher than the 5-year average (2004-2008) according to the Energy Information Association (EIA.) In July 2009 the EIA estimated that domestic reserves had increased 35% from 2006, creating a near 100-year supply of domestic natural gas.

Demand for Crude Oil

Our nation is a spider web of highway systems and streets connecting suburban communities that have remained dependent on gasoline powered vehicles. According to the EIA, transportation, that is autos, trucks, and airplanes use 71% of petroleum consumed. The only reductions in overall demand have come from improvements in engine efficiency. The other large consumer of oil is the industrial sector at 23%, particularly chemical plants. Fuel to heat homes and offices consumes 5% of the petroleum and a small 1% feeds electric power generation.

Demand for Natural Gas

Energy consumption of natural gas is almost exclusively in three sectors: industrial, residential and commercial, and electric power generation. Each absorbs around 30% of the demand. The recession has shuttered factories thus lessening the demand in the industrial sector. A mild summer has lowered the demand for residential and commercial heating and cooling.

What would significantly increase the demand for natural gas would be utilities substituting more gas for coal in upgrades to out-of-date, inefficient, coal-fired power plants. Will that happen? I It seems logical since natural gas is the cleanest of the fossil fuels. Gas is 45% cleaner than coal and 30% cleaner than oil. Unfortunately, demand is guided by many variables, not only by what is best for the environment. Politicians, both Republican and Democratic representing the coal producing states, are fighting to keep coal the fuel of choice in electric power generation. With businesses and jobs in their states being threatened, it is no wonder they favor the development of unproven technologies that would capture and bury emissions as a better choice than gas for long-term solutions to climate change.

Another idea that could change the demand for natural gas would be a switch from oil to natural gas to run its vehicles, as advocated by both T. Boone Pickens and the Sierra Club.

The climate-change bill that passed the House in June, intended to cap greenhouse gas emissions, focused on renewable fuels such as wind and solar and improved building codes to conserve energy. The bill did not give a boost to natural gas's environmental advantage over coal. No energy bill has passed the Senate at this time, so future natural gas demand, at least for generating electricity, is uncertain. So called "cap and trade" will be argued in future climate change bills. If there is an added tax to pay for carbon emissions, cleaner fuels should have some advantage.

Another idea that could change the demand for natural gas would be a switch from oil to natural gas to run its vehicles, as advocated by both T. Boone Pickens and the Sierra Club. The idea sounds nice, but building the infrastructure necessary to fuel the vehicles would necessarily be part of the changeover. Natural gas powered vehicles can only go about 200 miles before they need the convenience of a filling station. Melanie Kenderdine, of MIT's Energy Initiative said in the

article “Can Natural Gas Break our Oil Habit?” that unless we can use the existing infrastructure to build the natural gas retail distribution system, it will run into “enormous resistance.” Even if it were embraced, building a natural gas retail distribution system similar to our gasoline retail infrastructure would cost billions of dollars. It seems much more likely that an increasing number of cities may convert their buses and trucks to natural gas because they regularly return to a single fueling station. Experts doubt that conversion to natural gas of large numbers of ordinary automobiles will happen in the foreseeable future.

Will the two commodities return to trading in near tandem? Because there are so many variables and the two fossil fuels are not substitutable, it is surprising they have followed each other for so long. A few things are certain. The new discoveries of natural gas will play an important role in our goal to lessen our dependence on foreign oil. We will continue to broaden our use of natural gas in our economy. The national security value of the increased supply should not be overlooked. At the same time, the search for oil both domestically and elsewhere will continue as we try to break our century long love affair with the personal automobile. ■

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KATHY MULDOON AND BILL CARTER RECOGNIZED FOR OUTSTANDING PERFORMANCE

By Peggy Van Buren, Special Projects Coordinator

In addition to consistently being named among “The Best Financial Planners in Dallas” by *D Magazine*[1], Kathy Muldoon and Bill Carter were recently named in Registered Rep.’s “Top 100 Independent Financial Advisors” August 2009 issue. This is Kathy’s second year to be named. The list of distinguished advisers was compiled by Discovery, an online database of financial service intermediaries which weighed many factors of FINRA registered representatives such as total assets under management and years in the industry, then validated by direct surveys.

