



## 2008 E-UPDATE NEWSLETTER

### KCA 2009 Workshop Dates – Mark Your Calendar

#### 2009 Cross-Border Living Workshops

2/3/2009 - Palm Springs, CA

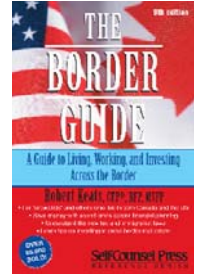
2/10/2009 - Phoenix, AZ

2/17/2009 - Naples, FL

2/19/2009 - Palm Beach, FL

To register, call KCA at 1-800-678-5007

Bob Keats' 9<sup>th</sup> Edition of his book  
— *The Border Guide* — is available  
through the Self Counsel Press web-  
site [www.selfcounselpress.com](http://www.selfcounselpress.com).



### Let Me Off of This Roller Coaster

—by Bob Keats, KCA President

These past several weeks have been one of the wildest roller coaster rides I have been on in the marketplace in my 30+ years in the financial business. Fortunately, the daily down cycles have not been as severe as past cycles, such as those in 1987 (up to 20% in one day), 2000 (when the tech bubble burst and those heavily invested in this area lost 30-70% of their portfolios overnight), or in 2001 (when we couldn't trade at all for the week after 9/11). The talking heads on television and newspaper headlines keep screaming that the sky is falling, and the media seems bent on giving their candidate an advantage in the upcoming presidential election by over-hyping the headlines.

During these uncertain times, we need to decide whether we are going to panic and sell off, remain patient by following our long-term plan and wait for the ensuing recovery, or finally get aggressive and start buying up the bargains created by the current market. I've communicated with many of our clients over the past month or two, and the question inevitably comes up: "What are we doing with our client portfolios because of the current market conditions?"

Over the numerous up-and-down cycles we've been through with our clients and our own investments, we have found that remaining patient and sticking to your well thought-out investment plan remains the best realistic option. Your plan has been designed to be in line with your long-term financial objectives and includes a little bit of the latter objective of buying up some of the bargains through rebalancing portfolios when markets have declined. This strategy of keeping on track and rebalancing to pick up bargains is the most effective and least costly strategy we believe possible.

When we develop our clients' initial investment plans in line with their long-term objectives and choose an appropriate level of risk, we are actually preparing them for times like this.

(Continued on Page 2)

### Newsworthy Numbers

**2** Percentage of households expected to report a federal AGI over \$250,000 on 2008 income (*Journal of Financial Planning/August 2008, Vol. 21, No 8*)

**5-12** Best age range to educate and involve children in philanthropy (*Foundation Source Inc.*)

**7** Annual percentage inflation rates have averaged in the rest of the world for the past decade, versus the U.S. rate of 2.6 percent (*Employee Benefit Research Institute*)

**24.1** Percentage of all 2008 U.S. income expected to be earned in 2008 by households reporting AGI over \$250,000 (*Journal of Financial Planning/August 2008, Vol. 21, No 8*)

**43.6** Percentage of all personal federal income taxes expected to be paid for 2008 by households reporting AGI over \$250,000 (*Journal of Financial Planning/August 2008, Vol. 21, No 8*)

**71** Annual share of assets of millionaire clients managed by independent advisors in 2008. (*Wall Street Journal Online/Harris Interactive*)

**173** Number of socially and environmentally screened mutual funds in 358 different share classes (*Social Investment Forum*)

Just like our clients in Florida and Texas who have to prepare for potential hurricanes well in advance by building a strong house on a solid foundation, having appropriate insurance in place and stockpiling emergency supplies, we have done much the same thing regarding your investments.

In general, the portfolios we build and fully implement are diversified globally and include literally hundreds or thousands of companies and high-quality bonds. In fact, the type of bonds we typically use for client portfolios are the same ones which the panicking investors are selling out of junk and getting into, temporarily driving these bonds up in value, and that is definitely a positive for our client portfolios that contain these kind of bonds in their strategy. This is called the “flight to quality” when times are rough, and our clients are already ahead of the herd, at least for the fixed income portion of their portfolios.

Regarding equities, worldwide diversification through many different countries, industries and markets gives the portfolio a solid foundation that is very difficult to knock off its tracks even though there will be many more fluctuations up and down here than in the fixed income or bond portion of your portfolio. Our usual portfolio strategies that most clients choose to follow also enjoys additional insurance via direct investments in gold and/or other inflation hedges such as energy stocks and commodity products like metals or foodstuffs. To extend the analogy further, the emergency supplies are represented by the cash portion of your portfolio, as well as the fact that if necessary—the majority, if not all—of your portfolio can be sold and turned into cash normally within one to three business days.

