



Wealth Advisory Services

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A WEALTH ADVISORY NEWSLETTER FROM HTG INVESTMENT ADVISORS

ROTH CONVERSION

Is it for You?

Retirement investors will have a unique opportunity in 2010 to make a major change to their retirement accounts.

IRA owners will be given the option to voluntarily convert their Traditional and Rollover IRAs to Roth IRAs, paying tax now rather than in the future.

Up until now, those wanting to convert could not exceed certain income limits, but in 2010, everyone will be eligible to convert.

A conversion is a special withdrawal taken from a Traditional or Rollover IRA coupled with a simultaneous deposit to a Roth IRA. In the process, the conversion withdrawal adds incremental taxable income and the ultimate tax due is a function of the tax bracket in the year of conversion. The crux of the conversion decision is whether you think you will be in a lower, higher or the same tax bracket in the future, when the ultimate withdrawal would have been made for consumption purposes, or for mandatory withdrawal purposes (post 70 1/2).

As with many complex tax situations, there is good news and bad news. The good news is that everyone can participate. Once funds are in a Roth IRA, earnings and growth are tax-free when certain requirements are met. Roth

IRAs are also free from required minimum distributions after age 70 1/2. The bad news is that there may be a substantial, up-front tax cost to be paid, though the tax is not due in its entirety until 2012. Upon close examination, one realizes that a Roth conversion is a multifaceted financial decision which defies simplification and generalization. For this reason, the purpose of this article is to provide some background and "food for thought". Every reader is advised to seek individualized advice in making this choice.

To start the decision process, one must understand what type of taxes might be due on a conversion. In the short-run, federal and state income tax are payable, and in the long-run all IRAs may ultimately owe estate tax, if the IRA is owned at death. Next, you must consider how your income might change in the future, and how the tax system will change from now until then.

One principle to keep in mind is that if your tax rate remains unchanged from today through retirement, there will be no advantage to converting, except for estate maximization purposes. In effect, you will have no more "spendable dollars" for having converted.

A Roth conversion makes the most sense when certain conditions are present. While it is not necessary that every condition be present, the more the better!

(continued on page 3)

A unique
opportunity
in 2010.

INSIDE

Overcoming Behavioral Biases

Financial Focus Series

HTG News

OVERCOMING

Behavioral Biases

Over the past year, investors experienced new emotional highs and lows as the financial crisis unfolded. Many found themselves asking “What was I thinking?” or wondering “If only I had acted differently.”

Behavioral finance combines psychology and economics to explain a wide range of common behaviors that are often at odds with an individual’s financial wellbeing. According to Meir Statman, a behavioral finance specialist and professor at Santa Clara University, investors have never been “rational” as defined by standard finance. Such rational investors would care only about the risk and expected return of their overall portfolio. Instead, Statman argues, investors are “normal”, meaning that they are affected by biases and emotions that cloud their investment judgment.

Understanding common behavioral biases is the first step in helping investors to cope with their feelings. Common behavioral biases identified by academics are: excessive fear or exuberance, regret avoidance, overconfidence, familiarity bias, and hindsight bias.

You don’t have to go very far back to find examples of **excessive fear and exuberance**. February, 2002 was a time of exuberance when 78% of investors polled agreed that it was a good time to invest. In retrospect, it was not. March, 2003 was a time of fear with only 41% agreeing that it was a good time to invest. Again, the consensus was incorrect. Most recently, there were few investors who thought that March, 2009 was a good time to invest, yet so far it appears to have been an opportune time. Neither excessive fear nor exuberance is a good investment guide.

Regret avoidance often leads investors to hold onto a losing stock for too long in the hope that its price will recover so it can be sold without regret. This tendency, more often than not, interferes with sound investment judgment. Counterfactual thinking describes thoughts about an option that was not selected that turned out to be better than the chosen option. To avoid feelings of frustration and regret, it is preferable to start thinking about today and tomorrow, rather than focusing on blame and regret of things past.

Overconfidence is our tendency to overrate our own abilities, knowledge, and skills relative to others. This often leads to an underestimation of the risks associated

with investments and to more frequent trading, because we think the knowledge we have is better than that of other investors. Combating overconfidence involves making a self-assessment as to whether we have the expertise and have done the research to justify the confidence we feel. For example, how can we know more about stock selection than fund companies who have experienced, full-time analysts and who employ extensive research tools?

Familiarity bias, also known as investing in what you know, leads investors to concentrate their wealth in a few companies or funds with which they are familiar. A common example is placing a retirement savings account almost entirely in an employer’s company stock. The investor develops a false sense of security due to feelings of closeness and understanding. Familiarity bias often leads to portfolios being inadequately diversified.

Hindsight bias causes investors to see events that have already occurred as more predictable than they were. This, in turn, leads us to think that we could have foreseen what we know only in hindsight. As a consequence, some become overconfident in their certainty about what is going to happen next. How many investors anticipated the financial market collapse in 2008? The answer is very few. The fact is we cannot know everything that is going to happen tomorrow; predicting the future is not the same as analyzing the past, and hindsight is not foresight.

By recognizing the potential behavioral biases we face as investors, we are in a better position to work on the things that can be controlled in order to help effectively achieve our financial goals. By developing an investment plan which acknowledges the financial objectives, time horizon, and capacity for assuming risk, a diversified portfolio can be constructed which matches these objectives. Regular rebalancing of the portfolio will ensure that we stay on track to meet established objectives and goals. This will help avoid the temptation to change course too suddenly. A primary goal of financial advisors is to help clients avoid common behavioral biases, while keeping them focused on long-term goals.

