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## Market Commentary – February 17, 2009

RegentAtlantic is a fee-only wealth management firm. We define wealth management as the integration of financial planning and investment management. Our clients are individuals, retirement plans, foundations, corporations, trusts, not-for-profits and endowments. We manage approximately \$1.2 billion of assets. Our clients outline their goals and are guided by our knowledge and solutions in order to meet those goals. Some differentiators for our firm include:

- We have a deep bench of financial professionals. Among our 38 employees, we have 16 CERTIFIED FINANCIAL PLANNERS™, 5 Chartered Financial Analysts, 10 MBAs, 2 CPAs, 2 JDs, 2 with MS degrees, 1 ChFC, 1 CDFAs, and 1 CLU. Our culture fosters teamwork and collaboration, so that each client of the firm has access to the expertise of any and all of our financial colleagues.
- When we begin a relationship with a client, we first seek an understanding of that client's goals and financial situation. For individuals or families, examples of those goals can be retirement, planning for education funding for our client's children, charitable giving, estate planning, or buying a second home at the shore. From the information provided, we analyze with our client what steps will likely be necessary to achieve our client's financial goals, and when appropriate, what tradeoffs our client may have to consider to achieve those goals. These steps help us to recommend a diversified investment portfolio for our clients to consider.
- Our firm's investment discipline is based upon the principles of Modern Portfolio Theory. We use globally diversified, multi-asset class portfolios which we believe, over the long term, have the potential to increase return while limiting the risk taken to achieve that return. Of course, as recent events have shown, all investments have risk, including the risk of loss of money invested.

To give you a sense of our relationship with our clients, we recently sent the Market Commentary below to clients on February 17, 2009.

If this communication arrives at a time when you are evaluating your financial future, we would welcome the opportunity to talk with you.

## **The American Recovery and Reinvestment Act of 2009**

The long-awaited stimulus bill, titled The American Recovery and Reinvestment Act of 2009 (“ARRA 09”), is being signed by President Obama today in Denver. While much of it involves direct government outlays, there are quite a number of income tax incentives affecting individuals, small businesses, and big businesses. This is a brief overview of the provisions that may affect you or family members.

### **Individual Income Taxes and Tax Rates**

The “Making Work Pay” tax credit is a refundable tax credit of up to \$800 for working families and \$400 for working individuals, designed to reduce taxes for about 95% of all taxpayers. The credit equals 6.2% of income. Income phase-out limits begin at \$150,000 for joint filers and \$75,000 for individual filers. This credit is available for both 2009 and 2010, and is responsible for \$116 billion of ARRA 09’s total \$787 billion cost.

The bill delivers another one-year bandage for the alternative minimum tax (AMT) by increasing the exemption amounts to \$70,950 for joint filers and \$46,700 for individuals. The AMT exemption amount was set to revert back to \$45,000 this year, ensnaring those people whose income tax bills would be higher under AMT than under the regular tax calculation. It remains to be seen what Congress can design later this year as a permanent fix to the AMT. The fix won’t be cheap; this year’s relief carries a \$70 billion price tag.

The bill also suspends the inclusion of interest on so-called “private activity bonds” from AMT. A private activity bond is a type of state or local government bond on which the interest is exempt from ordinary income tax, but is included in the AMT tax calculation. The bill allows a full exclusion of private activity bond interest for AMT purposes in 2009 and 2010.

Note that there are no adjustments to tax rates on ordinary income or capital gains. The maximum ordinary tax rate remains 35% and the maximum rate on capital gains is still 15%.

### **New or Enhanced Credits, Rebates, and Subsidies**

Aside from the Making Work Pay credit, ARRA 09 offers other new tax credits as well as enhancements of existing credits. Some of the credits are even refundable (if the credit exceeds the tax owed, the Treasury sends you a check). There are credits for workers, retirees, people buying cars and homes, and people sending their children to college, to name just a few. Some of the more relevant changes include:

- Individuals collecting various benefits from Social Security (SSI, Disability, Railroad Benefits, etc.) are entitled to a one-time rebate of \$250. This credit would reduce any Making Work Pay credit for individuals who are working while receiving benefits.
- The American Opportunity Education Credit is a new two-year partially refundable credit of up to \$2,500 for education expenses. The credit equals 100% of the first \$2,000 of tuition and associated expenses plus 25% of the next \$2,000 in expenses. As much as 40% of any unused credit can be refunded to those with

little or no tax liability. The credit begins to phase out at incomes of \$160,000 for joint filers and \$80,000 for single filers.

