

## SPECIAL POINTS OF INTEREST:

- 2009 Future Outlook
- Life Insurance Myths
- Bernie Madoff

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## What's Ahead for 2009

**First the bad news: The consensus among economists is that we are in a recession. Now the good: We're likely seeing the worst of it now, and growth may return in the second half of 2009.<sup>1</sup>**

Heading into a new year, many Americans may be concerned about the potential for prolonged economic pain and are hoping for a return to prosperity and better fortune. Additionally, the incoming administration will bring a new set of economic and tax policies that are likely to affect the finances of most Americans in some way.

### What's Going On

Recessions are difficult to detect until several months after they begin. However, a range of current economic indicators is pointing toward a recession. Chief among them is the 0.5% contraction in gross domestic product (GDP) in the third quarter of 2008.<sup>2</sup> Economists expect a deeper decline in the fourth quarter. GDP represents

the value of all goods and services produced in the United States and is widely regarded as the best way to get a snapshot of recent economic activity. The simplest definition of a recession is two consecutive quarters of negative GDP growth. The employment situation is also pointing toward a recession. The economy shed more than 1.2 million jobs in the first 10 months of 2008. The unemployment rate climbed to a 14-year high of 6.5% in October 2008.<sup>3</sup>

### What's Ahead for GDP and Employment

In *The Wall Street Journal* Economic Forecasting Survey, which is based on the average responses of 54 economists, respondents expected GDP to shrink at a 3% annualized rate in the fourth quarter of 2008, followed by a shallower 1.5% decline in the first quarter of 2009. They called for GDP to grow at a slight 0.3% annual rate in the second quarter of 2009, marking the beginning of a slow recovery.<sup>4</sup> However, the WSJ economists also project that the unemployment rate will

climb to 7.7% by the end of the 2009.<sup>5</sup>

In the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters, 51 panelists predicted a 2.9% drop in GDP for the fourth quarter of 2008, then a further decline of 1.1% in the first quarter of 2009 before conditions improve. They predicted a year-over-year contraction of 0.2% for 2009 and foresaw a jobless rate of 7.7% by the end of 2009.<sup>6</sup>

Overall, economists supported government efforts to stimulate the economy. More than 80% of economists in *The Wall Street Journal* survey favored a stimulus package in January or earlier, and 34% said permanent tax cuts should be the top priority in any economic stimulus. Based on the average response, they indicated that the total size of the government's response this year and next should be more than \$250 billion.<sup>7</sup>

**Presidential Policy Shift**  
During the campaign, the incoming administration

# What's Ahead for 2009

proposed several immediate and long-term policy changes that could have a wide effect on the economy. If enacted, several of these proposals are almost certain to affect your situation.<sup>8</sup>

**Increasing the top marginal income tax rates:** The new administration has proposed making permanent the 10%, 15%, 25%, and 28% marginal income tax rates and brackets, which were reduced to their current levels in 2003 and are slated to expire after 2010.

The top marginal rates, currently at 33% and 35%, would return to their pre-2001 rates of 36% and 39.6% for single filers earning more than \$200,000 and couples earning more than \$250,000. The personal exemption amount and itemized deduction phase-outs for these same taxpayers would also be rolled back to levels that were in place in the 1990s.

**New taxes on capital gains and dividends:** A new 20% tax rate on long-term capital gains would apply for individuals earning more than \$200,000 and couples earning more than \$250,000. A new 20% top rate on dividends would apply to people

making more than \$250,000. Individuals earning less than these amounts would continue to pay taxes on dividends and long-term capital gains at the current rates.

**A permanent estate tax:** It's unclear whether the currently scheduled one-year repeal of the federal estate tax will be allowed to take place in 2010, but the new administration has proposed a permanent 45% tax rate on estates larger than \$3.5 million (\$7 million per couple).

**Among other new proposals to deal with current economic conditions:**<sup>9</sup>

- Penalty-free hardship withdrawals in 2008 (retroactively) and 2009 from IRAs and 401(k) plans of 15% of the account balance up to a \$10,000 limit. Ordinary income taxes will still be due on the amounts withdrawn, but the 10% penalty would be waived for withdrawals prior to age 59½.
- Temporarily allowing individuals older than age 70½ to delay required minimum distributions from tax-deferred retirement programs.
- A permanent tax cut of \$1,000 for families (\$500 for single filers) making less

than \$250,000 (\$200,000 for single filers), which could possibly arrive in the form of rebate checks in early 2009. (It's worth noting that this proposal is for a *permanent* tax cut; most tax laws passed in recent years have had expiration dates).

