Perspectives
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# Sticking With Your Investment Plan During a Bear Market

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The U.S. economy is cyclical and bear markets and recessions are part of that cycle. Since 1957, the U.S. has been through nine bear markets, each averaging about 13 months in length with an average peak-to-trough market decline of 32 percent. Some bear markets are worse than others, and this is a particularly severe one; however, it is not something that our country has never seen before.

A bear market is defined as a prolonged period in which investment prices fall, usually by 20 percent or more, and is accompanied by widespread pessimism. Bear markets typically occur when the economy is in a recession and unemployment rates are high, or when inflation is quickly rising. A recession is a prolonged period of time when a nation's economy is slowing down or contracting. Such a slowdown is characterized by a number of different trends, including:

- Decrease in consumer spending
- Decrease in factory production
- Increase in unemployment rates
- Decrease in personal income
- Liquidating investment assets (stocks)

By conventional definition, a market slowdown must continue for at least six months in order for the economy to be considered in a recession. Typically, a recession begins months before the markets react. For example, the current recession officially began in December 2007. The Dow Jones Industrial Average remained in the mid-13,000s throughout December 2007, which was only 3 percent off its peak of 14,087.55, even though we were "officially" in a recession. Similarly, markets usually rebound before we are "officially" out of a recession.

The economy cannot always expand, and throughout history there are periods of expansion and contraction. Historically, the economy has expanded for about 10 years and then contracted (or recessed) for one to two years. These contractions have resulted in temporary declines in an ever increasing market. These are the facts.


In today's modern era, intensified media coverage of our economic conditions adds to the effects of a recession. Your sound investment judgment can become clouded by the media's horror stories about the state of our economy. These sensationalized stories can contribute to you losing focus of your disciplined investment strategy. Don't let media noise affect your emotions and cause you to panic and abandon your financial plan!

No matter what the media say, this recession and bear market are no different than previous bear markets. The bear market of 1973 to 1974 lasted 22 months (630 days) and had a 48 percent peak-to-trough market decline, while the bear market of 2000 to 2002 lasted 31 months (929 days) and had a 49 percent peak-to-trough decline. It took less than three years for the market to recover from each recession. Since the 1950s, in every bear market except one, the largest portion of the market recovery came in the first year after the recession ended.

While no one knows when the market will turn around, with an average first-year recovery of 36 percent, who wants to be left out on the sidelines? By the time the media tells everyone we are no longer in a recession or bear market, those on the sidelines will have already missed out on a large portion of the recovery. Speak with your wealth management advisor today and become a disciplined, not emotional, investor. Stick with your investment strategy and allow yourself to fully participate in the market recovery when it does happen.

# Individual Retirement Accounts: What is Your IRA Strategy?

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The Individual Retirement Account (IRA) was created in 1974, and today many Americans, especially those who are close to retirement, regularly contribute to one. As we enter a new year, now is a good time to take a closer look at your IRA and ensure that it is in line with the rest of your financial plan.

## What's New for 2009

- The new Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act) allows certain amounts up to $500,000, received on behalf of an individual who has served in the military and later died, to be rolled over into a Roth IRA.
- The contribution limit for Traditional and Roth IRAs remain at a $5,000 maximum for individuals under age 50. An additional $1,000 catch-up contribution, for a $6,000 maximum, is available to individuals who are age 50 and older.
- This is the second year that you can deposit your tax refund directly into your IRA account.
- The income ranges used to determine deductibility of Traditional IRA contributions have increased. For example, for a single tax return filer, the phase-out limit is now $55,000 to $65,000.
- The income limit used to determine whether someone is eligible to contribute to a Roth IRA, which can potentially result in long-term tax savings, has also increased.

## Consolidating Multiple IRA Accounts

Many IRA owners have more than one IRA. There are several advantages to consolidating multiple accounts: lower custodial fees, fewer statements, consolidated asset allocation strategy and reporting. You should discuss consolidating your IRA accounts with your wealth management professional, especially if any of the following apply to you:

- You have multiple IRAs
- You have IRAs at more than one financial institution
- You have a 401(k) balance with a previous employer

## Beneficiary Designations

Most IRA owners name a beneficiary on their account. This allows the beneficiary to gain access to the money relatively quickly and without the additional hassles and expenses associated with probate. Beneficiary designations should be reviewed periodically, especially when one of the following events takes place:

- A change in martial status
- A child or a grandchild is born
- A named beneficiary predeceases the owner in death

Call your wealth management professional today and get the answers to your questions about your IRA. It's not too late to make your 2008 IRA contribution.

| Contribution Limits | 2009 | 2008 |
|---|---|---|
| IRA and Roth IRA Maximum Contribution | $5,000 | $5,000 |
| IRA and Roth IRA Maximum Contribution if age 50 or older | $6,000 | $6,000 |
| AGI phase-out ranges for determining Traditional IRA deductions for active participants covered by a retirement plan | Single<br>$55,000 to $65,000<br>Married filing jointly<br>$89,000 to $109,000<br>Married filing separately<br>$0 to $10,000 | Single<br>$53,000 to $63,000<br>Married filing jointly<br>$85,000 to $105,000<br>Married filing separately<br>$0 to $10,000 |
| Non-covered spouse Traditional IRA limit (one spouse covered by retirement plan, other spouse not covered by plan) | $166,000 to $176,000 | $159,000 to $169,000 |
| Coverdell Education IRA (CESA) limit | Single<br>$95,000 to $110,000<br>Married filing jointly<br>$190,000 to $220,000<br>Married filing separately<br>$0 | Single<br>$95,000 to $110,000<br>Married filing jointly<br>$190,000 to $220,000<br>Married filing separately<br>$0 |
| AGI phase-out ranges for determining regular Roth IRA contributions: | Single<br>$105,000 to $120,000<br>Married filing jointly<br>$166,000 to $176,000<br>Married filing separately<br>$0 to $10,000 | Single<br>$101,000 to $116,000<br>Married filing jointly<br>$159,000 to $169,000<br>Married filing separately<br>$0 to $10,000 |

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