- Disbursements from section 529 plans (college savings plans) are tax-free if made for qualified education expenses. ARRA 09 expands the definition of qualified expenses to include computers and related technology costs.
- This bill enhances the first-time home buyer credit enacted last year. The credit equals 10% of the home's purchase price, subject to a maximum credit of \$8,000. Unlike the prior credit, which had to be repaid over 15 years, the new law eliminates any repayment requirement. The credit applies to first-time home purchases from January 1, 2009, through November 30, 2009, and is subject to income phase-out limits starting at \$150,000 for joint filers and \$75,000 for single filers. The credit will be recaptured if the house is sold within three years.
- There is a new deduction for sales and excise taxes paid on purchases of new (not used) automobiles, SUVs, RVs and motorcycles made in 2009. This deduction phases out at income levels of \$250,000 for joint filers and \$125,000 for single filers. Individuals may use this deduction even though they use the standard deduction instead of itemizing their other deductions.
- For 2009 the first \$2,400 of unemployment benefits is tax-free.
- The dollar caps on the tax credits for alternative energy investments are repealed. The credit will now equal 30% of the full costs incurred on items like solar heating and geothermal systems.
- Another big ticket item, costing \$24.7 billion, is a subsidy to offset 65% of COBRA coverage premiums for individuals involuntarily terminated from employment between September 1, 2008, and December 31, 2009. The subsidy will last for nine months, and will end sooner if the individual finds a job offering replacement coverage, or becomes eligible for Medicare. For otherwise eligible individuals who elected not to take COBRA coverage, they now have a new 60-day window to elect it and claim the subsidy. The subsidy is limited to joint filers with income under \$250,000 and single filers with income under \$125,000.

### **Of Special Interest to Clients in the Business World**

Certain new tax incentives may be of particular interest to small business owners:

- The rule allowing a full write-off of the first \$250,000 (subject to phase-out once capital expenses exceed \$800,000) of certain capital expenses in lieu of depreciating over time has been extended through 2009.
- ARRA 09 extends the 2008 faster depreciation schedule by allowing an immediate write-off of 50% of the cost of depreciable property, e.g., business equipment, computers, etc. acquired in 2008 or 2009 for use in the U.S. The law also extends a 2008 benefit that permits accelerated receipt of tax credits for

research and development. This can be claimed in lieu of faster depreciation, and uses a formula based on 6% of historic AMT and R & D credits.

- Two new targeted groups, unemployed veterans and “disconnected youth” (defined as those between the ages of 16 and 25 who have not been regularly employed or attended school in the past six months) have been added to the nine current targeted groups eligible for a work opportunity tax credit. This is a credit equal to 40% of the first \$6,000 of wages paid to such employees.
- ARRA 09 extends the carryback period for net operating losses from two to five years for businesses with gross receipts under \$15 million. This may permit recovery of taxes previously paid in profitable years before 2008.

These are some of the elements of ARRA 09 that appear most likely to have some impact on our clients or members of their families. Of greater importance to all Americans, of course, will be the indirect, general impact of ARRA 09 on the health of our economy, both in the near term and over the long haul. Much as we would enjoy saying that this bill will start to cure the current economic malaise, it seems more likely to serve as another notable step in a long campaign by governments all over the world to control the damage, rebuild confidence, and renew the optimism essential to prosperity and growth. As President Obama and many others have noted, even a \$787 billion stimulus bill will be insufficient, by itself, to lift us out of the deep hole into which we’ve tumbled.

If you have any questions about whether or not you may be eligible for a credit or rebate, please feel free to contact your Wealth Manager. As always, we remain committed to helping you achieve your long-term financial goals and will make ourselves available every step of the way.

Sincerely,

RegentAtlantic Capital, LLC

*NOTE: Our understanding of the provisions of the American Recovery and Reinvestment Act of 2009 and their associated federal revenue costs is based on the full summary of the Act published by the Senate Finance and House Ways and Means Committees on February 12, 2009. Please note that RegentAtlantic does not provide tax advice. If you have any questions regarding the applicability of this information to your individual situation, please contact your tax advisor. Please remember to contact RegentAtlantic Capital, LLC if there are any changes in your personal situation or investment objectives for the purpose of reviewing our previous recommendations and services.*

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