In the May, 2009 edition of the *Dallas Business Journal*, Carter Financial Management was named among the “Largest Metroplex Financial Asset Management Firms”. This selection is ranked by value of assets under local management as of December 31, 2008.

In 2008, Kathy Muldoon was also named in the *Dallas Business Journal Winner’s Circle* “Top Wealth Advisers in North Texas” which is a list that ranks advisers who cater to high-net-worth ($1 Million to $10 Million) and ultra-high-net-worth (more than $10 Million) clients.

In February, 2009, Kathy was honored in Barron’s, naming “The Top 1,000 Advisers” in the country. *Barron’s Winner’s Circle* assessed advisors based on assets under management, revenue generated for their firms, quality of service and regulatory records.

In the May, 2009 edition of the Dallas Business Journal, *Carter Financial Management was named among the “Largest Metroplex Financial Asset Management Firms”.*

This year Kathy celebrates her 30th anniversary with Carter Financial Management. Kathy attributes the success of her clients to the following advice:

“No matter how much you make, you will likely always want a better grade of hamburger, so healthy wealth management habits should start early and grow with your income and your assets. Pay yourself first. Live below your means. Save some for charity. Always fund your employer-sponsored retirement plan. Be diversified. Do not be afraid to ask for help.”

In addition to these professional recognitions, Bill Carter was inducted to the University of Texas A&M Corps of Cadets Hall of Honor. This recognition by Texas A&M is for lifetime achievements and pays tribute to former students who exemplify the values upon which the corps is founded: honor, loyalty, service, patriotism and leadership. Bill was one of only five inductees this year, joining the sixty-six former cadets who have lived a life that exemplifies the Aggie Spirit. ■

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[*] Any opinions are those of Carter Financial Management and not necessarily those of RJFS or Raymond James.

[*] Diversification does not assure a profit or protect against loss.

[1] The list of the top financial planners was compiled by D Magazine using online balloting of every CFP in the Dallas-Fort Worth chapter of the Financial Planners Association. Outside-firm votes counted more than inside-firm votes. Self-nominations were tossed out. A panel of esteemed local financial planners reviewed the final list.

CFM HIGHLIGHTS

- Congratulations to Kathy Muldoon on her 30th anniversary with Carter Financial Management.
- Tara Scottino was a speaker for the Foundation of Financial Planning at the Houston Symposium in October 09; and she attended the FPA National Conference in Anaheim, CA, October 09.
- Kathy Muldoon was a featured speaker at the Raymond James Women's Symposium in St. Petersburg, FL October 09; and will attend the BPV Annual Meeting in St. Petersburg FL November 09.
- Bill Carter attended the FPA National Conference in Anaheim, CA, October 09; attended the Baylor Oral Health Board Meeting; and hosted the quarterly Capstone Study Group meeting in Dallas, TX, October 09. ■

CHARITY YEAR-END REMINDER

December 10 is the deadline for letters of authorization to gift shares of stock or mutual funds to charity. The following information is necessary for processing gifts of stock and/or mutual funds:

- The name of the receiving brokerage firm or charity.
- The account number (or DTC number if stock transfer to brokerage firm).
- The title on the account (e.g., The Smith Charity).
- The Tax ID of the charity.

If requests are received after December 15, 2009, they will be handled on a "best efforts" basis. ■

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That's because under IRS rules, you can't just convert the nondeductible contributions to a Roth and avoid paying tax at conversion. Instead, the amount you convert is deemed to consist of a pro-rata portion of the taxable and nontaxable dollars in the IRA.

For example, assume that in 2010 your traditional IRA contains $350,000 of taxable (deductible) contributions, $100,000 of taxable earnings, and $50,000 nontaxable (nondeductible) contributions. You can't convert only the $50,000 nondeductible (nontaxable) contributions to a Roth. Instead, you'll need to prorate the taxable and nontaxable portions of the account. So in the example above, 90% ($450,000/$500,000) of each distribution from the IRA in 2010 (including any conversion) will be taxable, and 10% will be nontaxable.

And don't forget – if you make a Roth conversion and it turns out not to be advantageous, IRS rules allow you to "undo" the conversion (with certain time limits).

You can't escape this result by using separate IRA's. The IRS makes you aggregate all your traditional IRA's (including SEP's and SIMPLE'S) when calculating the taxes due whenever you take a distribution from (or convert) any of the IRA'S.

