



SPRING 2009 E-UPDATE NEWSLETTER



KCA Florida Office—March Open House a Success

Kathleen (Kate) Macaluso, Administrative Assistant (pictured left) at our new Boynton Beach, Florida office, welcomed KCA guests to the March open house. Several guests, Florida staff and a few Phoenix staff members attended this successful event with company founder and President—Bob Keats as host. □

Bob Keats' 10th Edition of — The Border Guide

— will be on the bookstands by late Summer 2009 and available through our website www.theborderguide.com.



Newsorthy Notes—*a message from Dale Walters, CEO*

Following the Madoff scam, the Securities and Exchange Commission (SEC) has created a new form letter to send to clients when auditing registered securities firms and investment advisors. A *Routine Account Information Confirmation* will be sent independently to verify account balances held with that firm or investment advisor.

Do not be alarmed if you receive this type of letter, as this is now a routine step in the examination process. In fact, the SEC advises that, “If you have any questions or concerns about a Routine Account Information Confirmation, do not hesitate to raise them with the examiners identified in the cover letter. In addition, if you wish to confirm that the request has been sent to you by SEC examiners, please call the main telephone number of the office that sent you the request at <http://www.sec.gov/contact/addresses.htm>” or, “...call the “Examination Hotline at (202) 551-EXAM (3926).

IRS Reaches out to Non-Resident U.S. Taxpayers—*by David Levine, International Tax Manager*

One of our U.S. citizen clients living in Toronto, recently received a letter from the IRS asking that they meet with an IRS auditor on a certain date at the address of '1 Front Street West' in downtown Toronto, Canada. The letter also asked for supporting documentation for our client's U.S. 1040 return; such as proof of foreign employment and investment income, as well as proof of foreign taxes paid. (Continued on Page 2)

U.S. Naturalization Update—*by Brad Flecke, Senior Planner*

While Washington debates the merits of immigration reform, the agency that manages U.S. immigration is quietly reforming the naturalization (citizenship) program. The core of the process is still: file by mail, visit a special facility for fingerprinting, interview and take an exam at the local U.S. immigration office, and later get sworn-in as a U.S. citizen. The most important changes can be found in the interview and examination. (Continued on Page 2)

Investment Returns—*by Peter Eickelberg, Investment Officer*

After an awful first quarter, it has been good to see some bounce-back in the equity markets. And this happened despite the bad economic news being fed to us daily in the news programs and via word of mouth. While we can't say that it's all upward from here, we do wish to reiterate that no one can tell exactly when strong turnarounds will take place. There are so many people watching for a second dip before they get in that some of them stayed out of the markets in March and April. Following are the past three monthly returns for several funds we use in client accounts. As you can see, staying out entails quite a bit of risk in terms of missed opportunity. (Continued on Page 2)

IRS Reaches out to Non-Resident U.S. Taxpayers (Continued from Page 1)

The interesting aspects about this request from the IRS auditor are:

1. the request for a face-to-face meeting with a client that lives outside the United States;
2. the use of a Canada Revenue Agency office to conduct the meeting; and
3. the notification in the letter stating that this is a "Research Examination."

Since this particular client has a fairly straightforward tax situation with, in fact, really nothing to examine, I contacted the auditor about the request. The auditor told me that the client was selected totally at random and that he was coming to Toronto for a week to conduct these types of research examinations with other U.S. filers.

There has been much media attention regarding the fact that the IRS intends to focus on *international tax enforcement and compliance*. This certainly seems to be the case regarding our client and it surely appears the IRS is intending to concentrate on enforcement.

Not only will the auditor be reviewing the information requested, he will also be reporting to the audit division of the IRS in order to set up systems for the IRS to investigate and enforce international taxpayers to comply with the Internal Revenue Code. The Canada-U.S. Tax Treaty includes a mutual cooperation clause so that both countries can utilize the services of the other's tax regulators to ensure compliance by taxpayers.□

U.S. Naturalization Update (Continued from Page 1)

Under the old rules, the examiner talks with the applicant in the course of reviewing the application paperwork. If the applicant has trouble keeping up with the conversation, or even if the applicant does not have difficulty, the examiner may dictate a sentence in English which the applicant is then required to write in English to verify English language proficiency. A basic test of U.S. history ("who was President during the Civil War?") and trivia ("what are the colors of the U.S. flag?") is then administered. Actually, there is some variation among the local U.S. Citizenship and Immigration Services (CIS, formerly INS) offices in the implementation of the interview and exam, but this approach seems to be common.

Persons who applied before October 1, 2008 and who will be interviewed on or before October 1, 2009 can choose the old test. A list of ninety-six questions and answers is available on the website.

