

**SPECIAL  
POINTS OF  
INTEREST:**

- American Autos
- IRA's
- Averaging Dollars

**INSIDE  
THIS ISSUE:**

- A Simple Conversion 3
- Averaging for Dollars 4
- What's New at BFG 5

## Saving America's Storied Automakers

Just in time for the holidays, the White House agreed to a much anticipated rescue of American automakers. Chrysler LLC and General Motors Corp. would immediately receive \$13.4 billion in short-term loans from TARP (Troubled Assets Relief Program), followed by potentially \$4 billion more in February.<sup>1</sup>

The White House offered to help the automakers after Congress was unable to agree on a rescue effort of its own. The automakers had appealed for Washington's help to prevent their looming bankruptcies.

In addition to the cash infusion, the terms and conditions established by the Treasury provide a framework for restructuring and call for proof of viability by March 31, 2009.<sup>2</sup> At present, it's unclear whether the loans will act as a bridge to a new and improved domestic auto industry or simply postpone its eventual demise. One way or the other, the fate of the Big Three will have serious implications for the overall economy and possibly the lives of millions of Americans.

### The Road to Ruin

The banking crisis that hit in September made it harder to obtain credit and damaged consumer confidence, which took a toll on sales. In November, auto sales dropped 37% from the prior year to their lowest rate since 1982.<sup>3</sup> U.S. manufacturers have also

struggled with declining market share over the last two decades and higher employment costs than their foreign competitors.

Manufacturers had already cut production in response to falling demand, and GM and Chrysler extended holiday factory shut-downs to a month or more to reduce costs and keep unsold inventories from building further.<sup>4</sup>

Ford Motor Co., which borrowed against its property and assets two years ago, said it may have enough cash to weather the crisis through 2009 without federal assistance.<sup>5</sup> However, it called for the rescue of its competitors Chrysler and GM to lessen the fallout on suppliers, the industry, and the economy as a whole in the event of any monumental failure.

An auto industry collapse would have far-reaching effects on the U.S. economy because it accounts for 4% of gross domestic product (GDP) and 20% of manufacturing GDP.<sup>6</sup> According to the White House, the domestic auto industry's failure would slow annual GDP growth by 1% and cost the economy roughly 1.1 million jobs.<sup>7</sup>

### Rescue Requirements

In return for the short-term loans, loan recipients must have a positive net present value by March 31, 2009, to be consid-

ered viable, or risk having the loans recalled. The government will receive stock warrants, and the companies must make taxpayers senior to other debt holders. Federal officials will have access to corporate books and records, as well as the power to block any transaction over \$100 million. Firms are also forced to accept limits on executive compensation, eliminate perks such as corporate jets, and stop paying dividends until the loans are repaid.<sup>8</sup>

The administration also set some specific restructuring targets that include:<sup>9</sup>

- Reduce unsecured debt by two-thirds through a debt-for-equity exchange with bondholders.
- Renegotiate wage agreements and work rules to make them more competitive with foreign-owned car makers that build vehicles in the United States by the end of 2009.
- Eliminate the jobs bank that continues to pay employees after they are laid off.
- Make half of a payment to an employee health program in the form of stock.

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# The Big Three cont'd...

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In effect, the loans deal with short-term liquidity issues and keep the firms alive until the new administration can enforce longer-term restructuring.

## What's Ahead?

It's possible that the financing arms of the U.S. automakers will also need bailout funds in order to continue offering credit to potential car buyers.

Moody's.com chief economist Mark Zandi believes that the actual price of saving the domestic auto industry could climb much higher. However, he also suggests that a failed industry would cost even more as the effects ripple through the troubled economy and cause as many as 2.5 million job losses. He estimated that such a level of unemployment would cost the federal government \$240 billion.<sup>10</sup>

Critics say it could be difficult to get the agreements needed for a meaningful restructuring, and that the companies could eventually fail anyway if the credit markets do not improve and/or the recession lingers.<sup>11</sup>

It's difficult to imagine a future without some version of the all-American Ford Mustang or Chevy pickup on our roads. The nation will certainly be watching to see whether Chrysler, GM, and Ford can survive challenging times and emerge as more competitive on the other side.

