



Is Diversification Dead?

In 2009, diversification came back into vogue. All stock asset classes, REITS, commodities and bonds had positive returns last year. In 2008, the only asset classes that didn't lose were cash, CD's and short-term bonds. We believe that diversification works over the long-term and that 2009's outperformance by certain asset classes such as domestic and international small cap equities and value equities is repeatable. In fact, while most financial publications were writing off emerging market stocks after they lost over 50% in 2008, this sector had the best performance of any asset class in 2009, returning close to 80%.



Homebuyer Credit

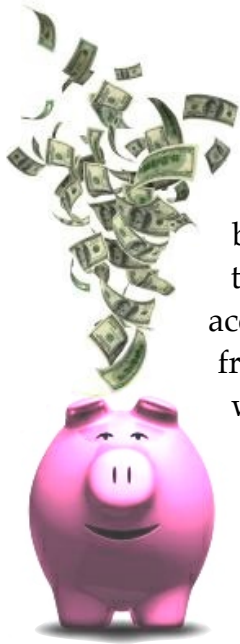


Congress has approved an extension of the \$8,000 new home buyer tax credit until April 30, 2010.

First-time home buyers who bought after January 1, 2009 and before April 1 2010 (with closing to take place before July 1, 2010), will get the \$8,000 homebuyer tax credit. For the purposes of claiming the tax credit, the purchase date is the date when closing occurs and the title to the property transfers to the homeowner. The homebuyer credit would be available to individuals with a modified adjusted gross income (MAGI) of up to \$125,000, or \$250,000 for couples, up from \$75,000 for individuals and \$150,000 for couples under the original rules. The higher income limits are only for homes purchased after November 6, 2009.

Current homeowners looking for a replacement primary residence could also qualify for a \$6,500 tax credit (under the new "long-time resident" provision). They must have lived in the same principal residence for any five consecutive year period during the eight-year period that ended on the date the replacement home is purchased. This new provision also only applies to homes purchased after November 6, 2009. This repeat-buyer tax credit would be available to individuals with a modified adjusted gross income (MAGI) of up to \$125,000, or \$225,000 for couples. Homes that cost more than \$800,000 aren't eligible for the credit.

ROTH IRA Conversions



For the first time since Roth IRA's were created, anyone who has retirement accounts (such as an IRA, SEP-IRA, or 401k) can do a Roth conversion in 2010 now that the adjusted gross income restrictions have been eliminated. When you convert to a Roth, you incur a tax liability on the amount converted (which doesn't have to be your entire retirement account balance). The benefit is that after conversion the account grows tax-free, and as long as you leave the money in for at least five years, your withdrawals will be tax-free as well.

If you do a Roth conversion in 2010 you can further elect to defer paying the taxes on the conversion until you file your tax returns for 2011 and 2012. For example, if you convert \$100,000 to a Roth IRA in 2010, you can include \$50,000 in income in 2011 and \$50,000 in income in 2012. You will have to calculate the tax on that income using the tax rates in effect for 2011 and 2012, which may be higher than those in effect for 2010.

You can alternatively elect to pay all the tax on the conversion on the return you file for 2010. You cannot use both options. One of the unique benefits of Roth conversions is that you have up until your tax-filing deadline to reverse (or "re-characterize" as it's technically known) the conversion. So, if you convert in early 2010 but see that in April 2011 the account value is down 20%, you would likely re-characterize it back to a regular retirement account, and not pay the taxes. If the account value is up significantly, then you'll likely keep the conversion intact. If 2011 and 2012 tax rates have been decided by Congress, then you and your CPA will have a lot more clarity about what year to pay the taxes in. Please speak to your Abacus advisor about converting your retirement assets to a Roth. And, if you have old 401k's floating around at previous employers, this is a great time to consolidate them at Abacus.

Wishing you a fulfilling, healthy and peaceful 2010.

Warmly,

Jason Cole, CFP

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