Just as in preparation for a hurricane, a portfolio that has had a good foundation, insurance and planning will weather the storm. This is the main reason why there's not a lot that needs to be done to your portfolio during these times other than to monitor the storm and rebalance to both maximize income tax benefits and pick up some of the bargain-priced investments that we can hope to ride up on the next recovery cycle.

One of the most important lessons I have learned in the investment industry was in October 1987, when the Dow Jones Industrial Average crashed more than 20% in one day (recent daily fluctuations have been less than around 7%). During this period, I was in the Outback of Australia as a tourist and not watching the news. Upon returning to the U.S., when I saw the

magnitude of the market correction and all the anxiety everyone went through while I was away, I thought how fortunate I was not to have been watching the news. I wish I could do the same now in all of these times of uncertainty...*just go away and come back when it's all over and everything's back to normal.* It is so much less stressful and worrisome than actually going through it on a day-by-day basis, as the outcome is exactly the same whether I worried about it or not.

I encourage everyone to put themselves mentally (or physically for that matter) in the Australian Outback or your favorite tourist destination, so as to stop all these well-educated talking heads and pundits getting us worried about current conditions. More than likely in a few months, they will be on another *topic du jour* and the market will be well on its way to recovery.

Over the next couple of months we will be doing a quarterly portfolio rebalancing and implementing year-end investment adjustments to get at least some tax benefits out of this bad year. The next quarterly letter will be out the third week of October. In any event, I encourage any clients who want to review their portfolios directly with me and/or our investment staff to please call to set up a time through your assigned staff planner.□

---

**Taking Losses Gracefully**

—by Peter Eickelberg, KCA Senior Investment Advisor

This has not been a happy year for the average stock investor. In general, stock funds are down, often significantly. Many investors now have large unrealized losses on some funds in their portfolios.

While no one likes losses, we can take advantage of market downturns to rebalance the portfolio with minimal tax consequences and can “harvest” the losses for use against capital gains elsewhere in the portfolio or even in the future. This provides additional deferral of gains since the losses offset otherwise taxable gains and push the tax bill well out into the future, keeping tax money in your pocket for now.

Mutual funds also pay out capital gains to investors at the end of the year—sometimes even when they have posted negative returns for the year. While we cannot control mutual fund distributions, we do monitor them and avoid making purchases right before large taxable distributions. We might even sell a fund that is going to receive a large distribution in order to purchase it back afterward.□

## Capital Gains Tax Update

—by Peter Eickelberg, Senior Investment Advisor

Presidential candidates John McCain and Barack Obama have each outlined their expected tax policies in some form or another, and right now it looks like an Obama victory in November would mean a shift from the current 15% long-term capital gains rate to a 20% rate, which was the rate in place before recent tax law revisions reduced it to its present level. Under Obama, the change might not become effective until mid-year 2009, since Congress would have to approve changes to the tax code. Analysts have indicated that such a change probably would not be retroactive to the beginning of 2009; although there is nothing preventing that possibility.

Under a McCain presidency, the long-term capital gains rate might still revert to 20% after 2010 because of a "sunset provision" required by the then-current legislators who voted to approve President Bush's tax cuts in 2001. Although McCain might wish to extend the 15% rate, he would need the support of a Congress that is largely Democrat.

We will continue to monitor the situation and will have a more concrete response in place by the time we know who has won the November election; however, realizing capital gains early must be considered cautiously, as resetting the cost basis means short-term capital gains if the market recovers after the reset. We generally do not sell anything that has a short-term gain in place because of the higher tax rate (regular income tax rates, currently), so having all short-term positions might tie our hands when we want to rebalance. In addition, the value of paying 5% less tax now must be weighed against the value of deferring taxes for a longer time period.□

*Peter is Senior Investment Advisor at Keats, Connelly and Associates, Inc. He directs investment research for the firm and chairs the investment committee, which selects the strategies and investments for clients' cross-border and domestic portfolios. Peter has over nine years of licensed experience dealing with securities and holds the Chartered Financial Analyst® designation. His certifications also include Accredited Asset Management Specialist. Peter is President of the Phoenix CFA Society.*

## KCA Fun Factoids

1. Whose Grandfather had an original U.S. patent on a rotary engine?
2. Whose Great-Great-Grandfather was a California '49er' during the Gold Rush in 1849?

*See answers on side of panel.*

1. Kathy Bayer  
2. Elisabeth Finkbeiner

## Letter to the Tax Clients

— by Dale Walters, CEO—KCA and CBTA

The year 2008 has been an extraordinary and challenging one for Keats, Connelly and our wholly-owned subsidiary, Cross Border Tax & Accounting, LLC (CBTA). Demand for CBTA's services increased over 260% compared to the same period last year. In the months leading up to the 2008 tax season, we hired a tax manager (attorney and CPA), a tax preparer, and an administrative person, effectively increasing the size of the tax department by 50%. Though we hired what we thought would be enough new personnel to handle the increased demand and improve the quality, it was not.