Behavioral biases are part of our make-up. With an understanding and awareness of these biases, investors can work toward combating them and forging a more productive path to financial success. ♦



HTG Investment Advisors Inc. is offering a series of fall workshops entitled "Financial Focus". The kick-off presentation by Sue Lione and Amy Sheinberg was "Thrift is Back in Style – Simple Budget Solutions for Everyone."

Next in the series is "A Roth IRA Conversion – Is it for You?" presented by Robin Sherwood and Barbara Ollinger. We will offer this workshop on Saturday, October 24th and again on Tuesday, October 27th.

Third in the Financial Focus series, "Playing Offense Through Strategic Tax Planning", will be presented by Janice Kunst of the tax firm Reynolds & Rowella LLC on Tuesday, November 17th.

All the workshops will be held at our office at 50 Locust Avenue, New Canaan, CT. If you are interested in attending, email or call Susannah at Susannah@htgadvisors.com or 203-972-8262.

HTG MAKES TOP WEALTH ADVISORY FIRM LIST FOR THE THIRD YEAR

HTG Investment Advisors Inc. has been named in Wealth Manager Magazine's 2009 listing of the top United States advisory firms for the third time in three years. This is the 9th annual edition of the prestigious listing, which this year recognized fewer than 500 firms nationwide. "We are very pleased with our service over the last year, and we are delighted to be included among the top firms once again," says Robin Sherwood, CFP® and Principal of HTG Investment Advisors.

To be considered for top Wealth Manager ranking, firms must be registered investment advisors whose clients are individuals or high-net-worth individuals. Ranking is determined by average client assets under management, not by total firm assets. The firms are also required to offer financial planning services. HTG Investment Advisors Inc. serves over 200 families and manages over \$200 million in assets.

GO GREEN!

Here's another opportunity to help save the environment by saving paper! We have the capability to send our newsletter by email, rather than by US Mail. Please email Susannah@htgadvisors.com if you would like to receive our newsletter electronically.



continued from page 1

...Roth Conversion

Circumstances that support a Roth conversion:

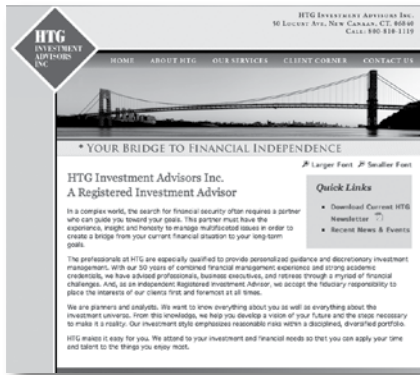
- You expect to be in a higher income tax bracket in the future.
- You project an increase in income tax rates due to new tax legislation.
- You do not expect to use the IRA to fund your living expenses.
- You have ample funds outside the IRA to pay the tax due.
- You are over 70 1/2 and mandatory withdrawals require you to take more from your IRA than you need.
- You have a high percentage of your IRA in non-deductible contributions.
- You and your spouse expect to have taxable estates exceeding \$3.5 million each.
- You have a long time frame to reap the benefits, and an expectation that the IRA will grow.

Circumstances that do not favor a Roth conversion:

- You have inadequate funds outside the Roth to pay the current income tax due on the conversion.
- You anticipate large tax deductions in the future. Examples include charitable contributions, medical expenses or long-term care costs.
- You have an estate that is not likely to be subject to estate tax, or a lack of concern for estate taxation.
- You have a short-time frame such that the Roth might decline before the benefits of the conversion could be realized.
- You would owe state income taxes on a conversion, but not on a regular IRA withdrawal.
- You do not expect to be in a higher tax bracket in the future.

In summary, the door will be open to everyone to convert to a Roth in 2010. This does not mean that it will make sense for everyone, or that it will be advisable to convert 100% of an IRA. Small IRA conversions or partial IRA conversions may be attractive. For those in the right circumstances, the decision may be clear, but for many others it will require them to confront imponderables such as their future income, the length of their work-life, future tax rates, investment returns and inflation.

At HTG, we view this decision as a three step process. First, we work together to decide if you are a good candidate for conversion. Second, we determine what dollar range should be considered for conversion. Third, we implement the conversion, and then review and reconsider it right up until the final deadline. ♦



HTG HAS A NEW WEBSITE!

Our web address remains the same, www.htginvestmentadvisors.com, but it has been updated and re-designed, and we're very happy with the end result! New features include a link to our current newsletter on the Home Page, and a link to "Recent News and Events." There are many photos of the HTG team throughout the site as well, so please take a moment to check it out. We welcome your feedback.

- ◆ Congratulations to Jennifer Nicasio who received the wonderful news that she passed the rigorous CERTIFIED FINANCIAL PLANNER™ exam. The ten hour exam is the culmination of two years of coursework and countless hours of studying. Way to go Jennifer!



- ◆ HTG strives to stay up to date on technology. A Schwab technology consultant recently visited the office to make suggestions on ways to streamline technology related functions. Sue, Jennifer and Amy will each attend one of the three hands-on training classes offered by Schwab Performance Technologies in New York in October.

- ◆ HTG has partnered with the New Canaan Chamber of Commerce in a campaign to strengthen and support local businesses. We participated in the "Dog Days of Summer" event and the "All Out for Autism" 5K walk/run in August, and a "Photography Showcase" in September. Upcoming is "New Canaan Treasures," a day of shopping and events in New Canaan.
- ◆ Erica Nicasio, daughter of Jennifer and Luciano, just completed her first Olympic Triathlon in San Francisco. Erica raised over \$3,000 for the Leukemia and Lymphoma Society.



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