

SPOTLIGHT

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Tough Questions Every Investor Should Ask

When the investment markets get tough, it's time for investors to get back to basics. That means asking the hard questions.

Today's investors navigate a sea of financial information. Cable programs, internet sites, financial blogs, and e-mail spin out news and advice 24/7. It's easy to get caught up in the noise, make emotionally based decisions, and act on impulse. That's when the tough questions help.

The questions investors need to ask aren't about economic trends, interest rates, or earnings forecasts. They focus on goals, plans, and skills. In difficult times, they provide a foundation for investment decisions that can hold up under pressure.

Five Key Investment Questions

Before you invest, there are basic five questions to ask.

What do I want my money to do? Are you investing money that will pay next year's tuition bills, or are you aiming for your dreams of retiring in the Caribbean in 20 years? Identifying the specific reason why you're investing can help provide perspective when the market drops, or help you choose investments that are less vulnerable to ups and downs in the first place.

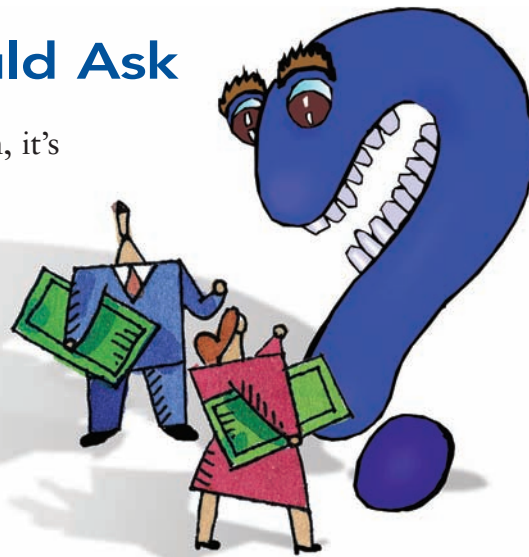
When will I need it? If you'll need the money in five years, that limits the field to investments that have more of an even keel. You want to avoid a situation where you have to sell at an unattractive price because you need the money. If your timing is more flexible, your investment choices can be, too.

How will I react if things don't work out? Answering this takes some self-knowledge. If your investment loses 20% of its value, will you shake it off or stay awake tossing and turning in regret? Screen your investments to avoid taking on more risk than you can stomach.

Do I have the skill, knowledge, and time to manage this investment? Managing a portfolio of individual stocks takes time and knowledge. Stay away from investments you don't have the time or skill to manage, or work with a professional who can help manage them. That way, when things get tough, you're not likely to find yourself in over your head.

How does it fit? If you're already heavily in one type of investment — small-company stocks, for example — think twice before adding more. When too much of your money is in a particular type of investment, risk increases. Coordinating your investments can make your portfolio less susceptible to swings in the market and more aligned with your goals.

You don't have to answer these questions on your own. In fact, it can help to bring in an outside point of view. There is no assurance that working with a financial professional will improve investment results, but it can help you get an independent perspective, benefit from experience, and gain knowledge that will be valuable in figuring out the answers. As an investor, you're likely to be better off in the long run.



As you face decisions that affect your financial future, knowledge can make a difference. We hope you find this newsletter both interesting and informative. We would also like to take this opportunity to say thanks for your continued support. If you have questions about the topics addressed in this issue or any other financial concerns, please feel free to call me at any time.

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Trusting Your Heirs



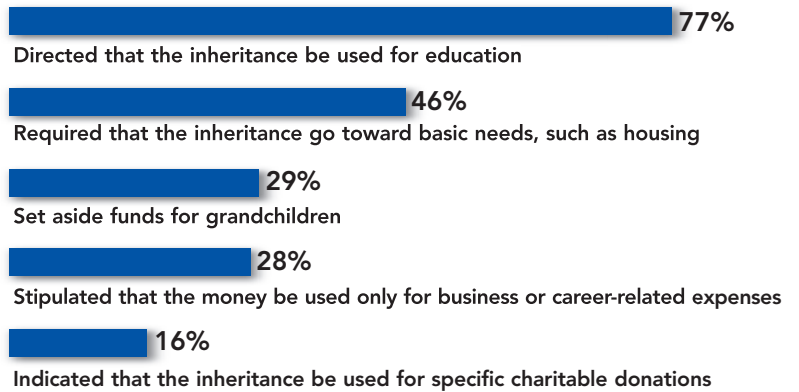
If you are concerned about how your heirs will handle their share of your estate, or if you have specific uses in mind, you might want to consider setting up an incentive trust. This special type of estate document can be used to place conditions on how inherited money can be spent.

