

For the Week of July 26, 2010

THE MARKETS

The S&P broke through 1,100 on Friday for the first time in a month, propelled by General Electric's announcement that it would raise its dividend by 20 percent. According to Morningstar, as of the end of last week, the NASDAQ has erased its losses for the calendar year, while the S&P stands just below flat and the Dow has gained 1.47 percent since Jan. 1. For the week, the Dow gained 3.27 percent to close at 10,424.62. The S&P climbed 3.57 percent to finish at 1,102.66, and the NASDAQ increased 4.15 percent to end the week at 2,269.47.

Returns Through 7/23/10	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials	3.27	1.47	18.14	-6.60	2.24
NASDAQ Composite	4.15	0.01	14.99	-5.52	0.81
S&P 500	3.57	-0.04	15.25	-8.53	-0.14
BarCap US Agg Bond (TR)	0.01	5.88	9.55	7.61	5.81
MSCI EAFE	1.49	-6.42	7.70	-11.94	2.02

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.

Who Would Have Thought? – In the July 6, 2009, issue of Barron's (i.e., just over one year ago), the magazine asked 10 leading Wall Street economists to predict where interest rates would be as of June 30, 2010. Eight of the 10 forecasted that the yield on the 10-year Treasury note would be at least 3.85 percent. Only two individuals believed that the yield on the 10-year note would be at or below 3 percent. The actual yield as of June 30, 2010, was 2.94 percent (Source: Barron's, BTN Research).

Can't Retire – Forty-seven percent of Americans currently between the ages of 56-62 would run out of the funds necessary to pay for basic retirement expenditures if they retire at age 65 (Source: Employee Benefit Research Institute, BTN Research).

Half and Half – There are 154 million Americans in the civilian labor force (i.e., either currently working or seeking work). An estimated 156 million Americans are either too young to work or are retired (Source: Department of Labor, BTN Research).

WEEKLY FOCUS – Control Your Legacy with a Private Foundation**WEEKLY FOCUS – Lose a Tax, Gain a Tax**

Last week, we looked at the impact the lapsed estate tax potentially has on the estate of George Steinbrenner – and the loss of revenue it represents to the government. But rarely does the tax law giveth without also taking away. The temporary repeal also took away a law that actually reduced red tape for heirs.

A provision called “step up basis” allowed heirs to calculate capital gains tax on the appreciation of the asset based on its value at the time of the benefactor’s death, rather than on the value at the time of the original purchase. For example, if your parent paid \$50,000 in 1975 for a house that is today worth \$200,000, the capital gains you pay when you sell the house is based on today’s value rather than the original value. So in five years, if the house sold for \$250,000, you would pay capital gains on the \$50,000 gain from the date your parent died, rather than on the \$200,000 gain from the original date of purchase. (This example is incredibly simplified – there are any number of other factors that can affect the amount of capital gains tax.)

The current law does allow the executor to increase the basis for certain property by \$1.3 million, and property passing to a surviving spouse can be increased by another \$3 million. Certain property cannot be increased, including retirement plans, IRAs, annuities, U.S. savings bonds, deferred compensation plans and uncollected installment sale payments. A number of other special rules apply, and executors who are also heirs may face unforeseen challenges in allocating the basis increase to specific assets.

One of the biggest headaches, though, will be establishing the original cost basis on assets purchased decades ago. Your parent likely still has the papers on the purchase of the house, but does he or she still have statements or confirmations for the 500 shares of IBM?

These issues may or may not warrant changes to a person’s will or estate plan, although if you expect to inherit assets before the end of the year, you may face some unexpected tax consequences. We can meet jointly with your accountant and estate attorney to determine how best to mitigate any unforeseen liabilities you may encounter. Please call our office at any time for assistance or to schedule a meeting.

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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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