

# Financial Foresight

Dempsey Investment Management • Winter 2008 Edition

## Send Your Money Packing

If you were shopping for a car would you consider a Toyota or BMW? How about other products in your home? Would you consider a Sony TV or stereo, a Canon camera or a Nokia cell phone? Were many of the products you purchased recently made overseas? Chances are you would answer “yes” to most of the above but when it comes to investing many people stay close to home. According to Schrodgers Individual Investor Survey from 7/23/07, “87% of American investors do not have any money currently invested in international stocks.” Of those that do invest overseas, only about 5% of their money is invested abroad.<sup>1</sup> Many model portfolios suggest up to 30% of your money should be invested in international stocks. Here are three good reasons to do so:

**Diversification:** Not only are you hedging against downturns in the U. S. market and the dollar, you are choosing from some of the best run companies in the world. Foreign and U. S. markets can have low correlation which means they may perform very differently during the same period of time. Between 1997 and 2006, the U. S. has only once made ING’s list of Top Performing World Markets. This occurred

in 1997 and the U. S. only came in fourth place.<sup>2</sup>

**Growth:** Many overseas markets and economies are growing faster than the U. S. market. In 1980, the U. S. stock market represented 62% of the world equity valuation and by December 2006 we were down to 48%.<sup>3</sup> Currently, 45 of the largest 100 businesses are headquartered overseas.<sup>4</sup> While the U. S. economy has been growing in the low single digits, many emerging markets are growing in the high single digits or more.

**Dividends:** Dividend yields from overseas companies are often higher than those of U. S. companies. A prime example is Powershares, offering two indexes, limited to stocks with a history of raising their dividends. These dividend increases must be for at least the last 10 years for domestic stocks (symbol: PFM) and five years for international stocks (symbol: PID). The respective yields as of 12/28/07 were 1.91% for PFM and 2.46% for PID.

Even more impressive is the rate of growth in dividends. According to WisdomTree, in 1995 emerging markets were only paying 5.11% of the combined global dividends. By May of 2007, that percent had grown to 10.61%. Over the ten years leading

up through May 2007, international emerging markets in the WisdomTree Emerging Markets Index grew their dividend at a 17.7% annual rate. Developed International Markets grew at a rate of 12.3%. This compares to 7.11% for the U. S. WisdomTree Dividend Index.<sup>6</sup>

There are multiple ways to take advantage of international markets. You may choose individual stocks (both domestic and foreign), mutual funds and ETF’s. Purchasing domestic stock in companies with a large overseas customer base can be a less intimidating approach. Many U. S. companies generate 50% or more of their revenue overseas. GE gets approximately 51%<sup>7</sup>, Caterpillar 53%, 3M 61%, McDonalds 65% and Nike 62%<sup>8</sup>. Depending on your situation, any or all three of these options could be the right fit for you. Avoiding these markets may limit your opportunities for diversification, growth and income.

<sup>1</sup> Saler, T. D., “Seeing the Big Picture: A Global Approach to Investing”, ING Funds White Paper, p. 2.

<sup>2</sup> *ibid.*, p. 3.

<sup>3</sup> *ibid.*, p. 2.

<sup>4</sup> *ibid.*

<sup>5</sup> Siegel, J., “A Common Sense Approach to Investing in Emerging Markets”, Wisdom Tree Investments, Inc., 11/29/07, wisdomtree.com.

<sup>6</sup> GE Shareholder Services.

<sup>7</sup> Stewart, J. B. (2007, March). Common Sense. *Smartmoney*, p. 48.

## A Hidden Asset

By Terry Sexton

Are you a collector? Have you felt the thrill of the acquisition, and that special pride of ownership when adding that special piece to your collection? Within the United States, where we have perfected the acquisition of stuff, it turns out that we have also come to the conclusion that certain “stuff,” when valued by others, is not just “stuff” at all; it is instead “collectible” and now we too are “collectors.” While our culture seems

to go out of its way to ensure that no one has a financial education, we are all taught at the earliest age how to collect - the art of ACQUISITION. Barbie dolls, baseball cards, Pokemon cards, Star Wars figures – the list is really quite long, but I believe you get the point. And should you doubt this phenomenon, when was the last time you were on eBay?

Having been taught the importance of acquisition, it is absolutely imperative that we also be taught the second lesson –

VALUE. For example, I’m sure you’ve read or heard of the early Scottish broad sword discovered by a tourist while tripping on a rock. The sword was bought by the Museum of World Swords for an undisclosed price – but it was a princely sum. The tourist got to meet the Queen and was flown home first class with a bottle of thirty-year-old scotch with the Queen’s written autograph. Oh! You missed that one? Then surely you heard of the woman in Wisconsin who discovered a rare Dutch painting at a garage sale. And of course, everyone knows of the Barbie

doll that sold for three zillion dollars. Thus, through headlines, breaking stories and such, we learn that some “stuff” can have great value.