For example, you might structure an incentive trust to encourage a child or grandchild to pursue a higher education. Conditions could be put in place so that the trust assets may be used only to pay tuition and related education costs, or to pay a cash reward for the completion of a degree.

If you would like to see your family members pursue some type of work that benefits society but doesn't pay very well, an incentive

Preserving Your Legacy

Here's how people used incentives in their estate conservation strategies:



Source: *Registered Rep*, May 30, 2007

trust can be used to provide additional income. It can also be used to reward success, such as matching each dollar of income heirs earn through their own efforts.

The use of trusts involves a complex web of tax rules and regulations. You

should consider the counsel of an experienced estate planning professional before implementing such strategies.

Teaching your values to your family has always been important. An incentive trust can help you leave behind a legacy that extends beyond wealth.



Spread It Out

Great news for those interested in converting retirement plan assets to a Roth IRA. For conversions completed in 2010, the income taxes owed can be deferred until 2011 and 2012, with 50% of the tax bill due each year. By converting funds to a Roth IRA, investors have the opportunity to receive tax-free withdrawals in retirement.

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).

A Policy for Life

Over three-quarters of Americans (77%) believe it's important to provide for their families after they're gone.¹ Unfortunately, one in three Americans doesn't have life insurance.²

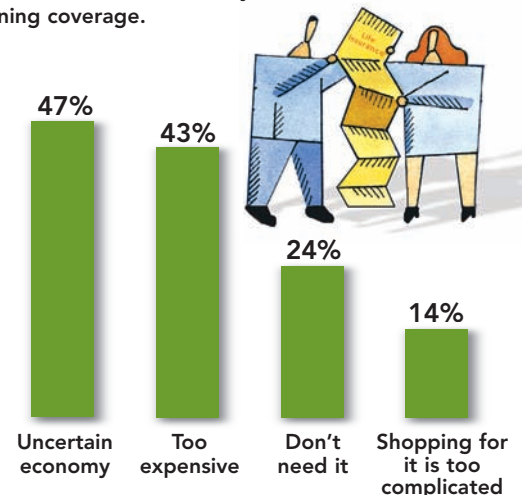
Among those who lacked coverage, 43% said that life insurance was "too expensive" and 14% said shopping for a policy was "too complicated" (see chart). This short primer may help you see that life insurance can be affordable and easy to understand.

Term life insurance provides coverage for a specified period of time. In exchange for the premiums, the insurance company promises to pay a death benefit to the beneficiaries if the insured dies during the term of the contract. Term insurance is typically less expensive than permanent life insurance, especially for younger people.

Permanent life insurance provides coverage over the course of the owner's life as long as the policy remains in force. The policy can also build cash value, provided certain conditions are met, allowing policyholders to borrow or withdraw the cash value if needed. Loans or withdrawals from a life insurance policy's cash value will reduce the policy's death benefit.

Uncovered

Almost half of Americans who don't have life insurance cite the "uncertain economy" as a reason for not owning coverage.



Source: MarketWatch.com, September 23, 2008

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.

1-2) MarketWatch.com, September 23, 2008

The Long Haul

In a retirement survey, 18% of workers reported that they were “very confident” and 43% were “somewhat confident” of having enough money to live comfortably throughout retirement.¹ Will the conservative portfolios of 40-year-olds, 19% of whom own no stocks and 25% of whom have more than half of their money in bonds or cash, be able to sustain them throughout their retirement years?²

When the stock market becomes volatile, it’s not uncommon for people to flee equities for the relative safety of cash or high-quality debt instruments. Although this reaction is understandable, younger workers whose portfolios are too conservative run the risk of not accumulating enough money to maintain their lifestyles over a retirement that could last three decades or more.

Over the past 30 years, stocks have outperformed bonds, despite the fact that stocks struggled through some very difficult periods.³ Given the risks posed by inflation and the effects that taxes can have on your investment income, you may want to consider pursuing potential returns from equities in order to help avoid the risk of outliving your money.

Remember that investments seeking to achieve higher rates of return also involve a higher degree of investment risk. As interest rates rise, the value of existing bonds typically falls. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

As life expectancies continue to rise, it’s important to take the long view on your retirement savings. You certainly want your money to last as long as you do.

Calculate the Taxable Equivalent Yield

Comparing the potential returns of taxable and tax-exempt investments doesn’t have to be like comparing apples and oranges. The taxable equivalent yield is a simple formula that helps investors determine the return at which a taxable vehicle and a tax-exempt vehicle are equal.

