



Welcome to our September edition of Directions.

**September 2011**

## What's New at our Practice

### *October 15 Tax Deadline is Approaching*

The deadline to file 2010 income tax returns is fast approaching. If you have not already, please contact our office to ensure that we are equipped to finish your return in a timely manner. In some cases you may also have the opportunity to contribute to individual retirement accounts and lower your taxable income for 2010.

You can contact our office at [info@jvituccifinancial.com](mailto:info@jvituccifinancial.com).

### *2nd Opinion Service -- No Cost Review of your Financial Plan and/or Tax Return*

Many clients have used one or the other of our core services for many years, and have trusted our professionals to deliver in crafting a durable financial plan or preparing & planning tax returns with the highest degree of due diligence. Those clients that leverage our expertise in using both services have experienced synergy through joint strategy sessions & proactive tax efficiency planning

To that end, we are offering a no cost 2nd opinion on either your financial plan (if you are a tax client only), or your tax return (if you are a planning client only). Allow us to see if we can add value to your current situation.

### *Follow Us on Twitter*

September 15th marked the official launch of our twitter page. By expanding our social media presence to twitter we hope to offer

## Also...

### **Twitter Updates:**



**Follow us on Twitter for important updates about our Practice and the World of Personal Finance**

### **Read the Mid-Quarter Market Commentary**



**August Mid-Quarter [Market Commentary](#)**

clients one more communication access point to our practice.

We will be using our twitter page to announce news at our office, inform on important tax & financial planning updates, & comment on salient economic & financial issues. You can follow us at [www.twitter.com/jvitucci](http://www.twitter.com/jvitucci)

## Food For Thought

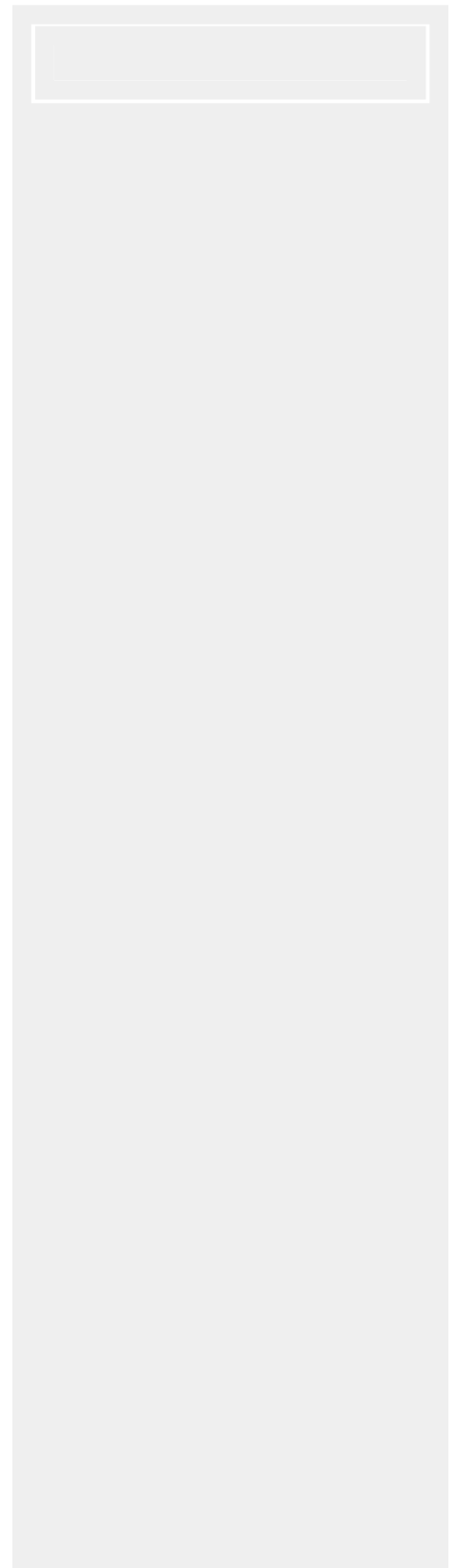
### *Fixed Annuities: A Potential CD "Alternative"*

With interest rates so low, it can be difficult to find lower-risk investments with a fixed rate of return. Depending on your time horizon & other financial factors, fixed annuities could be a good place for some of your low risk assets.

Annuities are tax-deferred in nature, so unlike a CD, you do not pay tax while the money grows in the annuity. Interest rates can also be more competitive than those of bank CDs. It is important to remember that annuities are not FDIC insured, so looking at the issuer's credit rating and track record is very important. Please do not hesitate to call our office to inquire about the current rates on fixed annuities.