Collecting is fun and can be rewarding. But most importantly, your collection may be your most valuable asset. The art of collecting certainly involves the ability to acquire, but anyone with a few disposable dollars can do that. But when we have LEARNED how to DISCRIMINATE between items having value and those having none, we become a true “collector,” and with that knowledge comes opportunity. That opportunity may turn in to a second career, or the collection a part of our retirement savings.

We have now determined that you are an owner of a collection. Does your family know? Of course they do! My wife just scolded me for leaving that stuff all over the dining room table. But do you know the value of her “stuff.” Do you know what you have paid for every piece in your collection? How will she dispose of your collection? You or hers? Are the collectibles suitably protected or are they losing value each day?

Does your Financial Planner know? Here’s why they should know: Your Financial Planner can help determine whether your collection and, more importantly, your knowledge is a hidden asset. They should be able to help with insurance questions,

tax questions, and estate planning. Your collection is important to you, it should be important to them. The rules for retirement planning have significantly changed. We are living longer, social security is uncertain, pension plans have been restructured, and it most likely that most of us will have to continue working into our seventies. Right now only five of every one hundred of us will be able to maintain their lifestyle in retirement. Will you be one of the five? Your collection may make the difference.

*Terry Sexton the owner of FVII, is a collector and dealer of investment grade coins. He can be reached at: [tersexton@aol.com](mailto:tersexton@aol.com).*

## Flurry of Tax Changes at End of 2007 – Much Ado About Something?

By Ken Nussbaum

Late in 2007, there was quite a bit of tax legislation activity. While the Alternative Minimum Tax “patch” received extensive media coverage, did it really do anything to impact the average taxpayer? Yes. The AMT, as it is known, is fairly difficult to understand. In fact, most people only know about it if it affects them. Essentially, it is a parallel tax calculation that disregards certain deductions that are allowed under the regular tax system. Your tax liability is the higher of the two calculations.

The AMT calculation provides for a exemption amount, which in effect means that unless your income were over a certain amount it was not likely that your AMT calculation would yield a higher tax bill. The exemption amount is indexed for inflation, but the rule providing for the inflation adjustment had expired, so the 2007 amount was scheduled to be significantly lower than it had been in 2006. So, had the patch not been implemented to increase the exemption amount, the AMT definitely would have impacted many more taxpayers than will now be affected.

There were many other tax benefits that were extended to the 2007 tax year and beyond. Be sure that you understand how you may be able to benefit from the laws enacted in the last couple of weeks of 2007.

### *2007 is Over, but Tax Planning Opportunities Remain*

Don’t forget that there are a number of ways to reduce your income tax bill even after the year has ended. Your 2007 IRA contribution may be made until April 15, 2008. The maximum contribution you may make is \$4,000, or \$5,000 if you are age 50 or over. But bear in mind that even if you are eligible to make the full contribution, you might be better off to forgo the deduction and instead make a non-deductible Roth IRA contribution, presuming that you are likewise eligible to make such a contribution.

If you are eligible to contribute to a Health Savings Account in conjunction with your high deductible medical plan, you similarly have an opportunity to make contributions until April 15, 2008 and get a deduction for 2007. For 2007, you are permitted to deduct up to \$5,650 for a family plan and \$2,850 for an individual plan, regardless of your actual deductible amount. Plus, if you are 55 or over, you are permitted to make catch-up contribution of \$800 for 2007.

Another possibility for reducing your 2007 tax bill comes in the form of a SEP-IRA. If you are self-employed, or are the employee-owner of your own corporation, a SEP may be appropriate for you. If you have “outside” self-employment income in addition to your regular employment, you may contribute to a SEP in addition to the amount you are contributing to your 401(k) at work. You’ll probably be permitted to put away roughly 20% of your net outside earnings. And, as an added bonus, the SEP contribution isn’t required to be made until the extended deadline of the tax return, meaning that you have the ability to defer the 2007 SEP contribution until October 15, 2008. Note, though, that the combined 2007 contribution limit to your SEP and 401(k), before considering any catch-up contribution to your 401(k), is \$45,000.

In summary, you may still have numerous opportunities to reduce your 2007 tax bill or to make other strategic decisions. To explore ways to make your financial future brighter and your tax bill smaller by taking advantage of those opportunities, please contact me.

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