



November 2008 Newsletter

Before the Holidays, Get Those Charitable Donations Lined Up

By the Financial Planning Association

There's a special sinking feeling as you approach December 31st and realize you've done no tax planning whatsoever. That includes big issues like end-of-the-year investment decisions, and the smaller ones – like that stuff you no longer use piling up in the basement. Charitable giving is an important part of tax planning at year end, so let's look at the cash and noncash aspects of giving. It makes sense to contact your tax advisor or a Capital Advantage financial advisor to talk about what giving makes sense for you:

You have to itemize: Only individual taxpayers who itemize their deductions on Schedule A can claim a deduction for charitable contributions. This deduction is not available to people who choose the standard deduction, including anyone who files a short form (1040A or 1040EZ).

Get out the checkbook: Uncle Sam likes a record. To deduct any charitable donation of money, a taxpayer must have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution – and it definitely helps to have both. Bank records mean canceled checks, bank or credit union statements and credit card statements. Bank or credit union statements should show the name of the charity and the date and amount paid. Credit card statements should show the name of the charity and the transaction posting date. For payroll deductions, the taxpayer should retain a pay stub, Form W-2 wage statement or other document furnished by the employer showing the total amount withheld for charity, along with the pledge card showing the name of the charity. If you remember the IRS being satisfied with personal bank registers or scribbled notes to document the donation, they're not anymore.

There are charities, and then there are charities: You need to make sure that organizations are qualified to make tax-deductible contributions to. IRS Publication 78, available at many public libraries, lists most organizations that are qualified to receive deductible contributions, but there's an online version, too. Just go to IRS.gov and type in "Search for Charities." One key exception -- it's important to note that churches, synagogues, temples, mosques and government agencies are eligible to receive deductible donations, even though they often are not listed in Publication 78.

Giving away property: If you give away properties, including clothing and household items, get a receipt that includes a description of the donated property. If a donation is left at a charity's unattended drop site, keep a written record of the donation that includes a description of the property and its condition. For any kind of vehicle, boat or airplane, the deduction is now limited to the gross proceeds from its sale. This rule applies if the claimed value of the vehicle is more than \$500. Form 1098-C, or a similar statement, must be provided to the donor by the organization and attached to the donor's tax return.

You can't deduct junk: Under a provision of the 2006 Pension Protection Act, contributions of physical items must be in good used condition to qualify for a deduction. That means that you can't deduct ripped or discolored clothing or appliances that don't work. If you donate noncash property that is valued at more than \$500, you need to report to the IRS how and when you acquired the property and your cost basis. You must file Form 8283, Noncash Charitable Contributions, for all donations of property valued at more than \$500.

Use that digital camera: If you're ever audited, it helps to have photographs or video of these items, and obviously, demand a detailed receipt.

Learn rules about giving away appreciated securities: This is when a financial advisor or tax professional would come in handy. When you donate stocks or mutual fund shares you have held for more than one year, generally you may deduct the stocks' current fair market value. Additionally, you avoid paying capital gains taxes on the appreciated value.

Giving a Gift for Financial Advice

By the Financial Planning Association

The holiday season should be about giving, but at the end of the season, most people can't help but think it's all about spending and money out the door. What would happen if you and other family members considered a different gift this holiday season – the chance to build your financial awareness with a trained expert?

In today's difficult economy and an uncertain stock market, investing successfully takes lots of planning and prudent investment decisions. However, it costs money. But its potential returns are manifold – a chance to get a handle on current spending, debt and investment options and a long-term opportunity to learn everything possible about your financial life. It doesn't matter if you are a single working individual or a family with kids still at home – the right financial advisor can be a long-term partner in re-educating everyone in a household about money and the right ways to handle it.

For many people financial planning is a reaction to an emergency, such as a divorce, the death of a spouse or a sudden windfall. Making the decision to work with a financial advisor as an ongoing part of your life, you have the chance to fully review all your spending and investing decisions and maybe allow each of your family members to do individualize planning that will set them on a good course for life.

Here are some questions you should ask your prospective financial advisor:

What training do you have? Find out how long the advisor has been in business and what kind of certifications they hold. For example, does the advisor or another individual at the firm hold a Certified Financial Planner (CFP®) designation? CFP® professional is someone who has completed a comprehensive course of study of financial planning curriculum approved by CFP Board. CFP® practitioners must also pass a comprehensive two-day, 10-hour CFP® Certification Examination that tests their ability to apply financial planning knowledge in an integrated format. Based on regular research of what planners do, the exam covers the financial planning process, tax planning, employee benefits and retirement planning, estate planning, investment management and insurance.

