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Keeping Market Volatility in Perspective

When markets are volatile, sticking to a long-term investing strategy can be a challenge. Though past performance is no guarantee of future results, it might help you keep the ups and downs in perspective to see how recent market action compares to previous market cycles.

Bears versus bulls

Corrections of 10% or more and bear markets of at least 20% are a regular occurrence. Since 1929, there have been 18 previous 20%-plus bear markets (not including 2011 market action). Losses on the S&P 500 in those markets ranged from almost 21% in 1948-49 to 83% during 1930-1932; the average loss for all 18 bears was 37%.*

However, since 1929, the average bull market has tended to last almost twice as long as the average bear, and has produced average gains of about 79%.* Individual bull market gains have ranged from 21.4% at the end of 2001 to the nearly 302% increase registered during the 1990s.* The worst annual loss--47%--occurred in 1931, but the all-time best annual return--a capital appreciation gain of just under 47%--happened just two years later in 1933.**

Points of reference

Last year's volatility rattled even seasoned investors. For example, during a single week in August, 2 of the Dow's 11 best days in history alternated with 2 of its 11 worst daily point losses ever.***

While by no means normal, the highs and lows are hardly unprecedented. Even though the 634-point drop on August 8 felt historic, it didn't begin to match the real record-holders. The single biggest daily decline occurred in September 2008, when the Dow fell 778 points. The biggest percentage drop was October 1987's "Black Monday," when the Dow fell almost 23%; that makes the Dow's 5.5% loss on August 8, 2011, seem relatively tame by comparison. And August 8 was followed by the Dow's 10th best day ever, with a gain of 430 points. While that upward movement may seem exceptional, the Dow's best day ever came during the dark days of October 2008, when a

936-point move up on October 13 represented a gain of more than 11% in a single day.***

Stocks versus bonds

The last decade has been a challenging one for stocks. Between 2001 and 2010, the S&P 500 had an average annual total return of just 1.4%, while the equivalent figure for Treasury bonds was 6.6%.**** For much of that time, interest rates were falling, helping bonds to outperform stocks. However, interest rates are now at record lows, and rising rates could change the relative performance of stocks and bonds.

While there may be ongoing volatility in the markets that needs to be monitored, it's important to keep things in perspective. Your ability to meet your goals could be affected if you change your overall long-term game plan with every new headline.

Past performance is no guarantee of future results. Market indices listed are unmanaged and are not available for direct investment. All investing involves risk, including the risk of loss of principal, and there can be no guarantee that any investment strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The Standard & Poor's 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.

*DATA SOURCES: *Bull and bear market time frames, gains/losses: all calculations based on data from the Stock Trader's Almanac 2011 for the Standard & Poor's 500.*

***1931 and 1933 annual stock returns: based on Ibbotson SBBI data for capital appreciation of S&P 500.*

****Based on data from the Stock Trader's Almanac 2011.*

***** 10-year rolling stock returns: based on Ibbotson SBBI data for annual total returns between 2001 and 2010 of S&P 500 and an index of U.S. Treasury bonds with an approximate 20-year maturity.*

April 2012

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Inheriting an IRA--What You Need to Know

Retirement Plan and IRA Limits for 2012

Can reducing my credit card debt actually lower my credit score?



Inheriting an IRA--What You Need to Know



The rules governing inherited IRAs can be complicated. If you inherit an IRA from someone who isn't your spouse, your options are fairly limited. If you inherit an IRA from your spouse, you have many more options.

The rules governing inherited IRAs can be complicated. Here are the major issues to consider.

Transferring inherited IRA assets

If you inherit a traditional or Roth IRA from someone who isn't your spouse, your options are fairly limited. You can't roll the proceeds over to your own IRA, treat the IRA as your own, or make any additional contributions to the IRA. What you can do is transfer the assets to a different IRA provider, as long as the registration of the account continues to reflect that the IRA is an inherited IRA, and not your own.

If you inherit an IRA from your spouse, however, you have additional options. You can roll over all or part of the IRA proceeds to your own IRA (or to a qualified plan). If you roll the proceeds over to your own IRA (an existing one, or one you establish just for this purpose) the rules that apply to IRA owners, not beneficiaries, will apply from that point on. If you're the sole beneficiary, you can also generally treat the inherited IRA as your own by simply retitling the IRA in your name.

But you aren't required to assume ownership of an IRA you inherit from your spouse. You can, instead, continue to maintain the inherited IRA as a beneficiary. You might want to do this if, for example, you inherit a traditional IRA and you'll need to use the funds before you turn 59½ (distributions from inherited IRAs aren't subject to the 10% early distribution penalty but distributions from IRAs you own are subject to the penalty, unless an exception applies).

