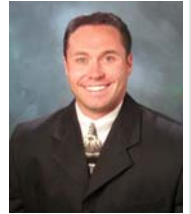


BRANDYWINE'S MONTHLY "PLAN-IT"

SOLUTIONS ~ FOUNDATION ~ INDEPENDENCE

JULY 2008

RAYMOND CAROTA
WEALTH ADVISOR
PRESIDENT



Take It Year by Year

The Federal Reserve has been on an interest-rate cutting spree that began with a surprise cut to a benchmark rate late last summer. There were other surprise reductions to the federal funds rate and the discount rate, including two of the largest rate cuts in decades.

These interest-rate cuts were accompanied by troubles in the credit market, slowing economic growth, and rising inflation. For some investors who owned bonds that matured during this period, it was a tough time to reinvest principal.

Fortunately, there is a way to spread the interest-rate risk associated with bonds so that they all won't mature during a period when reinvesting conditions are less than favorable.

Spread Out

One of the more appealing aspects of investing in long-term bonds is the opportunity to hedge against short-term risks. A bond is an agreement between a borrower and a lender. The interest rate and maturity date are theoretically fixed. Assuming that the investor doesn't want to trade or sell the bond before it matures, the only interest-rate volatility that matters is the economic environment when it's time to reinvest the principal.

So it follows that owning bonds with maturity dates that are spread out can help limit reinvestment risk. This strategy, known as *bond laddering*, involves building a portfolio of bonds with varying maturity dates, such as four years, eight years, and ten years. If rates are low when one bond matures, only a portion of the portfolio's income is exposed to reinvestment risk. If rates are high when the next bond matures, the investor has the opportunity to reinvest a portion of the portfolio at the higher rate.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Bond investing is an important strategy for pursuing income and long-term stability. Building a bond ladder can help protect against the inevitable interest-rate risks of bond investing.

Surviving the Estate Tax with Survivorship Life

Despite Scheduled Repeal, Death Levy Could Surprise in 2011

Under current law, the first \$2 million of an estate is exempt from the federal estate tax in 2008. The exemption rises to \$3.5 million in 2009. These amounts are probably generous enough for most families to avoid the estate tax altogether until 2010, the one year in which the tax is scheduled to be eliminated.

But unless Congress changes the law, the estate tax will be back in 2011 with a \$1 million exemption amount. This means that families who never expected to be liable for the estate tax may suddenly find the opposite is true.

Take Two

If you would like to see your heirs inherit your legacy without the burden of estate taxes, life insurance might help. Life insurance proceeds can be used to help pay estate taxes so your heirs don't have to sell inherited assets, such as a house or a business, to raise money. However, conventional life insurance may be too expensive or difficult for some people to obtain, depending on variables such as age, health, and lifestyle.

In such cases, *survivorship life insurance* might be the answer. A second-to-die policy is generally less expensive because it insures the lives of two people and pays a benefit only after both have died. The risk of two people dying in a given period is lower, so the risk that the insurer will have to pay a benefit in the same period is also lower.

If the estate tax situation eventually becomes more favorable, a survivorship benefit can still be a good way to pay final expenses and probate costs, provide income to survivors, or fund a charitable donation.

Purchasing the policy in an irrevocable life insurance trust helps keep the proceeds out of the taxable estate, allowing the benefit to pass to beneficiaries free of federal estate taxes.

Business owners may also find survivorship policies useful for insuring key persons or funding buy-sell agreements.

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. The use of trusts involves complex tax rules and regulations, so it's wise to consider the counsel of an experienced estate planning professional before implementing such strategies.

Because it's unclear what will happen to the federal estate tax, it is a good idea to be prepared for any outcome. Survivorship life insurance may help you prepare at a more affordable cost than conventional life insurance.

Are the Times A-Changin'?

As the election year rolls along, Americans are facing an uncertain future and an election that could be the harbinger of great change. For some investors, potential change breeds trepidation and uncertainty.

Instead of fearing change, prepare for it. The following topics will most likely be part of the economic policy discussions.

Cutting the Tax Cuts?

One of the pressing issues facing the American economy is the fate of the tax cuts passed as part of the Economic Growth and Tax Relief Reconciliation Act of 2001. Unless extended or made permanent, the tax-law provisions are set to expire after 2010, which would amount to a tax increase of nearly \$1.9 trillion over seven years, the largest tax increase in history.¹ As many as 115 million American taxpayers would see higher taxes as a result.²

Security Blanket

Another hot political topic is the future of entitlements, chief among them Social Security. The number of Americans aged 65 and older increased almost 10% between 1995 and 2005, reaching 36.8 million.³ Those aged 45 to 64, who will turn 65 in the next two decades, increased by 40% in the same period.⁴ As the country experiences this demographic shift, the ratio of workers to beneficiaries will continue to decline.