- Extending unemployment benefits by 13 weeks.
- A \$3,000 refundable tax credit for businesses that hire additional full-time employees in 2009 and 2010.
- Extending the \$250,000 small-business expensing limit through 2009.
- A 0% capital gains tax rate for investments in small businesses.

Now is a good time to consider how the current economic conditions and upcoming policy changes could affect your long-term financial situation. We can help you consider strategies that take the changing economy and potential policy shifts into account.

- 1, 5, 7) *The Wall Street Journal*, November 13, 2008
- 2) Bureau of Economic Analysis, November 25, 2008
- 3) U.S. Bureau of Labor Statistics, November 7, 2008
- 4) *The Wall Street Journal Economic Forecasting Survey*, November 2008
- 6) Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia, November 17, 2008
- 8-9) BarackObama.com

# Don't Bet Your Life on These Insurance Myths

**Did you know that 68 million Americans do not have life insurance?<sup>1</sup> Even people with insurance often have significantly less coverage than they may need to help ensure a secure financial future for their families.**

Learning about common life insurance misconceptions can help you make one of the most important decisions for those you leave behind.

**Myth: “I probably won’t need life insurance.”**

Even if your children no longer depend on your income, life insurance can be used to help cover final expenses that may otherwise fall on survivors. Estate taxes, medical costs, and funeral expenses can quickly consume any assets that might go toward a legacy. Life insurance proceeds can also help fund a grandchild’s college education or be donated to a favorite charitable organization.

**Myth: “I only need to replace two or three times my annual income.”**

Many people believe that multiplying their income by a certain number is a good rule of thumb for figuring out how much life insurance coverage to own. But consider how long the death benefit would last for a spouse with a long life expectancy. You also may want to think about a policy amount that is large enough to provide a stream of income for your beneficiaries without having to tap into the principal amount.

**Myth: “I’m too old to obtain life insurance.”**

The insurance industry has responded to growing consumer demand by offering more life insurance options for older Americans. At middle age, you might even want to consider replacing a large, expiring term life insurance policy with permanent life insurance, which generally remains in force throughout your lifetime, as long as the premiums are paid. Although permanent insurance usually costs more than term, it provides an opportunity to build cash value, and you might not need as large a death benefit at age 55 as you did at 40.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.

As with most financial decisions, there are expenses associated with the purchase of life insurance.

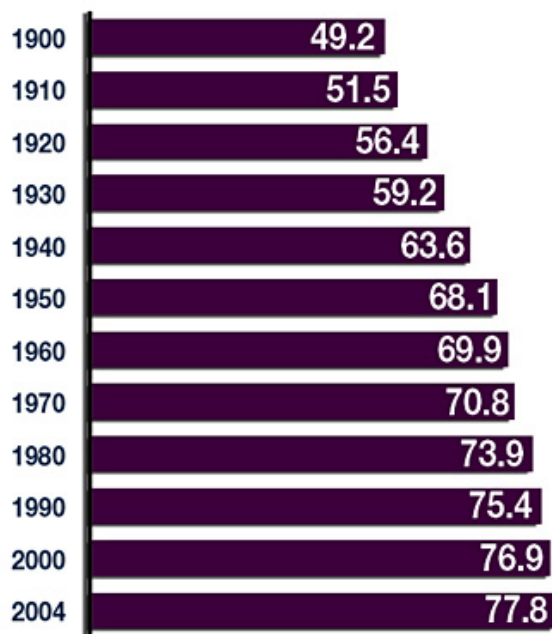
Policies commonly have mortality and expense charges, as well as potential exclusions and limitations. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Whether you have an existing policy or are considering a new one, it’s a good idea to review your life insurance needs on a regular basis. It almost never makes sense to wait where life insurance is concerned.

1) Life and Health Insurance Foundation for Education, 2008

## LIVING LONGER

The life expectancy for an American born in 2004 was nearly 30 years longer than it was for a child born in 1900.



Source: National Center for Health Statistics, 2007

## "The Bernard Madoff Scandal"

In the most recent bad news from Wall Street, Bernard Madoff, former NASDAQ Stock Market chairman and founder of Bernard L. Madoff Investment Securities LLC, was arrested and charged with securities fraud.

**What did he do?** He allegedly collected money to invest from clients, made up false statements to show that they were doing well, and used new clients' money to pay interest and withdrawals to existing clients. This is known as a Ponzi scheme and is estimated to involve more than a \$50 billion loss for his investors.

This is one of several recent high-profile cases of advisors and/or managers absconding with funds entrusted to them by their clients. His clients didn't see this coming. Could they have? Let's look at a couple of safety tips that would have prevented this from happening.

