Trusted Advisor

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It's Tax Time

Retirement Plan Tax Deduction Opportunities for 2004 Tax Year

With tax season upon us, it might be useful to review current rules with regard to certain tax advantaged personal retirement accounts. Note: This is a simplified summary; please call for greater details. Here are the ones that give you an immediate tax deduction to offset 2004 income:

Traditional IRA

- If you and spouse are not covered by employer plan: **Fully Deductible**
- If your spouse is covered by employer plan: **Deductible for earned incomes below $150K**
- If IRA contributor covered at work: **Deductible only when earned income below $40,000**
- Maximum contribution: **$3,000, $3,500 if you are over age 50**

Reminder: IRA's are personal accounts identified by Social Security # -- there are no "joint ownership" IRA's permitted

Simplified Employee Pension

Perfect for self-employeds, remember that you must also cover employees, if any, who've been with you for two years.

- 25% of net income, after contribution itself is counted (effectively 20%)
- Max contribution $41,000 (20% of $205,000 Schedule C net income)
- If you extend tax filing date, can delay forming and funding a SEP

Solo 401K

It is too late to establish this appealing retirement option for 2004. We'll provide more information soon so that self-employeds can prepare for and take advantage of this relatively new retirement savings option that offers up-front deductions and long-term deferral of earnings.

Tax Thoughts

Each year in the month of April we are exhausted from the collation of data to file on form 1040 by April 15. I am reminded of what Will Rogers said from a vaudeville stage 60 years ago, "No matter how carefully I fill out my tax return, I am never sure when it is completed if I was a crook or a martyr."

Reminder: When it comes to summarizing your investment gains and losses for tax reporting purposes, we at Trusted Financial Advisors make it easy by offering a summary report of capital gains and losses.

Market Overview:

Trading Range Proves Value of Active Account Management

"At best the market should stall in the 10,000 to 11,000 range [Dow Jones Industrial Average] for months before eventually advancing. At worst, 10,000 to 11,000 is the top for this market cycle." (Trusted Advisor Newsletter, November 2003.) With 17 months passed since this prediction, the Dow remains stalled in this trading range. The economic recovery is beginning to appear a bit long in the tooth,

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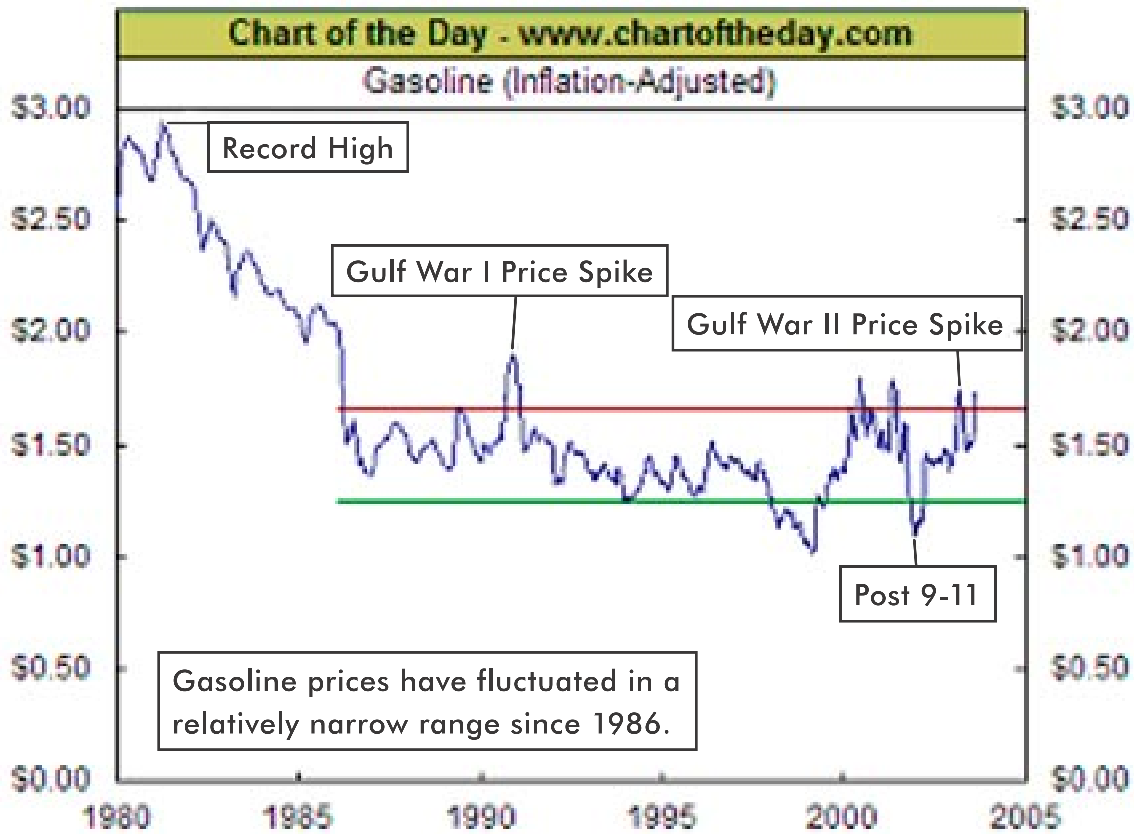
so my judgment is that we are forming a top in the U.S. equities market. Please take this latest prediction with a large grain of salt. My talent lies not with market predictions, but in identifying superior individual investments or mutual fund management teams, and for this, our clients have been relatively successful during a market with little momentum. Since the November 2003 prediction, the Dow Jones Industrial Average has produced a gain of about 9.20% [1] . Trusted Financial Advisors' discretionary accounts for the same period show total return of 13.66%[2] (after all expenses). Seventeen months ago, with stocks rising out of a debilitating bear market toward the magic Dow 10,000 level, the pro-indexing faction was heard from. Many of them, working for financial publications, advocated that investors buy <u>index funds</u> and sit tight. Their principal argument in favor of this approach is the low fee structure of index funds. But as we've been able to demonstrate, in an essentially trendless market, intelligent <u>stock selection</u> is a skill worth paying for. Why have our clients' portfolios prevailed over the index strategy in the recent period? Two sectors, Real Estate and Energy, are responsible. We've also taken advantage of the weak U.S. dollar and under valued foreign markets to own investments abroad. To be sure, our clients will not always out-perform major U.S. stock indexes like "the Dow." In fact, owning good businesses and keeping volatility low is a higher priority for us than beating any particular index at any particular time. When markets are weak or drifting, however, our approach should be a winner.

