



DICKINSON Investment Advisors

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Will New Estate Tax Rules Lull You Into Inaction?

At long last, Congress passed meaningful federal estate tax relief at the end of 2010.

Among myriad other tax law provisions in the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, there's a generous \$5 million estate tax exemption, and the top estate tax rate has been cut to 35%—the same as the top rate for ordinary income. The law also coordinates other estate tax breaks for wealthy families.

But there's a downside to these favorable estate law alterations—they're scheduled to expire after 2012. So there's only a small window of opportunity before the next crucial crossroads for estate planning, and because it's impossible to know what will happen next—or to guess what estate rules will be in effect at your death—the positive aspects of the new law could end up having a negative impact. Families whose wealth falls below the higher exemption amount may be lulled into doing nothing, but that's a risky approach.

It took Congress almost a decade to revisit the subject of estate taxes, and it only finally happened because *not* acting would have had a dramatic result. In 2001, the estate tax was repealed—but only in a very gradual way, and only temporarily. During the years that followed, the exemption level rose gradually to \$3.5 million and the top estate tax rate inched down to 45%. Then, in 2010, the tax was truly

gone, but only for a year. Without the 2010 law, passed as the clock wound down on a lame-duck session of Congress, 2011 would have reinstated

an exemption of just \$1 million and a top tax rate of 55%. Finally, as part of an 11th hour tax compromise brokered by the Obama administration between congressional Republicans and

Democrats, the new two-year estate law came into being.

Though the \$5 million estate tax exemption and the 35% tax rate have gotten most of the attention, the new law also included other significant changes. The individual exemption is now "portable" between spouses, so that a surviving spouse can utilize any unused portion of a deceased spouse's exemption. That effectively lets married couples exclude \$10 million from estate tax liability—but only if both die before 2013. The new law also again gives heirs a "step-up" in the cost basis of inherited assets—an advantage they didn't have in 2010—and reunifies the rules for estate and gift taxes so that they share the \$5 million exemption. That amount in total can now be transferred from your estate either before or after your death without incurring either kind of tax.

With these changes in effect, estate planning may seem easier than it was before, particularly if you have less than \$5 million—or less than \$10 million, between you and your

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We Have Upgraded Our Website To Give You Value

All of our communication with you is based on our commitment to add value to your life.

As such, our value proposition is this: Dickinson Investment Advisors provides planning and investment services that are tailored to your unique needs and life circumstances, with a goal of achieving wise financial stewardship of your resources in retirement.

Along those lines, our website (dickinsoninvestments.com) is a resource to inform and educate you in ways that will help you in your decision-making about your investment planning.

The site includes the following features:

- Ron's blogs
- Weekly market commentaries
- Educational resources, including articles from our current series on "7 Steps to Financial Security"
- Financial tools (check out the calculators)
- A link for you to be able to access your account with Charles Schwab

Through our website, direct communication in person or on the phone, we want to be able to relate with you and with others.

Who do you know who can benefit from a relationship with a trusted investment advisor in times like these? Please let us know how we can serve those who you love and care about as well.

Ron Dickinson

Take Advantage Of Fed's Low-Rate Pledge

How does the Federal Reserve's pledge to keep interest rates at historic lows for at least two more years affect investors?

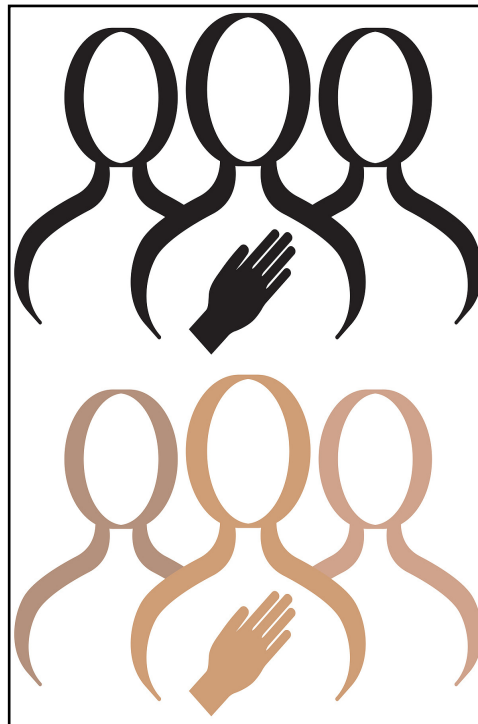
It's not good news for retirees or savers, who tend to have a significant portion of assets in low-yielding money market accounts or certificates of deposits. The Fed's announcement means these investors won't see a boost to their interest income any time soon.