But for every glitch, there's a potential workaround. In this case, one way to avoid the prorating requirement, and to ensure you convert only nontaxable dollars, is to first roll over all of your taxable IRA money (that is, your deductible contributions and earnings) to an employer retirement plan like a 401(k) (assuming you have access to an employer plan accepts rollovers). This will leave only the nontaxable money in your traditional IRA, which you can then convert to a Roth IRA tax free. (You can leave the taxable IRA money in the employer plan, or roll it back over to an IRA at a later date.)

But even if you have to pay tax at conversion, TIPRA contains more good news—if you make a conversion in 2010, you'll be able to report half the income from the conversion on your 2011 tax return and the other half on your 2012 return.

For example, if your only traditional IRA contains $250,000 of taxable dollars (your deductible contributions and earnings) and $175,000 of nontaxable dollars (your nondeductible contributions), and you convert the entire amount to a Roth IRA in 2010, you'll report half of the income ($125,000) in 2011, and the other half ($125,000) in 2012.

Is a Roth conversion right for you?

The answer to this question depends on many factors, including your income tax rate, the length of time you can leave the funds in the Roth IRA without taking withdrawals, your state's tax laws, and how you'll pay the income taxes due at the time of the conversion. And don't forget – if you make a Roth conversion and it turns out not to be advantageous, IRS rules allow you to "undo" the conversion (with certain time limits).

A financial professional can help you decide whether a Roth conversion is right for you, and help you plan for this exciting new retirement savings opportunity. ■

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CARTER EDUCATIONAL SERIES

NEW EMERGING INVESTORS TO ADD TO THE LIST

By Lauren Branch Gifford, Associate Financial Planner

Lauren Branch Gifford

Carter Financial Management (CFM) is a proponent of offering continuing education to clients and clients' extended family and friends in order to grow their investment knowledge so they can make more informed investment decisions. Since CFM believes in "Wealth Management for this Generation and the Next," it has offered "Emerging Investors" as part of the Carter Education Series for the past nine years.

The annual seminar is geared toward young adults beginning their careers and learning to become independently and financially responsible. While most young professionals have their sights set toward a healthy retirement and savings, they are not sure where to begin.

Many young professionals have questions such as: When do I start paying off credit card debt or student loans? My employer has a 401(k) plan-do I take the match? What is the best vehicle for me to start saving for retirement?

In order to answer many of these questions, several members of the CFM staff organized the two day 2009 Emerging Investors event and delivered practical investment knowledge. The lunches and presentations were organized by: client associates, Lauren Branch Gifford, Chris Moreland, and Tyler Russell. Associate financial planners Brandon Ratzlaff and Taylor Steele also assisted in creating the event.

The first day of the event, Moreland, Ratzlaff, and Steele presented investment basics. Ratzlaff discussed the benefits of compounding. He also spoke about identifying investment goals and how to assess your risk tolerance based on an investment time horizon. "It's important to select an investment plan that's right for you which depends largely on the comfort level you have when it comes to risk."

Moreland completed the first presentation by touching on the importance of having a well diversified portfolio, having varying levels of risk. "Many investors make the mistake of putting all of their eggs in one basket…diversifying your investment over several assets classes will help reduce your risk of losing your entire investment."

On the second day of the Emerging Investors seminar, Gifford, Moreland, Ratzlaff, Russell, and Steele held a round table discussion based on financial lessons for life. Topics discussed were saving early for retirement and the importance of taking the 401(k) match and not touching the retirement funds until departure. Also discussed was the importance of not getting emotional with the rise and fall of the market and also weighing spending needs versus wants.

Overall, we felt that the event was a valuable learning experience for those in attendance. CFM plans to continue to offer the Emerging Investors seminar as part of the Carter Education Series. We appreciate the positive feedback from several clients regarding the offer of the seminar for both their children and grandchildren.

CFM is also looking to create a finance refresher course to adult clients who may not be the main financier in their household. If you know someone who may be interested in such a class, please give us a call with your feedback.

Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Investments mentioned may not be suitable for all investors. Diversification does not assure a profit or protect against loss. ■

Lauren Branch Gifford is an Associate Financial Planner of Carter Financial Management. Email: lgifford@cascfm.com

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