1, 2, 7, 8, 9)www.whitehouse.gov, December 19, 2008

3) The Wall Street Journal, December 19, 2008

4) CNNMoney, December 19, 2008

5) CNNMoney, December 18, 2008

6) Investor's Business Daily, December 20, 2008

10) The Boston Globe, December 17, 2008

11) The Wall Street Journal, December 20, 2008



# A Simple Conversion

Thanks to the Pension Protection Act of 2006, investors can now convert funds in their 401(k) plans and other employer-sponsored retirement plans directly to a Roth IRA. Before the provision went into effect in 2008, investors first had to roll funds to a traditional IRA before converting to a Roth.

With a new streamlined process that allows for fewer possible transfer mistakes, now is a good time to consider whether a Roth IRA conversion would be appropriate for you.

Roth IRAs provide the opportunity to receive tax-free withdrawals in retirement. Also, unlike tax-deferred plans, there are no mandatory distributions from a Roth during your lifetime.

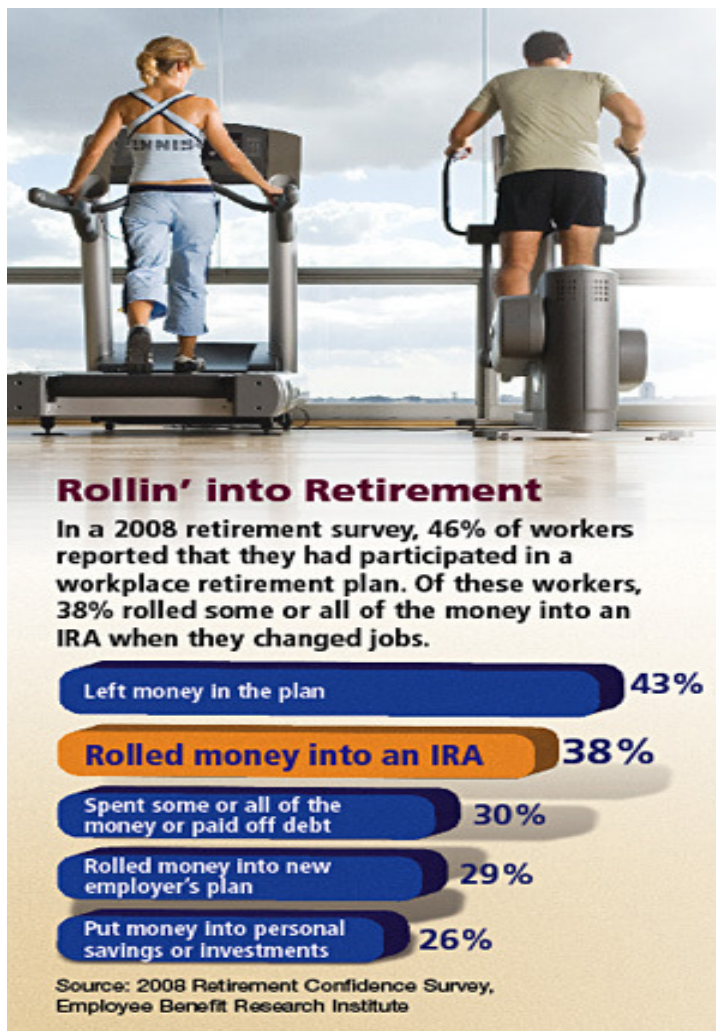
As attractive as a tax-free retirement income sounds, there are several factors to consider when determining whether to convert to a Roth.

## Dwindling Deductions

If you expect to be in a higher tax bracket in retirement, or expect tax rates generally to be higher in the future, a Roth conversion could make sense. Your tax situation might look a lot different in retirement. You may have fewer deductions: little or no mortgage interest, no child dependents, and no tax-deductible retirement plan contributions.

## Tax Time: Today

When you convert funds to a Roth, you must pay ordinary income tax on the funds converted in the tax year of the transfer.\* The amount is included in your gross income when you calculate your taxes. If you use some of the tax-deferred funds to pay the taxes incurred due to the conversion, there is a risk of triggering a 10% federal income tax penalty for early distributions before age 59½.



## Unlimited Means

In 2008 and 2009, taxpayers (filing a joint or a single return) with modified adjusted gross incomes of \$100,000 or less are eligible for a Roth conversion. In 2010, this income limit will be repealed.

To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or as a result of death, disability, or a first-time home purchase (up to a

\$10,000 lifetime maximum).

It has never been easier to convert all or part of your employer-sponsored plan assets to a Roth IRA. Call today to determine whether you would benefit from a Roth IRA conversion.

\*For conversions completed in 2010, the income taxes can be deferred until 2011 and 2012, with 50% of the tax bill due each year.