Where is the Price of Energy Going?

When we began to enter the sector more than two years ago, the price of bottled water was greater than that of a gallon of gasoline. Today, we are nearing record highs, even adjusting for inflation. For people over age 40, having lived in fear of finding gas stations sold out during both the 1974 Arab Oil Embargo and in 1980 (Iranian revolution), this feels like a television re-run. *The Prize*, an excellent history of oil industry written by Daniel Yergin[3] , offers a cogent historical perspective: Energy crises have come an gone throughout American history. The very development of "Rock oil" was the result of an energy shortage some 150 years ago; lighting and lubrication depended on a steady supply of oil from the Sperm Whale. With whale populations dwindling in the face of a growing human population, prices had soared to $2.50/gallon in the early 1850s (something equivalent to $30.00/gallon today). This made it profitable for Pennsylvanians to skim the black, smelly oil that floated on ponds and ship it to major cities. The byproduct, kerosene, made great lamp oil. Since this time, petroleum products have been subject to alternating surpluses and shortages. With each shortage, new, more costly and remote sources have been tapped, as justified by a rising price. This time around, prices are rising because low prices after twenty years of curtailed exploration and due to the emergence of thirsty Asian industrial giants like China and India.

While this story is well known to the investing public, prices have been bid higher, so the risks of new commitments to energy related companies are higher. Still, Goldman Sachs, biggest trader of energy derivatives, issued a report March 31 suggesting that it will take $4.00/gallon gasoline prices before Americans, the world's most wasteful drivers, will shift in large numbers from gas guzzling SUV's to more fuel efficient vehicles. This, in turn, implies a price up to $105 per barrel of oil. History suggests the Goldman prediction could become reality: As an "inelastic" commodity, one for which demand is not too price sensitive, energy prices must reach extreme levels before significant consumption curtailment takes place. Thus, it appears that our investments in energy producing companies, notably Exxon-Mobil, should continue to reap rewards for some years into the future. There is a dark side to high energy prices, even for we who own energy companies: high prices may lead to economic recession. On April 7 Walmart disappointed the Street and blamed its revenue shortfall on higher energy prices, which are soaking up discretionary income from consumers. Even for energy company stocks, the future path will not necessarily be that of an easy road to wealth: As with past energy crises, political fallout from soaring gasoline pump prices could cause energy stocks to hit serious air pockets. Expect politicians to use high energy prices as a means of gaining media exposure. Investigations of "rapacious" oil companies and hearings aimed at humiliating energy executives will fill the nightly news. No doubt some elected officials will propose price controls. I am wary of positioning in energy-related stocks at this stage of the game but believe select opportunities will present themselves from time to time. Right now, I'm grateful that many clients own three of the finest energy companies: Exxon Mobil, Kinder Morgan and Valero, L.P.



This chart is dated, but the best we could find. With 2005 gasoline prices near $2.50, we are approaching the 1980 high in real dollar terms.

UPCOMING SCHEDULE OF CLASSES:

Class Title	Location	Dates	To register call or visit...
Financial Independence for Women	Irvine Valley College	Wednesday evenings, April 20 - May 4	www.123getsmart.com 949-451-5555

(Footnotes)

[1] Source Yahoo Finance, reported prices for Diamonds, and exchange traded fund based on the Dow Jones Industrial Average, plus author's estimate of annual dividend yield of 1.50%, prorated over 17 months.

[2] Net equal weighted return. Performance analysis is generated by Portfolio Center™, a product of Schwab Performance Technologies.

[3] ©1991 Touchstone Books