Yet depending on your life situation and time horizon, there may be ways to take advantage of the knowledge that interest rates will remain at rock bottom until 2013. We can work with you to explore ideas that fit your individual goals. Here are some things that may be affected.

Mortgages and mortgage-based securities. Falling mortgage rates make this a great time to get a new home loan or refinance your existing mortgage at a lower rate. Meanwhile, the prices of U.S. mortgage-backed securities are soaring, because REITs, banks, and other entities that finance higher-yielding assets can rest assured that low rates will keep volatility in check. Funds that invest in such assets and institutions stand to gain.

Treasury bonds. Many analysts believe the Fed's policies will lead to rising inflation and a weaker U.S.

dollar, which can hurt bond prices. But investing in funds that rise when Treasuries fall can provide downside protection.



Foreign currencies. Similarly, investors concerned that the U.S. dollar will continue to lose value against other currencies can invest in funds that benefit from a falling greenback. Another strategy is to buy a basket of

foreign currencies.

U.S. exporting companies. As emerging-market nations continue to develop their infrastructure and consumer economies, U.S. companies that export goods and services to them stand to gain. We can help you find companies that export everything from consumer goods to construction and utility machinery.

Emerging market stocks. Many mutual funds and exchange-traded funds now offer exposure to stocks of companies in the developing world, where growth is continuing. Because the Fed's rate announcement reflected its belief that the U.S. economic recovery has slowed, it might make sense to shift some investment assets to growing areas of the world such as China and Brazil.

Your business. If you are a business owner, now may be an opportune time to consider expansion or other investments. Knowing that loan rates will remain low helps you plan for the future.

Consumer purchases. The federal funds rate directly affects interest rates on most credit cards, so as a consumer you can expect rates to remain stable during the next two years. That could make this a good time for purchasing furniture, a vehicle, or other big-ticket items. ●

Don't Succumb To Market Hysteria

The market has been experiencing occasional panic attacks of late. But please avoid confusing the market's gyrations with what's actually going on in the real economy.

Stocks are overreacting to the unfortunate confluence of events: the downgrade of U.S. government bonds, some weaker than expected economic data, and the troublesome but manageable U.S. fiscal position. Along with sovereign debt issue threatening Europe, these factors are making the markets volatile.

Former Federal Reserve Board Chairman Alan Greenspan put it this way last Sunday on Meet The Press:

"The United States can pay any debt it has because we can always print money to do that. So there is zero probability of default." Greenspan, who is not an oracle but who does years of experience in running the nation's central bank, added that the downgrade "hit the self-esteem of the United States, the psyche."

While such a blow to our nation's financial reputation cannot be dismissed and must be addressed, it's also important to remember that there has been no real change in fundamentals driving the economy.

Improving economic data is plentiful. "The leading indicators point

to slowly expanding economic activity in the coming months, according to the Conference Board's most recent appraisal of the economy.

Weekly unemployment claims have tumbled from the April 2009 peak. The Bureau of Labor Statistics reported modest improvement in job growth for July. Layoffs of government workers have masked a jobs rebound in the private sector that looks fairly typical at this stage of an economic recovery. Economists cite renewed July-August auto hiring and a slower pace of state and local government layoffs ahead as reasons for optimism on initial claims for unemployment benefits.

Myths Can Distort Investment Outlook

Investors and analysts alike look to economic conditions and trends for clues to the direction of prices for stocks, commodities, and other investments. Often enough, however, what we think we can learn from the economy and what it actually tells us are two different things. Consider these widely accepted “truths” that turn out, on closer inspection, to be false.