New rules, mandatory for all who file after October 1, 2009, standardize the English language exam and merge it with a revamped citizenship exam. To the old mix of questions about U.S. history and trivia, the new exam adds questions about democratic concepts and values associated

with good citizenship ("There are four amendments to the Constitution about who can vote. Describe one of them."). This exam is decidedly harder. A list of one hundred questions and answers appears on the CIS website. Note that a waiver of the English language requirement is available for longtime U.S. residents over 50 or 55 (and for those of any age with handicaps and learning disabilities).

Naturalization applications are processed through local CIS offices. Processing times vary. In Arizona offices, the process is about eight months; most California offices, ten months; and in Florida, ten to twelve months.

Note: An applicant will receive CIS notices to appear on three occasions (for fingerprints, an exam, and the swearing -in). Failure to appear as scheduled may cause lengthy delays (sometime a year or more) in the naturalization process. So, applicants who will be away from home during this process should make arrangements to receive CIS notices in a timely fashion, as the post office will not forward these notices.□

Investment Returns (Continued from Page 1)

DFA U.S. Core Equity 2 (DFQTX) - a U.S.-based core equity fund
Apr-09 13.96%
Mar-09 9.84%
Feb-09 -11.63%

DFA International Core Equity (DFIEX) - an international core equity fund
Apr-09 15.06%
Mar-09 8.43%
Feb-09 -10.51%

DFA Emerging Markets Core Equity (DFCEX) - an emerging markets core equity fund
Apr-09 18.26%
Mar-09 15.78%
Feb-09 -6.75%

DFA International Real Estate (DFITX) - a core holding of foreign real estate companies
Apr-09 10.12%
Mar-09 6.89%
Feb-09 -13.35%

Vanguard REIT ETF (VNQ) - represents U.S. real estate investment trusts
Apr-09 31.24%
Mar-09 3.78%
Feb-09 -20.73%

Vanguard Precious Metals and Mining (>>>>>)
Apr-09 11.14%
Mar-09 17.32%
Feb-09 -4.38%

(Continued on Page 3)

Investment Returns (Continued from Page 2)

Vanguard Limited-Term Tax-Exempt (VMLTX) - a short-term municipal debt fund

Apr-09 0.70%
Mar-09 0.16%
Feb-09 -0.50%

Vanguard Intermediate-Term Tax-Exempt (VWITX) - a medium-term municipal debt fund

Apr-09 1.79%
Mar-09 -0.20%
Feb-09 -0.46%

Vanguard Long-Term Tax-Exempt (VWLTX) - a long-term municipal debt fund

Apr-09 2.41%
Mar-09 -0.28%
Feb-09 0.35%

(Source: Vanguard funds www.vanguard.com and Dimensional Fund Advisors at www.dfaus.com.)[□]

Risk Tolerance and Portfolio Allocation—by John Rice, Staff Planner

Many of you have heard of risk tolerance and discussions that you should base your portfolio allocation on your comfort level with risk. In other words, you should have a low allocation to risky assets, like stocks, if you have a low risk tolerance. And you should have a high allocation to stocks if you have a high risk tolerance.

This approach misses a fundamental point of financial planning in that portfolio construction decisions should have a direct link to investor goals. If a portfolio is constructed just on the basis of comfort with risk, it misses the fundamental purpose of the assets, which is to provide resources to achieve your goals!

To illustrate, let me give you two examples. The first couple has a high risk tolerance. They can stomach a lot of risk and a high allocation to risky assets like stocks would appear appropriate for this investor. However, they easily have enough assets to meet their desired standard of living in retirement and no goal of leaving an inheritance. If they can meet their goals without taking additional risk, they should consider a portfolio with a low allocation to risky assets. If they decide to increase exposure to risky assets, they can do so based on personal preference, as long as it does not significantly decrease their probability of achieving their goals through greater losses that are usually associated with higher allocations to risky assets.

The second couple has a very low risk tolerance, but wants to leave an inheritance in addition to their retirement spending. In this case, they may want to consider a higher allocation to risky assets than they are normally comfortable with, as long as this additional risk is very unlikely to prevent them from achieving their primary goal of a comfortable lifestyle in retirement.

Risk Tolerance and Portfolio Allocation (Continued)

In both examples above, it is appropriate to consider both risk tolerance and goals in the Investment Policy Statement (IPS). At KCA, we work with you to construct a customized portfolio solution tailored to your risk level and your goals.

