Ranstrom Financial Planning Services

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Thoughts and Comments

Winter 2011

We hope you had an enjoyable holiday and best wishes for the New Year. Thank you for allowing us the opportunity to serve your financial needs this past year and we look forward to doing so again in 2011.

For better or worse, it is common to measure time by a calendar year. The enclosed Performance Report for 2010 is an example of this. Though in some respects beneficial, most of us do not live our lives in calendar years, but rather time periods often related to family, jobs, and retirement. It is for this reason I have said that financial planning is an ongoing process, not an event.

We have worked with the majority of our clients for over ten years and many for over twenty years. We have advised clients during their accumulation years, through the transition time period from working to retired, and throughout the income distribution years of retirement. We have been referred by clients to their children and more recently grandchildren. As one year ends and another begins, it is important for you to know we will be here to coordinate your financial objectives with your financial assets and help you meet your goals. In addition, with clients in over 20 states, we are not geographically limited. Whether you reside in the plains of Fargo, the mountains of Montana, or on the coast of California, you can rest assured that we will do our best to serve you.

Though I have no plans to retire, it has been very important to me to develop a talented and professional team who will be able to continue to provide service to our clients for many years to come. I believe I have accomplished this. Ryan is slightly older and Courtney slightly younger than I was when I started what turned into Ranstrom Financial Planning. Morgan and Stephanie are a few years behind that. As you know, the past ten years have been very challenging. Though I am optimistic for the future, I suspect challenges in a variety of areas will continue. You can be assured we will be here to help you meet your goals whatever challenges may arise.

Thank you again for the opportunity to serve your financial needs. The following are contributions from Ryan, Courtney, and Morgan.

Tax Update from Ryan

President Obama recently signed a new tax law extending the Bush-era tax cuts through 2012. Individual tax rates will stay the same through the end of 2012, with the lowest tax bracket starting at 10% and the highest extending to 35%. The exact rates for 2010 are listed below for a married couple:

- **10**% on the income between $0 and $16,750
- **15**% on the income between $16,751 and $68,000
- **25**% on the income between $68,001 and $137,300
- **28**% on the income between $137,301 and $209,250
- **33**% on the income between $209,251 and $373,650
- **35**% on the income over $373,651

The new law provides for a good degree of certainty in tax planning for the next two years, especially concerning individual income tax rates, capital gains/dividend tax rates, and the estate tax. However, this law is temporary and the ultimate fate of this tax law is still uncertain, especially given that it expires in a presidential election year.

Under the new tax law, the federal estate tax exemption was raised to $5 million per person. An individual can now pass up to $5 million dollars to heirs without paying any estate taxes. In addition, a married couple can now pass $10 million to their heirs without the use of trust plans via their estate plan. However, be aware there are still many valid reasons to have these trusts in place. For example, Minnesota has an estate tax exemption of $1 million, so if you own property in Minnesota valued at over $1 million, you still have reason to stay current on your estate plan (among other reasons).

Because the tax law came so late in the year, there will be a great number of tax filers who will not be able to file their returns until mid- to late February. The IRS will need time to update certain tax forms. Specifically, they will not accept any tax return for filers claiming itemized deductions via Schedule A until their new computer system is updated. There is also a list of other provisions contained in the new law that will cause the IRS to work overtime in getting their forms up to date.

Allocation Overview from Courtney

When building and analyzing a Portfolio, we divide the Portfolio into five broad allocation groups. Within each broad allocation group we list specific investments or funds which represent or track various asset classes, sectors, or indices. On the enclosed Performance Report, your investments are broken down by allocation group. The five broad allocation groups are as follows:

- Minimal Risk has no stock market risk and consists of money markets, short term CDs, and high quality short and intermediate term bond funds.
- Moderate consists primarily of long term bond funds, bank loan or floating rate funds, and high yield bond funds.
- Alternative Strategies consist of non-traditional asset classes and normally have a low correlation to the stock market. Potential return and volatility vary depending on the specific investment. Some Alternative Strategy investments have relatively stable returns and low volatility while others have higher potential returns but can experience significant volatility at times.
- Moderate Growth consists primarily of dividend paying stock funds.
- Growth consists of stock funds. It can include exchange traded funds which track various market indices, sector funds such as energy or green technology, or individually managed funds where the managers have broad discretion in buying and selling stocks within the fund consistent with the fund's objectives.

As you would expect, a Portfolio which has a high percentage in Minimal Risk and Moderate has, at least theoretically, a lower potential return and less volatility risk compared to a Portfolio which has a high percentage in Moderate Growth and Growth.

When developing a Portfolio, we will review and analyze many factors unique to your situation including your investment objectives, time horizon, income needs, risk tolerance, and tax considerations.

If you have questions about your Portfolio or your current allocation, please contact us.

Market Update from Morgan

Prediction is very difficult, especially about the future. – Niels Bohr

For better or for worse, it is customary in this business to make bold predictions for the future as one year comes to a close and another begins. Unfortunately, these forecasts rarely turn to be prescient as, by its very nature, the future is a rather uncertain beast. Where will the stock market be in December 2011? I do not know, and to be frank, neither does anybody else. However, with a thorough analysis of the present environment and an understanding of history we can discuss a series of themes we see developing that may affect the market environment in the coming year.

- The speed and sustainability of the U.S. economic recovery is still up for discussion which will most likely cause some volatility in domestic interest rates. However, in a general sense, interest rates should stay low on a historical basis due to high unemployment, a still struggling housing market, and, at best, tepid core inflation.
- The exception to low inflation is of course commodities. If you have filled up your car's gas tank lately, you know what I am talking about. Due largely to the rise in emerging market demand, the return of global growth, and the Federal Reserve's second round of quantitative easing (QE II), high commodity prices have returned. Usually, gas prices spike during the summer and subside after Labor Day due to heavier summer travel. This year was the exact opposite, which means we might see slowly rising gasoline prices over the course of 2011.
- In contrast to most of the developed world, where deflation is still a risk, emerging markets are currently attempting to combat inflation as their growth prospects are much more pronounced. With some hiccups, look for rising interest rates in many emerging market countries and appreciating currencies versus the dollar.
- Due to budgetary and growth concerns, Europe is going the route of austerity (i.e. cutting spending) while the US, with the recent extension of the Bush tax cuts (as Ryan discussed above), is essentially attempting to stimulate the economy enough to grow out of our high deficit. For 2011, look for the US to outperform Europe, but this conflict in policy will most likely be a theme over the course of the next 5-10 years.

None of these developments are good or bad in their own right, they just are. Though there are no guarantees, we will do our best to allocate your Portfolio in such a way as to be mindful of the risks while seeking to profit from any opportunities that may arise.

Here is to a joyous and peaceful 2011!