

## SPECIAL POINTS OF INTEREST:

- Market Cap
- Proper IRA Roll-over Techniques
- Safeguard your Identity

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## Recapping Market Capitalization

### Volatility May Have Shifted Asset Balances: A Chance to Reflect on Goals

In 2008, some of the major market indexes reset the limits by which they separate large-cap, mid-cap, and small-cap stocks. The S&P 500, which is considered a benchmark for large-cap stocks, lowered the limit for inclusion in the index from \$4.5 billion to \$4 billion. Meanwhile, another index publisher, MSCI Barra, revised its large-cap definition to \$7.5 billion, down from \$11 billion.<sup>1</sup>

Similarly, falling stock prices allowed some money managers to buy stocks that were previously too big for their objectives while forcing them to sell others that no longer fit their portfolio rules. We may see more forced buying and selling on the part of institutional investors as stocks of all sizes continue to react to changing conditions.

The blurring of lines between large-cap, mid-cap, and small-cap companies is an indication that it may be time to evaluate whether your portfolio holdings have shifted toward or

away from your investment objectives. The return and principal value of stocks fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost.

### Cap and Trade

Calculating a company's market capitalization is fairly simple: multiply the number of shares outstanding by the price per share. This number represents what the market believes the publicly traded portion of a company is worth. The distinctions between large, mid-size, and small companies are important because companies of different sizes tend to perform differently. The risks and benefits associated with large-cap companies can differ from those offered by smaller firms.

Large-cap stocks may react more slowly to changes in the markets than smaller company stocks. The sheer volume of their outstanding shares tends to absorb both good news and bad, and the stock price may fluctuate less on a short-term basis.

At the other end of the spectrum, small-cap companies may offer less stability but greater return potential. Because there are fewer shares outstanding, the share prices of these companies may react more dramatically to good and bad news. These firms are more likely to be innovators and trendsetters than larger, established corporations.

But what happens when the market changes its mind about a stock? What happens when a small-cap stock grows into a mid-cap or large-cap — or vice versa? In such cases, it's wise to take a second look at your portfolio to determine typically differs from how a growth or value investor views it.

During periods of market volatility, it's a good idea to review your portfolio to determine whether it has taken on too much (or too little) risk or has drifted away from the mix that best suits your long-term objectives.

1) The Wall Street Journal, December 1, 2008

# Don't Risk an IRA Rollover Mistake

When the unemployment rate creeps upward, more people face an important decision about what to do with their retirement savings.

People who are laid off or entering retirement often find that a former employer's retirement plan can be an unwelcome place to keep their money. Layoff notices are often followed with a deadline to withdraw retirement assets from the company plan because the employer is no longer willing to bear the cost. People who have retired may find that their former employer's plan doesn't offer the flexibility or investment options they need to pursue their post-retirement goals.

Fortunately, there is an alternative: By rolling retirement assets into an IRA, it's possible to preserve their tax-deferred status. When a rollover to a traditional IRA is performed correctly, there should be no tax consequences, no tax penalties, and, in most cases, no out-of-pocket expense to the account owner.

Federal tax law allows for more than one way to execute a rollover. But did you know it's possible to do it legally and still run into complications which can include having to come up with a large cash payment?

Once you leave a job, your employer's retirement plan administrator may send you paperwork to begin the process of moving your retirement money out of the plan. You are likely to be given the option of simply receiving a check made out in your name. You then have 60 days to deposit the check in a traditional IRA.

This is what's known as an indirect rollover, and although it sounds easy — two months is plenty of time to open an IRA — an indirect rollover can get dicey.

## Double Jeopardy: The Withholding Trap

If the plan administrator makes the check out in your name, it is required to withhold 20% of the rollover amount, for the same reason your employer withheld a portion of your pay: in anticipation of income taxes.

Even though you are conducting a transaction that does not have any intended tax consequences, the IRS doesn't trust you to follow through. You might decide to spend all or part of the money. You could miss the 60-day deadline. You might deposit the check in the wrong type of account. Any one of these actions would be considered a taxable event and you could incur an income tax liability (plus a 10% federal income tax penalty if you are younger than age 59½).

For example, let's say that you have \$100,000 in your former employer's 401(k) plan, and you advise the plan administrator that you wish to conduct an indirect rollover. A week or so later, you get a check in the mail for \$80,000. In order to successfully execute this rollover, you need to deposit \$100,000 in a traditional IRA within 60 days. If you don't have the extra money to make up the difference, you will owe ordinary income taxes on \$20,000 plus a \$2,000 penalty if you are younger than 59½.

You may be able to prevent the employer plan from withholding 20% by having the check made out to the new IRA custodian. But most experts would tell you that you are still leaving an unnecessary margin for error whenever the money from an IRA rollover passes through your hands.

Ed Slott, a certified public accountant who has written a number of books on IRAs, is one such expert. Slott recommends conducting a direct rollover, a hands-free transaction sometimes known as a trustee-to-trustee transfer. Under this arrangement, the plan administrator transfers the funds directly to the IRA custodian.