A spouse beneficiary can also convert all or part of an inherited traditional IRA to a Roth IRA (you'll generally have to pay income tax on the amount converted). This option is not available to nonspouse beneficiaries.

Required minimum distributions

Nonspouse beneficiary: Federal law requires that you begin taking distributions (called required minimum distributions, or RMDs) from an inherited IRA (traditional or Roth) after the IRA owner dies.

Spouse beneficiary: If you roll the inherited IRA over to your own IRA, or treat it as your own, then the RMD rules apply to you the same way they apply to any IRA owner--you'll generally need to begin taking RMDs from a traditional IRA after you turn 70½; no lifetime RMDs are required at all from a Roth IRA. If you don't roll the IRA assets over or treat the IRA as your own, then the same rules described above for nonspouse beneficiaries generally apply to you, except that you can defer receiving distributions

until your spouse would have turned 70½.

Note: *In both cases, if the IRA owner died after turning 70½ and didn't take a required distribution for the year of death, you'll need to make sure to take that distribution by December 31 of the year of death in order to avoid a 50% penalty.*

Taxation of inherited Roth IRAs

Qualified distributions to a beneficiary from an inherited Roth IRA are free from federal income taxes. To be qualified, the distribution must be made after a five-year holding period. The five-year period begins on January 1 of the year the deceased IRA owner first established any Roth IRA, and ends after five full calendar years. If you take a distribution from an inherited Roth IRA before this five-year period ends, any earnings you receive will be nonqualified, and will be subject to federal income taxes (earnings generally come out last).

For example, you inherit a Roth IRA from your father on January 1, 2013. Your father established this IRA in June 2012. Your father also established a separate Roth IRA, which you did not inherit, in December 2008. Distributions you receive from the Roth IRA will be qualified, and tax free, because the five-year holding period (January 1, 2008, to December 31, 2012) has been satisfied.

If you're a spouse beneficiary, and you roll the inherited Roth IRA over to your own Roth IRA or treat the inherited IRA as your own, then you'll be eligible to take tax-free distributions only after you reach age 59½, become disabled, or have qualifying first-time homebuyer expenses. You'll also need to satisfy the five-year holding period, but a special rule applies. The five-year period for all of your Roth IRAs--including the inherited IRA--will be deemed to have started on January 1 of the year either you or your spouse first established any Roth IRA.

Speak to a financial professional if ...

- You're sharing the inherited IRA with other beneficiaries. This can impact when and how you must begin receiving RMDs from the IRA.
- You don't want or need the IRA funds. You may be able to disclaim the IRA and have it pass to another beneficiary. This must be done in accordance with strict IRA rules.
- Any estate taxes were paid that are attributable to the inherited IRA. You may be entitled to an income tax deduction equal to the estate taxes paid.



Retirement Plan and IRA Limits for 2012



A number of retirement plan and IRA limits are indexed for inflation each year. Many of the limits have increased for 2012.

Many retirement plan and IRA limits are indexed for inflation each year. Some of the key numbers for 2012 are discussed below.

Elective deferrals

If you're lucky enough to be eligible to participate in a 401(k), 403(b), 457(b), or SAR-SEP plan, you can make elective deferrals of up to \$17,000 in 2012, up from \$16,500 in 2011. If you're age 50 or older, you also can make a catch-up contribution of up to \$5,500 to these plans in 2012 (unchanged from 2011). (Special catch-up limits apply to certain participants in 403(b) and 457(b) plans.)

If your 401(k) or 403(b) plan allows Roth contributions, your total elective contributions, pretax and Roth, can't exceed \$17,000 (\$22,500 with catch-up contributions). You can split your contribution any way you wish. For example, you can make \$10,000 of Roth contributions and \$7,000 of pretax 401(k) contributions. It's up to you.

If you participate in a SIMPLE IRA or SIMPLE 401(k) plan, you can contribute up to \$11,500 in 2012 (unchanged from 2011). If you're age 50 or older, the maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan in 2012 is \$2,500 (unchanged from 2011).

Contribution limits: 2012 tax year*		
Plan type	Annual dollar limit	Catch-up limit
401(k), 403(b), govt. 457(b) plans	\$17,000	\$5,500
SIMPLE plans	\$11,500	\$2,500
Traditional and Roth IRAs	\$5,000	\$1,000

*Contributions can't exceed 100% of your income. Special catch-up rules apply to 403(b) and governmental 457(b) plans.