In the example below, a 6% tax-exempt yield would be the equivalent of an 8% taxable yield. Generally, the higher your taxable income, the more you can benefit from a tax-exempt investment.



| | Example | You |
|--|---------|-------|
| 1. Take the expected tax-exempt yield | 6 % | ___ % |
| 2. Your federal marginal income tax rate | 25 % | ___ % |
| 3. Subtract your tax rate from 100% (100% – line 2) | 75 % | ___ % |
| 4. Taxable equivalent yield (line 1 ÷ line 3) x 100 | 8 % | ___ % |

This hypothetical example is used for general illustrative purposes only and does not reflect the performance of any specific investments. Possible state taxes, capital gains taxes, and alternative minimum taxes are not considered. This formula is only one factor that should be considered when purchasing securities and is meant to be used only as a general guideline when calculating the taxable-equivalent yields on agency and treasury securities.



Live Longer

As people age, their life expectancies actually increase.

| Current Age | Life Expectancy (in 2006) | |
|-------------|---------------------------|--------|
| | Male | Female |
| Birth | 75.4 | 80.7 |
| 40 | 77.9 | 82.2 |
| 45 | 78.5 | 82.5 |
| 50 | 79.1 | 83.0 |
| 55 | 80.0 | 83.6 |
| 60 | 81.1 | 84.3 |
| 65 | 82.4 | 85.3 |
| 70 | 84.0 | 86.5 |
| 75 | 85.9 | 88.0 |
| 80 | 88.3 | 89.9 |
| 85 | 91.2 | 92.4 |

Source: National Vital Statistics Report, Vol. 56, No. 16, National Center for Health Statistics, June 11, 2008

1) 2008 Retirement Confidence Survey, Employee Benefit Research Institute

2) CNNMoney, 2007

3) Thomson Financial, 2008, for the period 9/30/1978 to 9/30/2008. Stocks are represented by the S&P 500 Composite Index (total return), which is generally considered representative of the U.S. stock market. Bonds are represented by the Citigroup Corporate Bond Composite Index, which is generally considered representative of the U.S. bond market. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results.



Retirement Readiness

Consider this: 44% of people changed their retirement savings preparations after they calculated how much money they would need in retirement.¹ In fact, 59% actually started saving or investing more.²

The first step in setting realistic retirement savings goals is estimating how much retirement is going to cost. Have you attempted to calculate how much you’ll need for retirement? The figure might surprise you.

A financial professional can help you determine how much you might need to save for a comfortable retirement.

1–2) Employee Benefit Research Institute, 2008

Are You Exempt from the AMT?

One provision of the Emergency Economic Stabilization Act of 2008, passed in response to the 2008 banking crisis, included relief from the alternative minimum tax for the 2008 tax year.

The new AMT exemption amount is \$69,950 for married couples filing jointly and \$46,200 for heads of household and single taxpayers.¹ Without this patch, the number of taxpayers affected by the AMT could have grown to 25 million (up from 4 million in 2007), who would have had a \$2,000 average tax increase.²

No Alternatives

The AMT was implemented in 1970 as a way to close loopholes in the tax

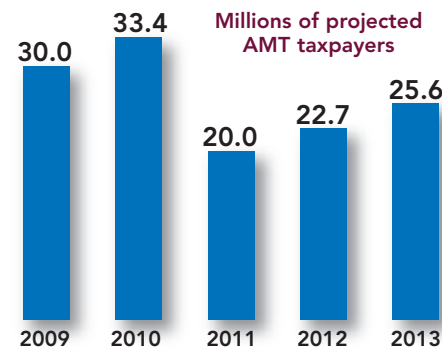
law that allowed some high-income individuals to avoid paying income tax. The AMT is a parallel tax structure that eliminates several common deductions taxpayers are allowed to take under the regular income tax calculation.

Because AMT brackets and exemption levels are not indexed for inflation, more middle-income taxpayers potentially fall under the shadow of this complex tax system each year. Although many proposals have been made, it is uncertain whether Congress will ever be able to repeal the AMT indefinitely.

1) Emergency Economic Stabilization Act of 2008
2) USA Today, September 26, 2008

The Ever-Changing Picture

Because the AMT has never been indexed for inflation, the 2001 and 2003 tax cuts exposed more Americans to the alternative tax. When the tax cuts expire after 2010, fewer taxpayers will be subject to the AMT, but more people will be captured over time.



Source: Tax Policy Center, 2008

Career Opportunities in Financial Services

If you know someone interested in pursuing a career in the financial services profession, please contact your personal financial representative.

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You should consult your tax advisor regarding your own tax situation.

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