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## Don't Risk... (continued)

There is no withholding and, if the transfer to a traditional IRA is properly executed, there are no tax If you have retirement funds in one or more former employer plans, rolling them into an IRA can help prevent you from losing track of any of your money. Plus, it can help ensure that

you have the greatest number of investment options available and can monitor the overhead costs.

We can help you conduct a direct rollover and greatly reduce the potential for mistakes that result in an

unplanned tax liability or costly tax penalties. Call us for help.

## A Question of Identity

Identity theft costs individuals and businesses \$52 billion a year.<sup>1</sup> Not only is ID theft costly, it can also be a major hassle that affects you and your credit score for years. The key to preventing identity theft is awareness. How aware are you?

1. The practice of watching someone enter his or her PIN and recording it for the purpose of stealing the person's identity is known as:

1. ATM reading
2. Looky-looky
3. PIN peeping
4. Shoulder surfing

2. Creating a fake Web site that looks identical to that of a bank or e-commerce site in order to steal personal information is called:

1. Phraud
2. Phishing
3. Phreaking
4. Pharming

3. Consumers should work with their banks to conduct as many transactions as possible online.

1. True
2. False

4. Which method is useful for determining whether a Web site from which you are about to purchase something is legitimate?

1. Check with the Better Business Bureau
2. Look for a padlock icon on the bottom right of the screen
3. The URL starts with "https"
4. All of the above

5. Which of the following indicate that an e-mail is fraudulent and may be an attempt to capture your personal information?

1. Generic greeting or no greeting at all
2. Lacks more than one way to respond, just provides a clickable link
3. Contains misspellings and grammatical errors
4. All of the above

your debit card or even the number from it.

2. **d. Pharming.**

3. **a. True.** This eliminates the amount of paper floating around with your personal information on it.

4. **d. All of the above.** The "s" in https stands for "secure," meaning the site encrypts your information, making it harder for cyber thieves to intercept.

5. **d. All of the above.** Moreover, a legitimate financial institution would never ask a customer to verify personal information by e-mail.

Source: 1) Forbes.com, December 10, 2008

Answers:

1. **d. Shoulder surfing.** Although a PIN by itself may not be enough to commit identity theft, your bank accounts could be in jeopardy if a thief is able to obtain

# What's New at Brandywine

From  
Raymond's  
Desk

Memorial Day is quickly approaching and I am excited for the summer to finally begin. As some of you may remember about a year ago I had tendonitis in my left elbow, well now I have it in my right elbow! I really wish I knew how this ailment was brought on but I just cannot figure it out and it is such an annoyance. Every time I go to pick something up it is painful. I have been wearing an arm brace which is supposed to provide some relief and take the pressure off the tendons, but it really does not seem to be helping much. If this is anything like the last time it will take 6-9 months to finally go away, which means much less golf! If anyone has any suggestions for treatment please let me know, thanks.

From  
Justin's  
Desk

Memorial Day's Real Meaning  
By The Denver Post

For contemporary Americans, Memorial Day has two meanings — honoring our war dead and a three-day weekend that kicks off the summer driving season. As the nation observes the holiday for the 143rd time, those meanings are increasingly in conflict.

Memorial Day is generally cited as originating in 1866 in Waterloo, N.Y., to honor the memory of those who died in the Civil War. In fact, other communities, north and south, also had ceremonies to honor those who gave, in Abraham Lincoln's words, "the last full measure of devotion." In 1971, Congress switched Memorial Day, which by then had come to honor the dead of all American wars, from its traditional May 30 to the last Monday in May. The change robbed the observance of most of its original meaning. Today, few Americans bother to think about fallen soldiers on the three-day weekend that kicks off the summer, any more than they reflect on the lives of Samuel Gompers and Mother Jones over the Labor Day weekend that ushers in the fall.

Yet 2008 is a very good year to return to the original meaning of Memorial Day — and to not only honor those men and women who have fallen in the service of our country, but to ask how we can reduce the risks of still more Americans dying in future wars. Viewed from that perspective, gassing up the SUV and heading off for a three-day road trip isn't just an increasingly expensive luxury, it's an act that undercuts the security of this nation for whom our veterans fought and died.

You don't have to be a member of the "No blood for oil" crowd to understand that America's growing dependence on oil, much of it imported from the volatile Middle East, increases the chance of this nation being drawn into more foreign conflicts. Thus, taking transit to work, walking, bicycling and car pooling become profoundly patriotic acts.

Likewise, America needs to redouble its efforts to develop domestic sources of power like nuclear power, solar and wind energy and renewable fuels like cellulosic ethanol. Finally, in returning to the original meaning of Memorial Day, let us also honor and support the men and women in our armed forces who sacrifice for us all. Besides honoring our dead, that means better medical care and decent veterans benefits — including the new and expanded GI bill — for the living.

We can do no less for those to whom we owe so much.