MACMILLAN FINANCIAL
JOHN MACMILLAN, CRFA, CLTC, CSA
P.O. BOX 66
ANNANDALE, NJ, 08801
T: (908) 236-7500
F: (908) 236-7511
WWW.SENIORSBOOMERS.COM

SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

November 2007

MARKET SNAPSHOT

As Thanksgiving fast approaches, we should all give thanks for the many good things we have in our lives…family, friends, finances, etc. Personally, I would also like to give thanks to my many clients for providing me with a very gratifying year and for the privilege of working with you throughout 2007.

The recent market activity has given most investors pause about whether to give thanks...or not! It's been a very bumpy ride for the past three months, and the roller coaster ride is ***not*** over yet. The financial sector has been a perilous place to invest. In mid October, I got very bearish on this sector and recommended selling our positions.

On the whole, however, I'm still bullish on the market. Currently, I am keeping a close eye on any signals we may get from the *smart money*...which is still net long with their options and futures positions. When they start heading for the exits, you don't want to be far behind them. It's like the old cartoon of a guy wearing a T-Shirt which read, "I'm with the bomb squad. If you see me running, try to keep up".

Other indicators are also pointing to more support for the market. The top 10 market forecasting services are still positive and expect more gains going into next year. In my opinion, the simplest way to gauge where the market is headed is still based on corporate profits. Keep a close read on those as well as any pre-announcements.

Business Cycle conditions remain weak. The Leading Economic Indicators still point to a contraction of general business activity. Only 3 of the leading economic indicators are expanding, 5 are contracting and the other 4 are in neutral. I'm not betting on a recession, mind you. But I'm also not betting that we won't have one either. Stay tuned.

WHAT TO DO NOW:

1) Diversify your investments.

2) Stay away from homebuilders, real estate investment trusts, companies making big ticket consumer items like cars, appliances, etc. AND financials (it's not time yet to bottom fish).

3) Focus on blue-chip multi-nationals.

For help with any of these issues, call my office for a free consultation.

I have many clients ask about electronic transmission of my monthly newsletter. If you would prefer to receive your copy by e-mail, send me a message: on the subject line, type "via e-mail"send to john@seniorsboomers.com and next month, that's how I'll send your copy.

Will the IRS see through your Beneficiary?

Investors often have trusts as a convenient way for their heirs to receive assets after they die. And generally this works as intended. Everything goes into one pot and each beneficiary takes out his or her share as specified in the trust. IRAs left to your trust, however, can cause complications and could leave your love ones with less than you had planned.

The IRS views a trust differently than the individuals named in the trust. For instance, suppose you are not taking Required Minimum Distributions (RMD) yet, and named your trust as the beneficiary of your three IRAs. In addition, your trust documents specify that your two daughters, ages 45

and 37, are to receive equal portions of the trust assets after you die.

Upon your death, your IRAs will transfer into the trust, and your daughters would receive their shares. However, they will have to start taking RMDs and paying income taxes based on your older daughter's shorter life expectancy, thus penalizing your younger one.

One way to give your beneficiaries better tax treatment is to create separate accounts for each one of them. For example, you could name your spouse as the beneficiary for one IRA and each of your children the beneficiary on other IRAs. This might create work for you now, but the end result could be less taxes and greater flexibility for your heirs.

You should review your trust documents and estate plans with your attorney each year or whenever there has been a significant change in your life.

If you would like to discuss and update the beneficiaries on your IRAs, please return the enclosed coupon for an appointment.

Are You Losing Money Because of Tax-*Inefficiency?*

Diversification is a well-known method of mitigating market volatility risk and seeking more consistent returns. And this may lead to a mix of different types of investments as a means of providing diversification. But does it matter where your assets are held. In other words, are stocks better in an IRA or a taxable account? What about corporate bonds?

Based on research published in the January 2005 Journal of Financial Planning, where you hold various types of investments could have an impact on your overall after-tax return. That's because certain asset types are more likely to benefit from the tax-deferred treatment available in an IRA, while others may provide better after-tax returns in a taxable account.[1]

What determines if an asset would work better in an IRA or a taxable account? According to this research, one factor is the amount of an asset's total return that comes from capital gains. Thanks to recent changes in tax regulations, capital gains (defined as gains achieved on investments held for at least one year) are now taxed at a rate of 15% or 5%, depending on your current tax bracket. Therefore, investments that generate a significant portion of their total return from capital gains, such as corporate common stock, could potentially benefit from these lower tax rates.

However, if these investments were held in an IRA, their returns would be treated not as capital gains but as ordinary income when removed from the account. Therefore, these gains would be taxed at your ordinary income tax rate, which could be higher than the capital gains tax rate. Assets that tend to generate significant capital gains may be more appropriate for a taxable account, where they would benefit from the lower capital gains tax rate. Conversely, for those assets where capital gains comprise very little of total return and more income (e.g., corporate bonds and preferred stock), an IRA might be a better choice.

Asset appreciation potential is also something to consider, and can have an effect upon the income taxes that might be paid by your beneficiaries in the future. For example, assets held inside an IRA do not receive a stepped-up cost basis at the death of the account owner. On the other hand, assets held outside of an IRA will receive a stepped-up cost basis when the owner of the assets passes away. The point is, the place where assets are held can also affect the future income taxes of your younger family as well!

Please note however, that investments in securities such as corporate stocks and bonds carry market risk, and your principal investment can lose value regardless of the manner the securities are held.

Additionally, the principal and interest payments from corporate bonds are subject to the financial stability of the issuing company. Corporate bonds are also subject to interest rate risk. In other words, your risk tolerance and investment time horizon should also be considered when purchasing investments for your portfolio.

If you are not sure whether your accounts are working as tax-efficiently as they could, complete the enclosed coupon. We'll review your tax bracket (both current and projected) and find research ways to make your money work harder for you.

[1]Journal of Financial Planning (Jan. 2005).