



Registered Investment Advisor

STEIN WHITTINGTON DENIEL INVESTMENT ADVISORS

Wealth Manager

July 09

IMPORTANT CHANGES TO TAXATION OF IRAS AND OTHER MATTERS

Introductory Statement. The equity markets appear to have bottomed as the markets are registering higher lows and higher highs, even if some volatility persists. Indeed, the second quarter was the best quarter since 2003. Going forward, we expect an excellent environment for Covered Call Writing with sideways markets the next 12 months or so as the economy slowly improves and volatility moderates. This quarter we have decided to devote our Wealth Manager to discussions of recent tax legislation that could prove financially advantageous to our clients.

Roth IRA Conversions. Congress has enacted legislation which attempts to assist persons to restore their battered retirement nest eggs. Before the Tax Increase Prevention and Reconciliation Act (the "Act"), an individual could not convert a traditional IRA account to a Roth IRA if the household modified adjusted gross income exceeded \$100,000. Married persons filing separate could not convert at all. The Act has changed these rules regarding the conversion of a traditional IRA to a Roth IRA, enabling persons with higher incomes to invest in Roth IRA accounts and obtain the significant benefits of a Roth: no taxation when funds are withdrawn and no required minimum distributions; withdrawals are tax free to heirs as well. When comparing to a traditional IRA, this makes the Roth not only free from taxation but also free from future tax increases which affect a regular IRA. Under the Act, starting January 1, 2010, income limitations have been eliminated; anyone can now convert a traditional IRA to a Roth IRA. This change also benefits current retirees who rolled their pension plans and 401K into traditional IRAs.

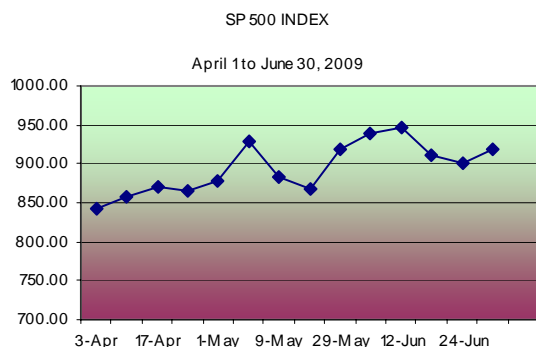
Congress has enacted legislation which attempts to assist persons to restore battered IRA nest eggs.

It is true that one must pay income taxes on the amount converted (pretax contributions and accumulated earnings). However, the new law provides some relief: when one converts in 2010; taxes due can be stretched over two tax years; they will be reported in the 2011 and 2012 tax returns. (Normally, taxes are due in full on the year of conversion). If the Roth IRA which receives the converted assets declines in value after you have paid taxes on the conversion, you could choose to change your mind and re-characterize the account as a traditional IRA. Thus, the new legislation provides a great deal of flexibility which leads to some financial planning potential to persons with traditional IRA accounts. The regulations are quite complex; the matter should be discussed in depth with your tax advisor before proceeding to convert any IRA assets.

Social Security Benefits-Election. You might have claimed your social security benefits early, at age 62, even though your benefits were reduced by the election to take them early. However, if you later decide (before you turn 70 years old) that you want to re-elect your Social Security benefits, you can do so — that is, you are not locked into your original election. If you change your mind, you and your spouse must return in a lump sum all social security benefits (but not interest) received since the election to take benefits early, at age 62. Again, any action in this area should first be discussed with your tax advisor.

Charles Schwab Waives Fees on New Accounts. In a move to assist its investment advisors, Schwab has decided to waive brokerage commissions for one year (from July 09 to June 2010) as well as reimburse any transfer fees, for all new accounts advisor accounts. This is a significant and valuable offer by Schwab to clients of Investment Advisors, however it applies only to new accounts not new moneys added to an existing account. A client with a Schwab brokerage account may transfer a spouse's IRA from another broker.

THE QUARTER IN REVIEW



Only new accounts will qualify for these valuable benefits. Please consult with us to determine what accounts will qualify as Schwab's action provides an excellent opportunity to avoid commissions normally applicable. Schwab is still in the process of clarifying how it will apply the commission fee waiver.

The Second Quarter of 2009.

The second quarter of 2009, was an extraordinary quarter exhibiting the best performance since 2003. For the quarter, the major indices were all up: DJIA, +11%; S&P +15%, and NASDAQ, +20%. This performance was welcome as the first part of the year — until March 9, 2009 — it had been abysmal. All major indices remain far from their all-time highs; for example, in the case of the DOW, as of the end of the quarter, it is still 40% off of its all-time high on October 9, 2007. While the U.S. indices discussed in this paragraph performed very well, it was the emerging markets which really exploded. For example, the market indices for India, were up 49% for the quarter; for Brazil, 26%; for China/Shanghai, 25%.

Commodities prices, which had fallen drastically during the first quarter, began to show signs of life. We know the price of crude oil rose 41% in the quarter. However, other commodities also rose in price, although during the last few weeks of the quarter, commodity prices gave back some of their earlier gains as the dollar strengthened. Prices of certain foods, such as soybeans and sugar rose sharply during the second quarter, giving rise in

some quarters to inflation fears.

While "talking heads" have differing opinions, the most recent data available suggests that a market bottom has been reached and, going forward, the economic activity should continue to improve, albeit slowly. Some of the data includes the following: The Institute for Supply Management's manufacturing index hit 44.8 in June, up from 42.8 in May. In June, the private sector lost 473,000 more jobs according to a report by ADP Employer Services. This figure was down from 485,000 jobs lost in May. China has continued to see success from its massive capital program and in mid-June the World Bank raised its growth forecast for China to 7.2% from the 6.5% it had forecast in March. The prospects for auto sales in the United States, suggests we are on line for annual production of automobiles in the United States at the rate of 10 million units. Ford Motor's stock is approaching a 52 week high. There are reports that financing, especially financing for large cyclical companies, is loosening up from just a few months ago. Worldwide, 78 companies raised \$10.6 billion in initial public stock offerings during the second quarter, a good sign of economic life returning to battered capital markets. Even so, these figures are quite small compared to prior years, such as 2007 when the financial markets were roaring. The largest public offering in the world last quarter was the \$4.27 billion raised on the Brazilian stock exchange by VisaNet, the Brazilian affiliate of Visa, Inc.

Charles Schwab and Co: we are not affiliated with Schwab. However, from time to time they have product offerings that our clients might be interested in. Schwab Bank has a no fee, free checks, electronic bill paying bank account. They also have a 2% cash back credit card. If interested, call our office for info.

Stein Whittington Deniel Investment Advisors

73-255 El Paseo, Ste. 14

Palm Desert, CA 92260

Telephone (760) 776-1488

Toll Free (888) 650-9300

Fax (760) 776-5778

Web site: www.steinwhittingtondeniel.com