

Time to Breathe

If you have been holding your breath since asset values started to decline last year, we suggest you relax and breathe a little. From April through June most of the stock, real estate, and commodity mutual funds we use increased in value by 15% to 35%. April and May were among the best months for many years in several asset classes. You can see a few examples of that in the chart to the right. As we've said many times, extreme downturns are usually followed by very rapid upswings.

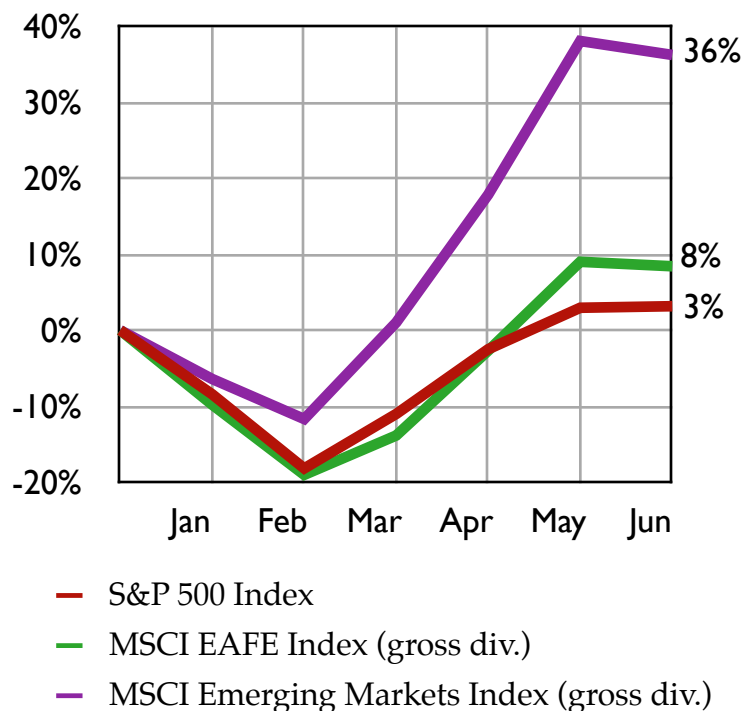
Of course, in the short run, we can't predict what will happen next. However, over longer periods, we are confident that our disciplined, tax-aware rebalancing will work well. We want to ensure that you are invested in an appropriate mix of stocks and bonds for your needs. If you have any concerns about whether you are holding too much or too little cash (or CDs and the like), or if there have been significant changes in your overall situation, please talk with your Abacus advisor.

ROTH CONVERSION

If you are under 70½, will be in a low tax bracket in 2009, and meet certain income tests, you might consider converting some of your traditional IRA money to a Roth IRA this year. This triggers taxation of the amount you move (it's taxed like a IRA withdrawal), but all the future growth in the Roth is tax-free, even when you withdraw it for living expenses. There is also no requirement to withdraw money from a Roth, even at age 70½. To convert in 2009, your "modified adjusted gross income" must be under \$100,000.

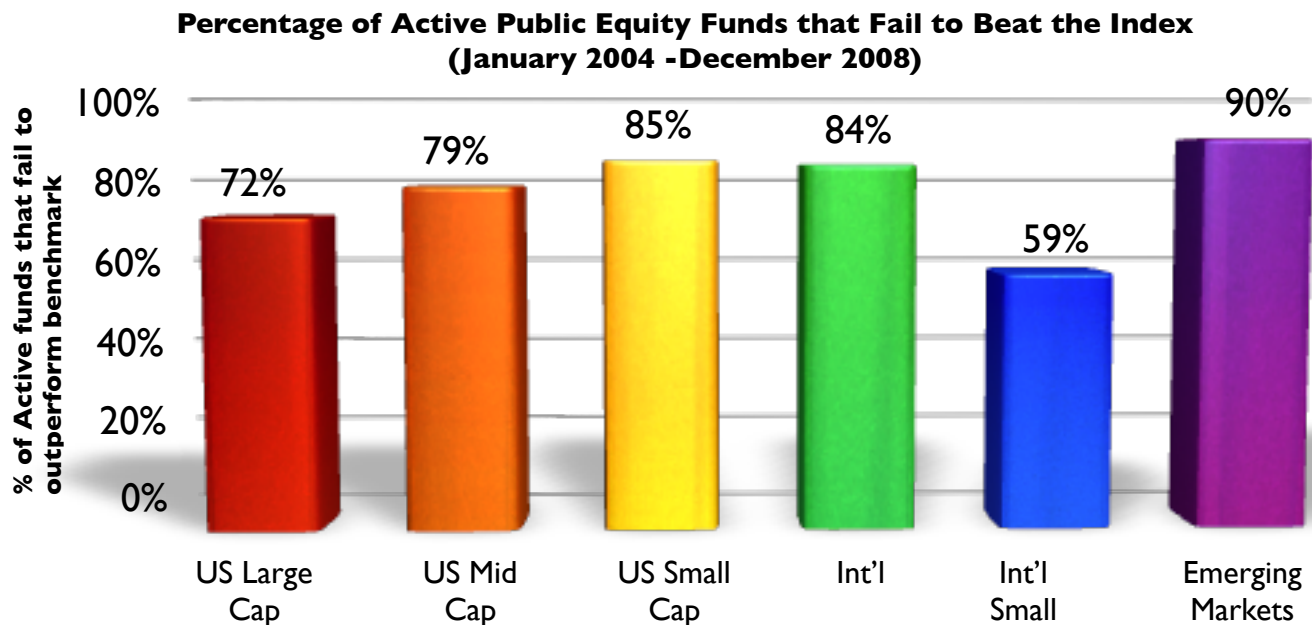
In 2010, there will be no income test, so anyone can convert, and the resulting taxable income can be taxed in 2011 and 2012. However, if you qualify, converting in 2009 could be a very savvy move if asset values are even slightly higher in 2010, or if tax rates are slightly higher in 2011 or 2012 (which seems likely in the current environment).

2009 Year to Date



ACTIVE MANAGEMENT STILL DOESN'T WORK

Sometimes we read articles suggesting that active managers do better than strategies like ours during “market dislocations” when the bright folks running these funds can presumably move to “safer” asset classes, or even to cash, avoiding declines or enhancing growth. We haven’t found this to be the case, and recently came across the chart below which shows that most active managers couldn’t outperform a passive index, even from 2004 through 2008, which included most of the recent market meltdown. Even the “experts” can’t reliably beat the market...and those “experts” generally cost a lot more too!



Source: Standard & Poor’s Indices Versus Active Funds Scorecard, April 20, 2009. Index used for comparison: US Large Cap - S&P 500 Index; US Mid Cap - S&P MidCap 400 Index; US Small Cap - S&P SmallCap 600 Index; Global Funds - S&P Global 1200 Index; International - S&P 700 Index; International Small -S&P Developed ex. US SmallCap Index; Emerging Markets - S&P IFCI Composite. Data for the SPIVA study is from the CRSP Survivor-Bias-Free US Mutual Fund Database.

MID-YEAR CHECK-IN

This is a good time to reflect on your goals for the year, both personal and financial, to see how you are doing or to revise your targets. Have you started or stuck with any January resolutions for self-improvement? Have you found ways to make a lasting contribution to some of the people around you? Have you set your spending at a level that works? We want to encourage and support you in all the good things you do. Please let us know your successes, and let us know how we can help you address any challenges.

We wish you all the best in the days to come.

Tom O’Connor, CFP, CFA

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