What services are offered? Services offered through financial planning and investment management firms vary depending on credentials, licenses and areas of expertise. Generally, if you work with a financial planner, they cannot sell financial products, such as mutual funds, insurance or stocks without the proper licenses, or give investment advice unless registered with state or federal authorities. Some planners offer financial planning advice on a range of topics but do not sell financial products. Investment management firms, such as Capital Advantage, Inc., offer financial advice on a range of topics, has expertise in retirement planning and investment management, and will never sell you financial products.

How do you charge for your services? Financial advisors provide you with an investment management contract and/or financial planning agreement that spell out the services they provide and how they are compensated. Payment can happen in one of several ways:

- Salaried planners are actually employees of a firm, and you help pay their salaries through fees or commissions you agree to pay.
- Direct fees to the planner through an hourly rate, a flat rate, or on a percentage of your assets and/or income.
- Commissions paid by a third party from the products sold to you based on the planner's recommendations. Commissions are typically a percentage of the amount you invest based on those recommendations.
- A hybrid of fees and commissions based on services. A planner may charge a fee for designing a comprehensive financial plan and occasional visits and calls to review it, while commissions might come from products they sell that you invest in (some planners may offset some fees in exchange for commissions).

Do you have any potential conflicts of interest? It may seem like a rude question, but the best planners expect this one and are prepared to make disclosure. Obviously, if a planner profits from the sale of investment products to you, they must spell that out.

How do you feel about teaching and training? One of the primary benefits of having a financial advisor is education about the moves you are making or may potentially make. Don't view a planning relationship as tossing someone your finances so you won't have to deal with them anymore. As long as you're paying for their services, make sure you get a long-term education out of it.

Please call us at (925) 299-1500 or toll free (888) 299-1500 if you are interested in scheduling a review of your investment strategy and/or financial plan. If you are not a client of Capital Advantage, Inc., we offer free no obligation consultations.

Capital Advantage, Inc. Market Update - November 14, 2008
John Hayman, CFP - Founder and President of Capital Advantage, Inc.

Dear Capital Advantage Clients and Colleagues:

Upon receiving this letter, I hope you and your family are in good spirits and doing well. You have probably been bombarded with dramatic news commentaries whenever you turn on your television; listen to your car radio, and even when you check your email. Perhaps you are feeling some despair as the economy continues on with its unprecedented behavior. As we mentioned before, you must keep in mind that it is not a matter of *if* the economy will recover; it is a matter of *when*.

What is happening?

The uncertainty around the outcome of the presidential election has been one of the factors weighing on the markets of late. The election of Sen. Barack Obama removes this uncertainty and we will soon begin to see which policies he chooses to implement. However, we are not developing investment strategies based on political outcomes, as they are very unpredictable. We are much more interested in the economic/business climate, how companies react to the prevailing environment, access to credit, earnings, and most importantly, the price of stocks and bonds in the marketplace.

After reaching extreme oversold conditions, stocks bounced and then rallied further after the Federal Reserve cut interest rates by 50 basis points on October 29th, this time in a standalone action following the coordinated global rate cuts earlier in the month. Other central banks began actively cutting rates as well, as it became abundantly clear that global growth is slowing.

The end to the financial crisis is likely a ways off. We believe we are in the middle of a recession, and would not be surprised if our economy continued to endure even more painful blows. Despite the negativity, there are some promising signs that the aggressive policy actions are beginning to work. Additionally, October brought the largest price drop in energy ever (33%), easing up the incredibly high gas prices consumers endured through 2008. Commodity prices fell as well, gifting consumers with a decrease in food costs. Also, the stock market appears to have already priced in a fairly deep recession, which gives hope that the oversold conditions and extremely dour sentiment on the markets and economy will pave the way to stabilization in stocks.

It is going to be a tough world for those companies who are not the number one or two competitors in their industries. This will be particularly true in retail, restaurants, autos and other discretionary areas of spending. Too many weak competitors have been kept afloat by easy credit and consumers living beyond their means. Marginal players will likely be wiped out; even dominant players will be challenged by a tough recession, and painful adjustments and cost cutting are now the order of the day.

What are we thinking?

We believe the era of conspicuous consumption is over. Consumers are now entering an era of deleveraging. Call it a national mood change that reflects a backlash against the excesses of Wall Street; a rejection of debt as a way to improve lifestyles and a new environmental consciousness.

We are confident that the government will continue its strong intervention in the economy. We expect to see it continue taking equity stakes in banks and extend that policy to insurance companies and other components of the financial system, including automobile financing companies. The Federal Reserve will be prepared to bring interest rates close to zero in order to ward off deflation. The government will probably enact another fiscal stimulus package, possibly before the new Democratic administration gains control. These policies err on the side of reigniting inflation deliberately because the Fed has the ability to fight inflation. Deflation, on the other hand, is avoided at all costs, as its textbook remedies are out of the Fed's control.