**Know What You Own.** Stick to stocks, bonds, ETFs, and mutual funds that are publicly traded and listed on major exchanges like the New York Stock Exchange. They are valued independently at least

daily, if not minute-by-minute, while the exchange is open. You can check their reported returns against your own portfolio. If you can't look up the prices and performance in the newspaper or on the Internet - that's a red flag - ask a lot more questions.

**Use An Independent Custodian.** Madoff held his client assets, managed them, and priced them, too.



See the conflict of interest? Investment performance can look better if the prices reported to clients are manipulated, which is allegedly how Madoff showed winning year after winning year despite market turmoil.

At Brandywine Financial Group, our clients have an independent third party, TD Ameritrade Institutional Services or Charles Schwab, pricing each investment they own.

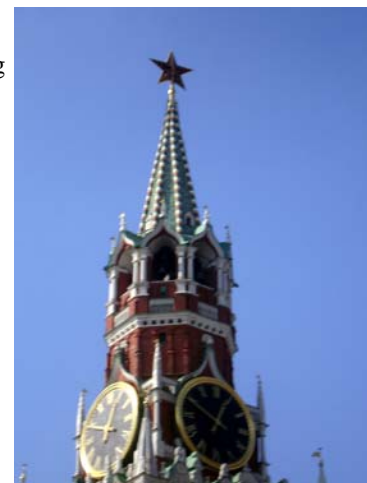
We have no input on investment pricing, and that separation is a very good thing. Clients also get an independent statement directly from their respective custodian. One final thought - if an investment sounds too good to be true, it probably is. Reportedly, Madoff claimed consistent annual returns of 10 to 12% with almost no volatility and no annual losses over the last 20 years. Few if any legitimate investment managers can make that claim and back it up with third-party evidence."

# What's New at Brandywine

## From Raymond's Desk

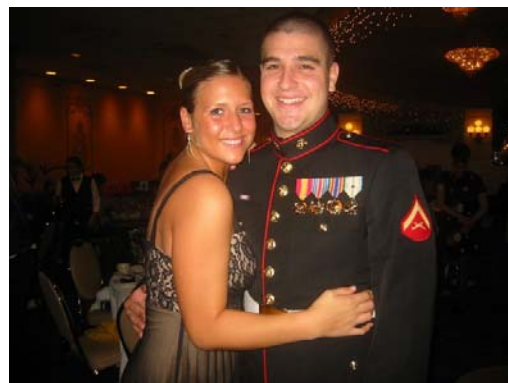
2008 will go down in the record books as one of the worst and most volatile years in history. As our government becomes more and more involved in the support of private sector businesses, like banks, brokerages, insurance companies and now the auto industry, the rumblings of "Socialism" and even "Communism" have been floating throughout the press. These remarks reminded me of my recent trip to Moscow. This photo I took at Red Square of the Red Star that sits above the Kremlin, epitomizing the Communist Era. We are far from either Socialism and/or Communism. Drastic times call for drastic measures. Our government is utilizing every means necessary to avoid financial Armageddon in an effort to heal our currently sick financial system. This will take time; this problem did not happen overnight and it *will* take several years to fix. It is prudent for our government to provide aid during this period to help those ailing industries. This will in turn help the American people, the financial system, and our economy in the best interest of *ALL*.

Happy Holidays! -Raymond



## From Justin's Desk

As some of you are aware, I am a former Marine. There are two sides to being a Marine. On one side, you have a highly trained and disciplined fighting force. And on the other side, you have a dedicated community service individual. This second side comes out usually once a year during Toys For Tots. Beginning shortly after Thanksgiving, the Marine Corps begins collecting toys to be given to local charitable organizations. During the 5 years I spent with the Corps, this event was by far the greatest honor of being a Marine. There's nothing in this life like driving a military HMMWV (hummer) in your "Dress Blues" filled with toys to a local charity where the parent's of less-fortunate children are given the opportunity to provide for their families. Seeing the faces of these parents and their children light up is an amazing rush of energy and spirit. I encourage everyone that is financially able to give at least one unwrapped toy to this event...you will make the life of someone you've never met amazingly better. Happy Holidays and best wishes for the New Year!



Me in my "Dress Blues" and Francesca at the annual Marine Corps Ball

## From Stephanie's Desk

I have finished my semester strong and am looking forward to my last semester of my undergraduate degree. I am going home for the holidays and very excited to see family and friends I have missed. The holidays are always a time full of love and joy. Family, new friends, and old friends gather together to celebrate this time of year. I have a very large family and a calendar full of holiday events this month. There is never a dull moment in my house, four sisters, twenty cousins, their families, and myself keep the holidays interesting! This is not the time of year to purchase the most technologically advanced gadget or the most expensive gift, but a time to gather together to enjoy the company of loved ones. To families big or small, Merry Christmas and Happy New Year!