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	YTD 2010	2009
	Return	Return
Dow Jones Industrial Avg	+0.4%	+18.8%
S&P 500	-1.2%	+23.4%
Nasdaq Composite	-0.6%	+43.9%
	Month End	Year End
	2010 Yield	2009 Yield
10 Year Treasury Yield	2.94%	3.84%
3 Month T Bill Yield	0.13%	0.06%

## Recent Quarterly GDP Numbers Revised

The government recently revised several of its past quarterly GDP numbers and reported growth in the second quarter of 2.4%, a moderate slowdown from the first quarter. Most of the slowdown in the quarter was due to a surge in the trade deficit as imports rose 28% while exports rose only 10%. The first quarter was revised back up to 3.7% from its previous reading of 2.7%, on the strength of stronger than projected inventory rebuilding. So the news so far this year was mixed, but the quarters during the recession were revised sharply downward, indicating that the recession was worse than we previously thought falling 4.1% vs. the prior estimate of a decline of 3.5%.

## Strong July for Equities

Global equities rallied in July, with the MSCI World Index up 8.1%. Here in the U.S., the S&P 500 was up 7.0%, the fifth best July on record. The markets have now rallied 14 out of the past 17 months. Year-to-date, through the end of July, global equities had fallen 2.2%, while in the U.S. the S&P 500 was down 1.2%. After a rough May and June, markets were supported in July by European bank stress tests and strong earnings reports in the U.S. and Europe. In Europe, only 7 out of 91 banks failed the stress test, facing a \$4.6 billion capital deficit. Although some argued that the bar was set fairly low, the exercise did provide some transparency to investors and it seemed like the market breathed a sigh of relief that the news wasn't worse. In the U.S. second quarter earnings reports for S&P 500 companies have been strong. So far, 70%

of companies in the S&P 500 have reported results, and 76% of companies have either met or exceeded estimates. The size of the earnings beat is the second highest on record at 10.6% over estimates. Much of the improving earnings picture is due to lower costs and improving margins, but there was also some top-line strength as revenues beat expectations by 1.0%.

## Bond Yields Stay Low

The story in the bond market remains about the same as it has been for most of the year. The yield on 10-year treasuries has been hovering at or below 3.0% for the past two months. Inflation remains muted and the latest CPI report has inflation running at around a 1.1% annual rate. Recently, the Treasury Dept sold \$38 billion in 2-year notes at a yield of 0.67%, the lowest 2-year rate ever. You have to go beyond 3 years in maturity to find a yield above 1.0% with government paper. While investors who live off the income from their portfolios aren't happy with the low rates, corporations are taking advantage of today's lower rates to refinance debt at lower rates. Lower rates can eventually spur stronger economic growth if corporations take advantage of the lower-cost financing for new projects and capital investment.

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## A Primer for Roth IRA Conversions

Starting in 2010, individuals can now convert amounts of their Traditional IRAs into Roth IRAs, regardless of their adjusted gross income (AGI). In addition to Traditional IRAs, funds in qualified employer plans such as 401(k)s, 403(b)s, or governmental 457(b)s that are eligible to be rolled over, may be converted via a direct rollover to a Roth IRA. Prior to this change, individuals with more than \$100,000 of adjusted gross income were not able to make these conversions. As a result, high-income earners now have another tool to potentially maximize their future retirement income, as well as control when they will receive that income.

### Roth IRA Overview

- Like a Traditional IRA, earnings in a Roth IRA grow tax-deferred.
- Unlike a Traditional IRA, withdrawals from a Roth IRA are not taxable, provided that some relatively liberal conditions are met.
- A Roth IRA owner and surviving spouses are not required to take required minimum distributions (RMDs) after they reach age 70 1/2, as is generally the case with Traditional IRAs.
- Non-spousal beneficiaries of Roth IRAs also enjoy tax-deferred earnings, and tax-free withdrawals; however, they will need to begin a regular schedule of withdrawals based on their life expectancy, after the account holder dies.

### Tax Consequences for Roth IRA Conversions

You can convert any portion of a Traditional IRA to a Roth IRA. There is no limit on the number of conversions that an individual can make to a Roth IRA so you have the flexibility of converting a large account balance over a period of time. However, once you convert all, or a portion of a Traditional IRA any pre-taxed dollars are taxed as ordinary income in the current tax year.

However, if you choose convert in 2010, you have the option of reporting half of the income in 2011 and the other half in 2012.

If you should discover that your conversion wasn't as advantageous as you originally thought, you will have the option of reversing the transaction through an option known as, "recharacterization." A Recharacterization allows you to undo a conversion and eliminate the attendant tax liability by moving funds back into a Traditional IRA. Recharacterizations must be completed by the due date of the federal tax return, including automatic extensions.

### Factors to Consider

In deciding whether a Roth IRA conversion makes sense for you, here are five factors that you should consider:

1. What are your future income needs?
2. What is your life-expectancy?
3. What are your expected investment returns?
4. What is your tax rate at conversion and what do expect that your tax rate will be when you begin to take money out of the Roth IRA?
5. Where will the money come from to pay the income tax associated with the conversion transaction?

### Summary

If you decide to convert to a Roth IRA in 2010, you will have an opportunity to spread out the tax liability over the next couple of years. However, if you decide to wait till after 2010, you will still have the ability to control your future tax bills through partial conversions. Remember, there is no limit on the number of conversions that an individual can make. In addition to tax-free income, and freedom from RMD distributions in retirement, Roth IRAs offer asset protection as wells some unique estate planning opportunities. *This article does not qualify as, nor should be construed as, tax advice. Contact a professional tax advisor for advice about your specific situation.*