

For the Week of July 19, 2010

THE MARKETS

A decline in the number of new unemployment applications for the third week in the past month could not offset a lower-than-expected consumer sentiment reading and a decline in the consumer price index. The Labor Department reported Thursday that new unemployment claims for the week ending July 10 dropped to their lowest level since August 2008. The Thomson Reuters/University of Michigan consumer survey fell far more than expected to 66.5, from a revised June reading of 76.0. The Consumer Price Index fell 0.1 percent in June, a weaker reading than economists' prediction of no change, according to Reuters. For the week, the Dow lost 0.95 percent to close at 10,097.90. The S&P fell 1.20 percent to finish at 1,064.88, and the NASDAQ declined 0.79 percent to end the week at 2,179.05.

Returns Through 7/16/10	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials	-0.95	-1.75	19.13	-7.60	1.61
NASDAQ Composite	-0.79	-3.97	15.60	-6.87	0.21
S&P 500	-1.20	-3.49	15.51	-9.74	-0.74
BarCap US Agg Bond (TR)	0.62	5.88	9.46	7.70	5.79
MSCI EAFE	1.22	-7.79	11.38	-12.56	1.90

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The S&P, excluding "1 Week" returns, is a reflection of return to an investor, by reinvesting dividends after the deduction of withholding tax.

Cut In Half – The average interest rate nationwide on a 30-year fixed rate mortgage was 4.57 percent on July 8, 2010, half of the nationwide average of 9.15 percent from January 1995 or 15½ years ago. (Source: Freddie Mac, BTN Research).

Not A Baby Anymore – “Baby Boomers” are traditionally defined as the 78 million Americans born between 1946 and 1964. The oldest “boomers” will turn 65 years old in 2011 (Source: BTN Research).

Not Enough Tenants – The national vacancy rate for apartments was 7.8 percent as of June 30, 2010, down from 8 percent as of March 31, 2010. The first quarter vacancy rate was the highest level achieved in the past 30 years (Source: Reis Inc., BTN Research).

WEEKLY FOCUS – Reason to Rally a Retroactive Estate Tax?

With the potential loss of an estimated \$500 million in taxes on the estate of George Steinbrenner, the New York Yankees baseball owner who died on July 13, the Senate may be wishing it had worked a little harder to pass a bill last year that would have extended the 2009 rates rather than letting the tax expire in 2010.

In fact, two days after Steinbrenner's death, two senators introduced a proposal to permanently set the estate tax rate at 35 percent, with a \$5 million exemption indexed for inflation and phased in over 10 years. The bill would also provide a "stepped-up basis" for inherited assets, meaning capital gains on future sales would be taxed on the value of the assets at the time of the owner's death not the original value when the owner purchased them.

If Congress takes no action, the federal estate tax in 2011 will be 55 percent and a \$1 million exemption. The 2009 rate was 45 percent with a per-person exemption of \$3.5 million. Applying 2009 rates to Steinbrenner's \$1.1 billion estate (as estimated by Forbes magazine), his heirs may have forfeited almost \$500 million in taxes. Even without a current estate tax, Steinbrenner's heirs must pay capital gains tax when they sell their inherited assets. Using the current top capital gains rate of 15 percent, if his heirs sold the assets immediately, they would pay about \$165 million (depending on how much the assets have appreciated since Steinbrenner bought them).

That's a difference in tax of about \$328 million – or, as the Associated Press put it, about 10 times Alex Rodriguez's salary of \$32 million.

With so much about uncertainty around the estate tax, many Americans are finding it difficult to plan their legacy. We welcome the opportunity to help you analyze your current situation in conjunction with your estate attorney and tax professional. Please call our office to schedule a joint appointment.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment-grade, fixed-rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and 10 years.
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