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Money At Work

Autumn 2009

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Eight steps to take on the investment path

Due to the recent volatility of the stock market, many investors have been sitting on the sidelines. But history has shown that the market will go up and the market will go down - sometimes in dramatic fashion in the same month, week, or even day. The main thing for investors to do is to position themselves for rebounds and runups that historically have followed recessionary periods.

That's not to say that there are any absolute guarantees, because there are not. It is important that you are fully apprised of the inherent risks. Nevertheless, there are several sound principles you might adhere to. Consider these eight practical concepts.



1. Avoid heavy buying or selling. This will often expose you to unnecessary risk. And if you wait to time the "bottom" or the "peak" of the stock market, you are not likely to be successful. Be consistent and follow a logical investment plan.

2. Accentuate diversification. This means investing across a range of different asset classes and strategies. Avoid marketing gimmicks that do not truly represent a diversified array of stocks or other financial products.

3. Consider adding a suitable foreign element to your portfolio. It is common to invest exclusively on a domestic basis, but this ignores the impact of the global economy. Besides, if you live and work in the United States, you are already significantly invested in the current domestic economy.

4. Don't panic. One approach is to stay the course when the market is rising or tumbling. In contrast, panic-driven moves may come back to haunt you.

5. Be wary about definitive forecasts. The reality is that few economists predicted the recession, many investment experts missed last year's stock market downturn and analysts are often bullish just before a stock falls. Take predictions, both good and bad, with a grain of salt.

Eight steps to take on the investment path

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6. Know what you're investing in. Why would you put your hard-earned money into a financial product you don't understand? Similarly, make sure you are fully on board with investment strategies. Obtain more information when necessary.

7. Go your own way. Don't be one of those investors who always follows the crowd. Determine what is best for your situation - then stick to those fundamentals.

8. Be patient, but ready. If one good deal goes by the boards, another is likely to come along in the near future. On the other hand, you will want to be poised to take advantage of buying and selling opportunities when they present themselves.

Finally, one of the main keys to investment positioning is having a trusted financial adviser who can help steer you in the right direction. **Remember:** You don't have to do everything on your own.

New twists and turns for RMDs

There are strict rules governing distributions from qualified retirement plans and IRAs.

On the plus side, you can begin withdrawing funds penalty-free after age 59½, although the distributions are subject to tax at ordinary income tax rates. On the minus side, you must begin taking "required minimum distributions" (RMDs) after reaching age 70½.

Key point: The rule for RMDs is temporarily suspended for the 2009 tax year. However this waiver does not apply to all plan distributions.

Background: If you are retired, you must begin taking distributions from qualified plans and IRAs by April 1 of the year following the year you turn age 70½. For example, if your 70th birthday is July 1, 2009, you will turn 70½ on January 1, 2010, so you will have to take the first RMD by April 1, 2011. **Note:** You will be required to take two distributions in 2011 (one for the 2010 tax year and one for the 2011 tax year).

The amount of the RMD is based on your life expectancy reflecting the value of your account on the last day of the



previous year. Thus, RMDs for the 2009 tax year depend on the account values on December 31, 2008.

If you fail to make a timely withdrawal, the IRS may assess an excise tax equal to 50% of the required amount. Plus, you will still owe regular income tax on the distribution.

New rule: Under a recent tax law - the Worker, Retiree, and Employer Recovery Act of 2008 - you can skip the RMD for the 2009 tax year from IRAs and defined contribution plans like 401(k) plans. This generally applies to individuals who were already making withdrawals. However the temporary waiver of RMDs does not apply to defined benefit plans, such as pension plans. Participants in these plans must still take an RMD for 2009 by December 31, 2009.

Of course, even if you don't have to, you can still choose to take an RMD this year. Consider your cash flow needs.

It is important that you fully understand all the current rules. Seek professional guidance with respect to your personal situation.

Putting estate thoughts in a letter

If you are concerned about your family's future, you probably have a will in place. That's a good start. But a will won't do much good if it can't be found or if the terms aren't clear. To avoid potential family squabbles, you may want to draft a "letter of instructions" to accompany the will.

This is an informal letter giving your heirs information concerning estate matters. It does not carry the same legal

weight as a will, but it is important nonetheless. For instance, the letter may specify requests that should be carried out upon death. Copies of the letter should be attached to the original will and your personal copy. In addition, place another copy in an accessible location known to family members, so it will be easy to find in times of emotional distress.