High unemployment is a drag on the economy and the stock market.

For people who can't find a job, high unemployment rates are a source of pain and anguish. However, for investors the jobless rate is one of the most misleading economic factors. That's because unemployment is a lagging indicator when it comes to economic recovery.

After the recessions of 1990-1991 and 2001-2002, unemployment remained high for 15 months and 19 months, respectively, after the economy got back on track. That means if you wait to jump back into the stock market until jobs come back, you can miss out on rising returns by two years and more.

Manufacturing jobs pay more than service or public sector jobs.

When jobs start to come back after recessionary periods, critics often say too many are low-paying “service industry” jobs. They lament the long-term erosion of manufacturing jobs, which supposedly offer higher wages.

Corporate earnings estimates keep climbing. Q2 nominal Gross Domestic Product is up 3.7%, while Q2 revenues on Standard & Poor's 500-company were up a whopping 13.2%!

Earnings estimates for 2011 and 2012 rose again last week, continuing a trend of upward estimate revisions.

The S&P 500 is trading at 11 times 2011 earnings estimates. Investors right now can choose to buy the 10-year Treasury bond with a 2.3% yield or get a 2.2% dividend yield on the S&P 500 plus the potential upside on stocks. Will the

However, a check of payroll data at the U.S. Bureau of Labor Statistics gives the lie to this belief. Manufacturing workers rank sixth among the 10 basic categories of “private industry” workers, behind information, educational services, financial activities, “transportation and warehousing,” and “professional and business.” Bringing up the rear are workers in wholesale trade, “health care and social,” retail trade, and “leisure and hospitality.”

Americans are tapped out.

We spent all our money in the run-up to the global economic crash, failed to save for a rainy day, and now are out of work or working fewer hours. That may be the common perception, but data from the U.S. Bureau of Economic Analysis shows that Americans' disposable personal income and personal spending are near record levels, while savings have rebounded. In fact, consumer liquidity (cash, checking, savings, and retail money market funds) is near a record, totaling 75% of annual personal income.

Core inflation isn't an accurate measure because it leaves out food and energy prices.

The government says inflation remains low, yet we all see our grocery and gasoline bills rising. Because the government's “core inflation” measure leaves aside food and energy prices (because they are volatile), critics consider the core inflation rate a bogus indicator.

relative value of stocks versus the 10-year Treasury bond ultimately be

recognized by investors? History may not repeat itself. It's possible. But using historical valuations and economic fundamentals to guide long-term investment decisions is prudent.

Hysteria is not new to investment markets. While it not easy to ignore the gyrations, our advice is to resist the panic by staying focused on fundamental factors that drive long-term

values in securities markets. If you need to speak with us, we're here for you. ●

But food and energy together make up just 13% of total personal expenditures, trailing housing/utilities and health care, and so not counting those outlays may still result in a relatively accurate assessment of where consumer prices are headed. Also, housing/utilities and health care costs have increased far more than food and energy costs since 1980.

Productivity is on a long downward slide because of the aging of the U.S. work force.

The oldest baby boomers hit retirement age in 2011, and millions of workers will leave the work force during the coming years. But there is an even larger group right behind the boomers that will more than replace them. People born between 1977 and 2008, known as “echo boomers,” account for 125 million Americans and outnumber the 117 million baby boomers.

As a result, the U.S. Bureau of Labor Statistics estimates the nation's gross domestic product should grow 2.5% to 3% a year during the next 30 years. GDP drives corporate earnings, which in turn drive the stock market.

Demographic trends also favor the U.S. on the global stage. The only country expected to see higher growth rates in the population aged 15 to 64 between now and 2050 is India, according to United Nations projections.

Social Security will bankrupt the nation as the baby boomers age.

The specter of bankruptcy hovering over the nation's Social Security system is exaggerated, according to Congressional Budget Office projections. The CBO forecasts that Social Security spending will actually decrease as a percentage of GDP during the next seven decades, because the “echo boomers” will be paying into the system.

The real threats lie in rising costs for Medicare and Medicaid and a coming explosion in the cost of paying interest on the federal deficit, according to CBO projections.