In addition to the surprisingly large increase in demand for CBTA's services, the IRS is requiring more from us as preparers. They now expect us to do their job of making sure taxpayers comply with all of the laws, and as such, are requiring that we examine all supporting documentation for accuracy. This places an additional burden on you—our client—and on us. If not strictly adhered to, penalties could be imposed.

The IRS is also requiring additional forms be filed in their effort to improve tax compliance and reduce fraud. To complicate matters, many of the forms have different due dates and need to be sent to an IRS office other than where your tax return is filed.

Many accounting firms across the country have a shortage of qualified professionals. Although we are fortunate to have a cross-border niche, we also have the extra challenge of hiring qualified professionals that require additional cross-border training.

Our short-term plan for improvement is to add two tax preparers (one has been hired as of this writing), increase the number of reviewers from one to three, add a layer of review and limit growth by estimating our capacity.

Long-term, we will be reviewing opportunities to purchase accounting firms that will add expertise and the ability to accommodate our soaring growth.□

## KCA Border Guide Forum Coming Soon...

*KCA will soon have a forum for posting messages or asking questions pertaining to The Border Guide . Our staff planners will provide input, as well as responses to your questions on The Border Guide.*

*By logging in and registering at [www.keatsconnelly.com](http://www.keatsconnelly.com), you will be able to share your thoughts and questions with others regarding The Border Guide information. Please watch for the upcoming launch of this new forum.□*

---

## **2009 Cross Border Living Workshops**

Robert Keats and the Keats, Connelly and Associates, Inc. staff are once again holding the Cross-Border Living Workshops.

These workshops will provide you with strategies and information that will include how to:

- Get the best of the Canadian and U.S. tax systems
- Take advantage of currency exchange rates
- Receive your Canadian RRSPs tax-free or nearly tax-free in the U.S.
- Find investments exempt from U.S. income taxes and withholding
- Maximize Medicare benefits, and more

A general question and answer session will also be held to address your specific concerns.

Registration is \$125 per person (\$175 for married couples). Workshop includes a fine continental breakfast, lunch and all workshop materials. You will also receive a complimentary copy of Mr. Keats' 9th edition book, *The Border Guide*.

Please contact Jim Monroe at 1(800) 678-5007. Advanced registration is required and space is limited, so make your plans early! Visa, American Express and MasterCard are accepted.▫

### **Workshop dates and locations:**

**2/3/2009 -Palm Springs, CA**

**2/10/2009 - Phoenix, AZ**

**2/17/2009 - Naples, FL**

**2/19/2009 - Palm Beach, FL**

---

## **KCA in the News**

KCA was named a **Top Dog** for the 8th year in a row in the July/August 2008 issue of **Wealth Manager** magazine.

### *Employee Recognitions:*

- **Bob Keats, President—KCA and Dale Walters, CEO—KCA**, named *America's Top Financial Planners* by **Consumers' Research Council of America**.
- **Dale Walters, CEO-KCA**, recently quoted in the September 22, 2008 issue of *Investment News*.

---

## **KCA Office News**

*Congratulations to our KCA employees in the Florida and Phoenix offices:*

**Virginia Dhondt** — Earned her Canadian CFP, and was appointed Treasurer of the Phoenix Chapter of the FPA

**Sally Taylor** — Earned her Master of Science Financial Planning (MSFP)

**Holly Jordan** — Earned her Document Librarian Certification

*Congratulations on the latest KCA staff promotion in the Phoenix office:*

**Peter Eickelberg** — was appointed Senior Investment Advisor.

---

## **KCA Client Feedback Survey**

— by *Kathy Bayer, Marketing Administrator*

The latest results are in from 26% of the KCA Family Office (FO) and Financial Planning (FP) clients surveyed and the recent feedback regarding levels of satisfaction or dissatisfaction are as follows:

Half of the client responses are very satisfied with their business relationship with KCA, and just under half rated their satisfaction as somewhat satisfied.

KCA received Excellent ratings in the areas of:

- Doing what we said that we would do for you
- Assisting you in making progress toward your goals
- Communicating with you as frequently as you desire
- Cross-Border expertise and Staff knowledge
- Planning Services
- And, your relationship with your KCA team

Areas that we will continue to work on to improve are: tax and investment services and our ongoing financial planning advice provided to our KCA FO and FP clients.

We appreciate your participation and trust in our services. For more information, please feel free to call me at **1-800-678-5007, ext 130**, or write me at [kathyb@keatsconnelly.com](mailto:kathyb@keatsconnelly.com).▫