So when you hear on your favorite financial news program that someone recommends a 55% allocation to stocks for working folks and a 45% allocation to stocks for retired people, please ignore this. Or better yet, understand that the financial news is not providing you customized advice and realize that they are missing the point of your money entirely by not telling you that your specific portfolio should be constructed with the dual purpose of meeting your specific goals *and* tolerance for risk.[□]

Green Tip\$—by Virginia Dhondt, Staff Planner



You may have heard that it is expensive to be green. In reality, you may *save some green* by being green. If you are making home improvements, building an energy efficient home, considering a car purchase, or building or improving a commercial property, you may experience both energy savings and tax savings.

The Stimulus Bill increased energy efficiency non-refundable tax credits and extended credits through 2010 or longer. A tax credit is better than a deduction, as it reduces your taxes dollar-for-dollar. On the other hand, the credits are typically capped at 30% of your cost, so you must have some desire to make the changes involved. While some of these energy efficient improvements are costly, a breakeven analysis should be done. Due to the cost, many of these improvements are more practical for property that you will retain long-term.



In addition to the federal credits, many States have tax credits and many providers of efficient products offer rebates. Watch for new programs being introduced or already in place in your area. For example, in Arizona, a utility provider is implementing a trial program in one neighborhood. The company will install free solar panel systems to determine if it would be wise for the company to provide them to all their customers. Make sure that you have the required documentation and that your purchase qualifies for your local programs if they are offered. Please contact your team at KCA if you have any questions.[□]

KCA Fun Factoids

1. Who met their spouse on Match.com and married two weeks later?
2. Who played a nun in their High School musical *Sound of Music*?

See answers on side of panel.

1. Roxana Bye
2. Barbara Madden

KCA in the News

KCA was just named winner of the **2009 Greater Phoenix Chamber of Commerce Impact Award** for company culture. KCA is also a finalist for the **2009 Alfred P. Sloan Awards for Business Excellence in Workplace Flexibility in Arizona**, following a win in 2008.

KCA was also named winner of a **2009 Top Financial Advisor** award by *CPA Wealth Provider Magazine*, as well as having ranked #13 in **Total Assets Under Management** by the *Phoenix Business Journal's 2008 Book of Lists*, under the **Independent Investment Advisor** category.

Employee Recognitions:

- **Bob Keats, President** — KCA, has been appointed to **National Advisors Trust Company (NATC)*** Board of Directors. Bob was interviewed for or has written articles for the following publications:

Arcadia News—Profile on Bob Keats, his home life and The Border Guide to run in the July 2009 issue

- **Dale Walters, CEO** — KCA, recognized as a **2008 Top Advisor** by **Reuters AdvicePoint**, has been interviewed for or featured in:

Phoenix Business Journal—focus on accounting industry article that ran in the April 2009 issue

NAPFA Advisor—Bob Keats and Dale Walters were contributors for an article for the March 2009 issue on **Financial Planning for the Internationally Mobile Client**.

Arizona Business Magazine—included Bob Keats' and Dale Walters' article on planning for the internationally mobile and how to approach it for the "**Banking and Finance**" section in the June 2009 issue

- **Claudia Freeman**—has been appointed to **Board of Standards & Policy Development for the International Foundation for Retirement Education (IFRE)**. For more information, please visit www.infre.org

*National Advisors Trust Company (NATC) provides trust and custodial services for financial advisors. Keats, Connelly and Associates, LLC is a proud representative of NATC and is a founding shareholder of the firm.

For more information on NATC, please visit www.nationaladvisorstrust.com.[□]

KCA Office News

Welcome to our New and Returning KCA employees:

Kathleen 'Kate' Macaluso — Administrative Assistant, Florida

Linda Field — Tax Manager, Phoenix

John Rice — Staff Planner, Florida

Congratulations on the latest KCA staff achievements:

Sally Taylor—Passed her U.S. CFP[®] exam

Rachel Stever—Investment Associate recently passed the Series 65

Drew Phillips—Investment Assistant recently passed the Series 65

Bryant Andrus—on his promotion to a staff planner

Editorial — by *Kathy Bayer, Marketing*

KCA would like to welcome John Rice back as a member of our financial planning staff. John has returned to KCA from the Phoenix, Arizona area to our new Boynton Beach, Florida office. We wish John renewed success at KCA.

We hope that you enjoy the many informative articles submitted by our staff, as well as our special feature "Green Tip\$" contributed by Virginia Dhondt, Phoenix Staff Planner.

If you are a client that would like to participate in our "Spotlight" section, please feel free to call me at 1-800-678-5007, ext. 130, or write me at kathyb@keatsconnelly.com.[□]

Greater Phoenix Chamber of Commerce

22nd Annual Impact Awards

IMPACT Awards
Drive. Passion. Commitment.

Congratulations Keats, Connelly and Associates



Winner of the 2009 IMPACT Award for company culture, presented by the Greater Phoenix Chamber of Commerce honoring KCA's success through an optimal work experience and flexibility for employees.