What are we doing?

We suspect that the economy will contract in the first half of 2009. Our analysis has led us to deem the best value now resides in fixed income, which seems to have reached its bottom and is now slowly regaining traction. We are carefully beginning to allocate a fairly high mix of bonds to all portfolios, while, for the time being, holding off on equity purchases. There is considerable debate about whether investment-grade corporate bonds and high-yield bonds have adequately

reflected deteriorating fundamentals. Our research has concluded that many bonds are currently trading at deep discounts to fundamentals, indicating good yields available for investment. We have allocated a portion of cash to investment grade (AA to A rated) bond funds with relatively short to intermediate durations (3-5 years). We are also utilizing the safety of GNMA, CD and municipal bond funds, as appropriate.

We are attempting to glean from past market history those investments that will most likely be top performers through this market turmoil, while simultaneously realizing that this current economic crisis is unlike any we have ever witnessed before. At present, we believe caution and patience are the prudent actions to embrace in the face of such historic market volatility. While we have witnessed a few soft buy signals and adequate valuations, nothing concrete has altered our current course of action. As new information becomes available, such as a standstill in falling home prices, a decrease in the inventory of vacant new homes, or a stabilization in unemployment numbers, we will begin our selective purchase of equity positions. In the meantime, we will continue to carefully monitor your portfolio, focusing on what we can control - our asset allocation.

Thank you for your patience and confidence through these complex times. Please call our office at (925) 299-1500 if you have additional questions or concerns, would like to speak directly to your financial advisor, or have any service requests we can assist you with. Remember, Capital Advantage, Inc. is here for you. - *John Hayman*

Capital Advantage, Inc. Holiday Blanket Drive

Aimee Schwartze - Director of Client Service at Capital Advantage, Inc.

Everyone is suffering from the recession in one way or another; account values are down, spending has decreased to the point where major retail stores are closing, and the market volatility can feel overwhelming. It is during these trying times that it is important for us to be thankful for what we have and think of those that are less fortunate. This is why Capital Advantage, Inc. has decided for the third year in a row to join forces with the Contra Costa Volunteer and Emergency Services Team (VESTIA). With your generous help and support last year, VESTIA was able to provide 407 families (1115 children!) with gifts and clothing, as well as provide holiday dinners to over 600 families. Capital Advantage, Inc. was even featured in the VESTIA newsletter, which can be viewed online at www.ehsd.org in the Volunteer Services section under Employment & Human Services.

Last year, both John and I volunteered our time to distribute gifts to families that were the "neediest of the needy." One woman that stands out in my mind had recently lost her job and was sleeping in her car with her three children on the nights they were unable to stay at a shelter. This woman continued to look for work while her children were at school. She never gave up hope, even when her sister passed away and she was asked to care for her three nephews. When I handed over a large bag filled with clothing, shoes and gift cards, this woman was so thankful. Unfortunately, the one thing I could not provide her with was the warm blankets each of the children had asked for. As we reviewed the wish lists from all of these families we noticed "blankets" were listed on almost all of them, yet this was the one item in very short supply.

This year, we at Capital Advantage, Inc. would like to make those wishes come true by providing as many blankets as we can to those families that so desperately need them. If you would like to help, here are some local retailers and online sites where blankets can be purchased as well as other ways you can assist us in reaching our goal. If you would like to purchase items online, you can have them shipped to our address (below), and I will be bringing all of our donations to the VESTIA center on December 12th. Ways you can help:

1. Donate new blankets:
 - 1) JC Penney and Mervyns are offering blankets 2 for 1
 - 2) Marshalls, TJ Maxx and Ross are offering blankets from \$7.99+
 - 3) Target and Target.com are offering fleece blankets \$14.99+
 - 4) Overstock.com is offering 2 fleece blankets for \$24.99
2. Donate other new items such as warm clothing and toys
3. Monetary donations can be made out to VESTIA.
4. Volunteer with us!
- 5.

Our mailing/drop-off address: Capital Advantage, Inc. ~ 3708 Mt. Diablo Blvd. #200 ~ Lafayette, CA 94549

I have done extensive research in regards to this charity and can assure you that 100% of all donations go directly to local families since VESTIA has no overhead costs. Capital Advantage, Inc. has and will continue to donate our time, resources and cash donations to this worthwhile cause. This holiday season, stop by our office and say hello, enjoy a cup of hot coffee or cider, and help us give to those that are less fortunate. For further information, please contact me at (925) 299-1500. Thank you again for your continued support and I wish you and your family the happiest of holidays! – *Aimee Schwartze*