In 2006, there were 3.3 workers for every Social Security beneficiary. By 2030, the projected ratio will be 2.2 workers per beneficiary.⁵

Caring for Medicare

Another entitlement, Medicare, presents more formidable challenges. Beginning in 2011, according to a Medicare Trustees report, Medicare costs are projected to exceed income plus interest, and the Trust Fund will likely be exhausted by 2019.⁶ Faced with Medicare insolvency, Congress may choose to save the program by raising payroll taxes, as it has done nine times since 1978.⁷

Alternative Minimum Troublemaker

An issue always seemingly on the table is the alternative minimum tax (AMT). Had Congress not voted to extend a one-year patch in December 2007, the AMT would have affected 25 million taxpayers in tax year 2007, up from 4 million one year earlier.⁸ Because the AMT isn't indexed to inflation, the number of taxpayers affected by the tax could grow to 56 million by 2017.⁹

With the election nearing, it's important to ponder what the future holds for the economy. Call today to discuss ways to position your portfolio to take advantage of whatever changes may come.

1-2, 6-9) *The Wall Street Journal*, January 8, 2008
3-4) Administration on Aging, 2006
5) Social Security Administration, 2007

From the Desk of Raymond....

I am sure you all received your statements this Quarter and I do not need to go over the statistics with you. Hang in there, the worst seems to be behind us. Oil will come down, as it has already started too, and consumption will diminish. (If I see one more Hybrid Car commercial...I am going to buy one myself!)

Again, consumption will diminish, Alternative Energy will start to be more prevalent in the next 5 years, the government will lift bans on drilling here in the US, and oil prices will retreat as they did back in the 70's. (As if I remember, I was only a young boy, but I read about it a lot). The doom and gloom of today will be yesterday's news and not soon enough. I am very skeptical about those financials, however, and will soon remove them from allocations.

~Raymond

WHAT'S NEW AT BRANDYWINE?

Last month we reported on a few technology changes that were taking place in our office. We have come a long way since that news and are now operating using a completely new contact management system. This new system will allow us to be more efficient in our daily functions as well as add a few new features to our services. One of the features that you have probably noticed is that our Just the Facts, Market Pulse, and Newsletter are being emailed in a different format. This is in part due to a client's suggestion as well as the new system. We also starting posting past Just the Facts, Market Pulses, and Newsletters on our website. If you ever need to reference these articles, you can simply visit the Resources page on our website.

What's new with Raymond?

I wish I could say I have been working on my tan this summer but this market is keeping me quite busy. One of my life long goals is to see the world! So I recently planned a trip to Oktoberfest, which is held in Munich, Germany for September. The plan for Oktoberfest is to fly to Munich and then leave for another city for the weekend. The choices are Prague, Budapest, Zagreb, Belgrade, Moscow, or Hvar (an island off the coast of Croatia). Then we will travel back to Munich on Sunday, September 21 for Oktoberfest. Then the plan is to go to either Hvar or Moscow. Since Hvar is an island resort in the Adriatic Sea, we need to find out if the weather will be good. If not then will we fly to Moscow. On Sunday morning, September 28, we will travel back to Munich for our flights home that day. A friend knows someone who knows a guy, who has a tent at Oktoberfest...long story short we have a table for Oktoberfest which is apparently "a big deal" so I am very excited it will be my first trip abroad! And of course since I get to go on a trip with some friends I am also planning a trip with the lovely fiancé, Sarah, so I think we are going to plan a trip to Greece for late Spring 2009 (her first choice), mine was believe it or not China, of course she won. If anyone has any advice or tips on any of the above I would love to hear about them!

What's new with Justin?

Ninety-two days until I get married...just received the daily update from my Fiancée! Isn't she sweet? Anyways, I am in the process of planning my Bachelor Party with my Best Man. Before I elaborate, I have to explain where I am from. I grew up in South Williamsport, PA...a.k.a. middle of nowhere. The local tuxedo shop's biggest seller is the "Mossy Oak" printed vest. If you do not know what "Mossy Oak" is, it is a form of hunting camouflage. Groomsmen actually wear this to their weddings; can you believe that? I guess one could say that I am from Redneck country. So, in light of my roots, and as dry humor, we are planning a "float" down the Susquehanna River which splits the city into Williamsport and South Williamsport. Years ago, the Chamber of Commerce used to organize a similar event called "Float your Fanny in the Susquehanny." They no longer host this event because the people would bring a second raft filled with alcohol...apparently alcohol and swimming does not mix. Nonetheless, we are going to spend the day floating down the river.

P.S. I DID NOT purchase the Mossy Oak vest for my tux, and I do not hold a similar purchase against anyone...to each their own!

We hope the coming month brings you joy and closer to achieving your financial goals. Thank you for continuing to entrust your faith in our abilities to help you reach your financial goals. Also, thank you to those who referred us to their friends, family, coworkers, etc.; they are greatly appreciated and a welcomed addition to the Brandywine Family. When you suggest our services to your family, friends, and colleagues, it is the greatest compliment we could receive. Please feel free to pass on our name to anyone you know who may benefit from our Wealth Management process, as it would be our pleasure to talk to them. Have a wonderful month!