Putting estate thoughts in a letter

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A letter of instructions may cover a variety of issues, but here are several areas likely to be included:

Explanation of assets: The letter may provide a detailed inventory of assets - especially those that are likely to be overlooked when the estate is settled. This can include the following:

- checking and savings accounts (with records of pass-books and their locations);
- safe deposit boxes and their contents;
- business insurance and accident insurance;
- retirement plans;
- Social Security and VA benefits;
- stocks, bonds and other investments (including the names of brokers and account numbers);
- information on real estate holdings; and
- mortgage insurance.

In addition, be sure to list all life insurance policies. Include the insurance company's name, your policy number, the name of the agent handling the policy and any relevant papers.

Location of documents: Besides those assets already accounted for, you should also list all of your important personal and financial papers. This may prove helpful in



settling your affairs. For example, you should disclose the whereabouts of your past federal and state tax returns and the records required for this year's returns.

Don't forget to list all debts, credit cards and other accounts that may need to be paid off, canceled or transferred to your spouse's name.

Miscellaneous instructions: Other items of a personal nature may be included in a letter of instructions. Some examples are funeral, burial or cremation arrangements; fees that have been paid and cemetery plots selected; names and contact information of people and organizations to be notified upon death; and other specific instructions for handling personal affairs.

You may want to state personal preferences and desires in the letter (e.g., your wishes concerning the education of your children). Finally, you may explain the amounts that the heirs can expect to receive as inheritances and the reasons for the distributions.

Note: Remember that a letter of instructions is not a legally binding document. It should not be used as a replacement for a will, but it can provide valuable guidance to your heirs.

Donating to charity? Make it a "record year"

As the end of the year approaches, you might make contributions to your favorite charities. The tax law permits deductions for these donations within generous limits.

However, the IRS imposes strict recordkeeping requirements on certain contributions. If you don't measure up, you could be forced to forfeit all or part of your charitable deduction. Here is a brief review.

Contributions of \$250 or more: The IRS requires donors to obtain a written acknowledgement from a charitable organization for gifts of \$250 or more. The acknowledgement must be obtained by the time you file your tax return.



It should include the amount of the check or cash donated, a detailed description of any property that was donated and the value of the benefit received if any goods or services were provided.

Contributions made through payroll deductions may be substantiated by pay stubs or Form W-2. **Note:** Substantiation is not required if the donee organization files a return with the IRS providing the information to be included in an acknowledgement.

Donating to charity? Make it a “record year”

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Quid-pro-quo contributions: If you make a “quid-pro-quo” contribution (i.e., a contribution made partially or fully in exchange for goods or services) for an amount above \$75, you must obtain a good faith estimate from the charity detailing the value of the benefit received. For example, say you attend a fundraising dinner where the tickets cost \$100 apiece and the dinner is valued at \$40. The charity must provide a written statement limiting the deductible amount to \$60 per ticket.

However, a written statement from a charity is not required if you receive token goods, minimal services or intangible religious benefits in exchange for your donation.



There are a few other points to keep in mind. If you give charitable gifts of property exceeding \$500 in 2009, you must attach additional information to your tax return. In addition, if your donation of noncash property exceeds

\$5,000, you are required to provide an independent appraisal of the property value. **Note:** The cost of the appraisal is deductible as a miscellaneous itemized deduction (subject to the usual tax law limits for miscellaneous expenses).

These recordkeeping requirements will keep you on your toes. As long as you keep the proper documentation, you should be able to claim legitimate deductions in 2009.



ANY QUESTIONS?

Please contact us. We would be glad to serve you in any way we can.

Financial Pointers for College Grads



Do you have a child who recently graduated from college? It's a tough time to find gainful employment, let alone manage your financial affairs. But here are a few financial tips new graduates are well advised to observe.

- **Set up a “rainy day” fund** to help survive bad times. Start saving as soon as you land a job.
- **Read the “fine print”** in sales agreements and transactions. Make sure you understand the terms.
- **Focus on the total cost of purchases** (including interest charges and other fees).

- **Avoid sinking deeply into debt.** Make only those purchases you can afford or will be able to pay off.

- **Establish a good credit history.** This is a “permanent record” that will follow you.

If you are astute, you may have noticed a trend. These same basic principles also apply to parents. Practice what you preach.

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