# Averaging for Dollars

**“It’s tough to make predictions, especially about the future.”<sup>1</sup>**

So said Yogi Berra, whose tendency toward malapropisms arguably made him more famous than his exploits on the baseball field, which earned him a spot in the Hall of Fame.

there is a method for investing in mutual funds that can help stem the risks associated with portfolio decision making.

This method, called *dollar-cost averaging*, involves investing a fixed amount in an investment at regular intervals. Because mutual fund share prices fluctuate on a daily basis, this method ensures that

Dollar-cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, this can be an effective way for investors to accumulate shares to help meet long-term goals.

The return and principal value of mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

*Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1) Quoteland

## SLOW AND STEADY

Let's say a hypothetical investor wanted to put \$6,000 into a mutual fund. If he had invested the entire amount in month 1 when the share price was \$80, he could have purchased 75 shares. By investing \$1,000 a month instead over six monthly intervals, he realized a lower average cost per share.

Month	Investment	Share price	Shares purchased
1	\$1,000	\$ 80	12.5
2	\$1,000	\$ 60	16.7
3	\$1,000	\$ 70	14.3
4	\$1,000	\$ 80	12.5
5	\$1,000	\$ 90	11.1
6	\$1,000	\$ 80	12.5
<b>Total</b>	<b>\$6,000</b>		<b>79.6</b>

**Average price per share: \$76.67**

**Average cost per share: \$75.41**

This hypothetical example is used for illustrative purposes only and does not represent any specific investment. Actual results will vary.

Nonetheless, he was right. It is tough to make predictions, and yet investors must find some way to anticipate future events if they are to be successful. Fortunately,

an investor buys more shares when prices are low and fewer shares when prices rise. As you can see in the table, the result can be a lower average cost per share.

# What's New at Brandywine

## From Raymond's Desk

Fly Eagles Fly...well looks like the Eagles have been grounded again! I spent Sunday rooting for the Eagles with a few close friends and could not help but think about the correlation between the Eagles up and down season and the current stock market environment.

First, each rally seems to be met with a crushing selloff between 8000-9000 on the "Down" Jones Industrial Average and we seem to be trapped in this trading range. No that is *not* a typo, around here in the office we have been referring to the index as that since it cannot seem to move up. Once again the Eagles let the Philadelphia fans down again with the loss to the Cardinals, I did however appreciate the apology from Brian Dawkins, but the pain still ensued. Justin and I were returning from NY this past week and saw a funny billboard in support of the Eagles and it read, "Fact, Eagles devour Cardinals." However, it appears as though the Cardinals were too fast for the Eagles this time around! It seems as though every time the Eagles look like the worst is behind them they turn the ball over, much like just when we think the worst of the news or bad headlines are behind us that would affect our investments their seems to be more and more.

The Eagles will be back next year to play another season and who knows maybe just maybe they will surprise us with a new Quarterback and heck maybe even a new coach, time will tell...for now I guess I will rally behind the Pittsburg Steelers in hopes they can pull out another Superbowl win! And I am still a little mad at Justin, he was rooting for the Cardinals!

## From Justin's Desk

O.K....so I wasn't technically "rooting" for the Cardinals, I just new that McNabb (Eagle's QB) was going to ruin the game for the whole team. When they won the previous two games, it's time to lose one. They lost the game due to 2-3 bad passes, all of which were throw behind the receiver. My opinion is when you are leading a receiver with your pass, you better make sure it is going to be thrown to a spot ahead of the receiver. I'm not asking for the pass to be dead on, just in front of the receiver. That way the receiver can at least see the ball and pick up his pace if needed. If the ball is thrown behind, it's over. I am an Eagles fan by association...one cannot live happily in Philadelphia and not be an Eagles Fan. Philly fans can be pretty brutal when it comes to their home teams. I predict Steelers will win the Superbowl...23 to 21.

## From Stephanie's Desk

January starts a bright new year in which many of us will be making new year resolutions. I have made an interesting one for the year, I have given up coffee! It was a tough resolution to make; however, I set myself up very well by beginning in December. This way I wasn't in for complete failure. It was a pretty touch trek in the beginning, I was incredibly addicted to the caffeine kick in coffee that used to get me going in the morning. To make things a little better on myself, I have found an amazing alternative, Teavana. It is my new obsession. For those of you who do not know, it is a store that sells wonderfully delicious tea and all the tea accessories you can think of. If you get the chance, stop in one, I have heard that there is a local one in King of Prussia Mall. And for everyone who is beginning their new year's resolutions this month, stick to it and good luck!