IRA limits remain the same for 2012

The amount you can contribute to a traditional or Roth IRA remains at \$5,000 (or 100% of your earned income, if less) for 2012, and the maximum catch-up contribution for those age 50 or older remains at \$1,000. You can contribute to an IRA in addition to an employer-sponsored retirement plan. But if you (or your spouse) participate in an employer-sponsored plan, your ability to deduct

traditional IRA contributions may be limited, depending on your income. Roth contributions are also subject to income limits.

Some other key numbers for 2012

For 2012, the maximum amount of compensation your employer can take into account when calculating contributions and benefits in qualified plans (and certain other plans) is \$250,000 (up from \$245,000 in 2011).

The maximum annual benefit you can receive from a defined benefit pension plan is limited to \$200,000 in 2012 (up from \$195,000 in 2011).

And the maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit-sharing plan) in 2012 is \$50,000 (up from \$49,000 in 2011), plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Income phaseout range for determining deductibility of traditional IRA contributions in 2012	
1. Covered by an employer plan	
Single/head of household	\$58,000-\$68,000 (\$56,000-\$66,000 for 2011)
Married filing jointly	\$92,000-\$112,000 (\$90,000-\$110,000 for 2011)
Married filing separately	\$0-\$10,000
2. Not covered by an employer plan, but filing joint return with a spouse who is covered	\$173,000-\$183,000 (\$169,000-\$179,000 for 2011)
Income phaseout range for determining ability to fund Roth IRA in 2012	
Single/head of household	\$110,000-\$125,000 (\$107,000-\$122,000 for 2011)
Married filing jointly	\$173,000-\$183,000 (\$169,000-\$179,000 for 2011)
Married filing separately	\$0-\$10,000



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Can reducing my credit card debt actually lower my credit score?

Most lenders use an automated credit scoring system to help determine your creditworthiness. The higher your credit score, the more creditworthy you appear.

One of the factors built into credit scoring systems is your credit card balance-to-limit ratio (the amount of debt you owe compared to your total credit limit for all cards). Lenders like to see ratios indicating you're indebted for balances approximating no more than 30% of your total limit. Generally, if your balance-to-limit ratio is higher than that, then reducing your debt will improve your credit score. But how you reduce your debt can make a difference.

You may have heard that you should consolidate several credit card balances on one card with a low interest rate, then close the paid (usually higher-rate) accounts. Doing so, the claim goes, not only minimizes the risk that you'll "dig the hole" of indebtedness

even deeper, it also reduces your exposure to identity theft through the fraudulent use of inactive open lines of credit.

But if you do this, you could:

- Lower your total credit limit available without lowering your total debt, thus raising your balance-to-limit ratio--and potentially lowering your credit score in the process
- Make your credit history appear shorter by canceling accounts you have had open longest--and a shorter credit history also may lower your credit score

While it makes sense to transfer balances subject to high interest rates to accounts with lower rates (and then concentrate on paying down what you owe), consider waiting to close the paid accounts. Keeping them open may actually improve your credit score by lowering your balance-to-limit ratio (since you'll have the same amount of debt, but a higher total credit limit) while maintaining the longevity of your credit history.



How can I tell if I have too much debt?

It may sound like a bad joke to say that you have too much debt when you find you're unable to borrow more, but there is more truth than humor in the flippancy.

In determining your ability to repay debt, lenders will examine your debt-to-income ratio. Calculating this ratio can involve a couple of different variations. Your "debt service ratio" compares your total monthly debt payments (including your mortgage payment) to your gross monthly income. Your "debt safety ratio" compares your monthly consumer debt payments (not including your mortgage) to your take-home income.

You will generally qualify for a conventional mortgage if your debt-to-income ratio (including the potential mortgage payment) is 36% or less. Federally guaranteed mortgage programs may allow debt-to-income ratios of up to 41%. And unsecured lenders (like credit card companies) allow even higher debt-to-income ratios--and then charge you higher interest rates to compensate themselves for the potential risk you represent to them.

To be on the safe side, however, your debt service ratio should ideally be 25% or less and should be no greater than 35%, while your debt safety ratio shouldn't exceed 20% and should preferably be 15% or less.

While it can be difficult to live in today's society without incurring debt, it also can be difficult to live with too much debt. Here are some warning signs indicating that you may be too close to the edge:

- You can't maintain an emergency fund to cover 3 to 6 months of normal expenses
- You make only minimum monthly payments on your consumer debt
- You're at or near your credit card limits
- You use credit cards to pay for things you used to buy with cash (this may not be a concern if you're paying off your credit cards every month)
- You take cash advances against your credit cards to pay other bills