So the next time you hear a piece of received wisdom concerning the economy, stop and think twice. And please call our office if you want to discuss economic trends and how they might affect your investments. ●



Rising Tide: Emerging-Market Consumers

A wave of new consumers is building in the world's developing nations, a trend that offers great promise to U.S. investors.

Though developing countries face economic threats from political turmoil, inflation, and other challenges, Brazil, China, India, Russia, and many other nations in Asia, Latin America, and Eastern Europe have rapidly expanding middle classes hungry for electronic gadgetry, cars, and other consumer goods. Serving those booming markets has become a primary focus for multinational corporations such as Citigroup, whose CEO Vikram Pandit noted in his annual letter to shareholders that "emerging markets are growing consistently faster than developed economies, in some cases by many multiples." Pandit named "the rise of an emerging market consumer" as the

No. 1 global trend and said that Citigroup's top priority was to increase its share of emerging market business.

For individual investors, rapid growth in developing markets could translate into strong investment returns, and making emerging markets one part of a balanced portfolio can help manage the risks of volatile regions. The key to tapping this new consumer demand is to understand where the growth is and the shifting opportunities and challenges of different regions. When conditions change, assets can be rebalanced among multiple emerging markets.

For example, stocks in Russia became more expensive after the recent political turmoil in the Middle East and North Africa. Investors poured money into Russia because it's the world's largest exporter of energy, and oil prices were headed higher. In light of Russia's

suddenly loftier valuations, an investor could have reduced investments in Russia, taking profits after the market's rise,

and redeployed capital to a region with more affordable equities.

We follow these trends closely, and our analysis can help you find suitable ways to invest in global consumer growth. Consider these approaches for putting investment dollars at work in dynamic developing markets.

- Mutual funds and exchange-traded funds. Many mutual funds and ETFs are designed to give U.S. investors easier access to foreign companies, countries, regions, and industry sectors. Many overseas funds invest a portion of their assets in consumer-related local companies as a way to capitalize on consumer growth trends. Another variation is to invest in ETFs or mutual funds that concentrate on small-cap overseas companies, because such firms tend to benefit from growth in consumer buying power.

- U.S.-based multinational firms. A number of U.S. corporations are marketing more products and services overseas. When you invest in these companies, you tap their expertise in knowing which emerging markets will generate the strongest demand for consumer goods and services. ●

Where The Growth Is
(Year over year % change in economic output)

	2009	2010	2011 (proj.)	2012 (proj.)
Advanced economies	-3.7	3.1	1.6	1.9
Emerging economies	2.8	7.3	6.4	6.1

Source: International Monetary Fund World Economic Outlook Update, Sept. 2011

New Estate Tax Rules

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spouse—to transfer to your heirs. Doing nothing at all now may seem like a reasonable option. But the biggest problem, again, is that the new rules are guaranteed to hold sway only through the end of 2012. If Congress then reduces the exempt amount—and, in the meantime, your wealth has grown—you might have to scramble to get a new estate plan in place.

What can you do in the meantime? One effective strategy is to continue to take advantage of rules for yearly giving that can reduce the size of your estate. Under the annual gift tax exclusion, you can give anyone assets valued at up to \$13,000—\$26,000 if your spouse joins in the gift—and you

can make such transfers to as many people as you like each year. You can also avoid the issue of future estate tax rates by using your current \$5 million credit to transfer additional wealth while you're alive.

You can also pay attention now to estate issues that have nothing to do with taxes. It's important to decide how to divide assets among your children, for example, and how to protect your wealth from creditors. Making provisions for the care of a disabled child, perhaps by establishing a special needs trust, could also be crucial. Indeed, trusts of various kinds might help you support your family and

philanthropic organizations long into the future, regardless of what happens next to the political football of the estate tax laws.

For now, the latest big changes make this a good time to take stock of your estate plan, making any adjustments that may be needed in terms of how it is structured and in the

language of your will and other documents. And, until a long-term law is in place, it's a good idea to review your estate plan every year or two. We can work with you and your attorney to make sure you're taking advantage of today's opportunities. ●