### *Featured Blog: [The Efficiency of Your Life Insurance Plan](#)*

A common issue upon which we revisit with clients on a regular basis is the efficiency of their life insurance. Typically people will have either an old policy that was taken out when they first started their career and/or a specific amount provided by an employer. While updating your coverage to a new policy can sometimes lower your costs with greater amounts of coverage, often the original intention of the insurance has changed for the person. [READ MORE](#)



reconvert with a lower asset value, and hence a lower tax liability. This concept is predicated on notion that your accounts have lost value since your original conversion to Roth. If your advisor has not discussed this concept with you, give us a call to see if we can help with your situation.

## Featured Wealth Management Thought:

### ***Government Still has Options to Stimulate Economy***

**What can Washington do now to help consumers, housing and stocks?** Despite what you may have heard, options remain. The Obama administration and the Federal Reserve are reportedly considering two interesting tactics: one first employed 50 years ago, and another that could bloom into a multi-faceted effort to aid homeowners under pressure.

**Is a great mass refinancing coming?** The August 24 edition of the *New York Times* mentioned that the White House was mulling over three different proposals to aid the housing market.

- One plan would let homeowners with government-backed home loans refinance those mortgages at today's 4% interest rates. The potential economic stimulus could be profound: Columbia University professor Christopher Mayer, who first suggested the idea to the Obama administration, thinks it could save homeowners \$75 billion in interest a year. While that would be great for Main Street (and personal spending), it might rile the regulator supervising Fannie Mae and Freddie Mac and mortgage bond investors. Banks could applaud this program, which could start without Congressional approval and without drawing down the \$45.6 billion in Troubled Asset Relief funds earmarked for aiding homeowners. (Those billions could be redirected for deficit reduction.)
- A second proposal would change criteria for the federal refinancing programs already up and running so that more mortgageholders could become eligible for help.
- A third plan (actually the most developed of the three) would help troubled homeowners rent out their residences to avoid foreclosure. Houses owned by Fannie and Freddie could be converted to rentals or put to other uses. This plan may prove very attractive to investment firms, especially if the federal government lends them money to promote their involvement.<sup>1,2</sup>

**Could the Fed try a new variation on Operation Twist?** In early 1961, we were facing a recession. Soon after taking office, President Kennedy convinced the Federal Reserve to sell short-term Treasuries and invest the proceeds into longer-term bonds. This program -

known as Operation Twist - was kind of like a small-scale ancestor of QE2. It lengthened the average maturity of the Fed's holding of Treasuries and it was fairly successful; it had an impact roughly akin to a 1% cut in the federal funds rate.<sup>3,4</sup>

Returning to Buffett, the "oracle of Omaha" once famously said that you should "only buy something that you'd be perfectly happy to hold if the market shut down for 10 years." The stock market is very much a long-term proposition. The last decade or so aside, taking a long view and sticking it out has had its merits.<sup>4</sup>

Operation Twist had two objectives:

- To bump up the yields on shorter-term Treasuries, thereby making them more attractive to overseas investors while aiding the dollar.
- To reduce long-term Treasury yields and stimulate longer-term investments.

Operation Twist was also a weapon against cross-currency arbitrage. The U.S. was on the gold standard then; billions in gold were leaving our shores. Foreign investors were converting dollars to gold and using the gold to purchase higher-yielding assets in Europe.

Today, the playing field has changed – yet a sequel to Operation Twist could potentially increase appetite for risk. If an effort like this manages to reduce yields on “safe” assets, insurance companies, pension funds and other institutional investors could be convinced to put their money elsewhere (i.e., equities).

Lower long-term interest rates could also reduce the cost of capital for companies and encourage borrowing on Main Street: mortgages, auto financing and other consumer loans would be less expensive. JPMorgan economists think that a new Operation Twist could possibly lower mortgage interest rates by .1%. (This projection assumes the Fed passively buys \$20 billion in long-term Treasuries per month.)<sup>3</sup>

Of course, the stock market would prefer to see a full-blown QE3 rather than the comeback of Operation Twist. Yet with GDP so anemic and the stock market and housing sectors both needing boosts, any idea with merit is welcome – and these proposals may go from drawing board to reality this fall.

#### Citations

<sup>1</sup> - [nytimes.com/2011/08/25/business/economy/us-may-back-mortgage-refinancing-for-millions.html](http://nytimes.com/2011/08/25/business/economy/us-may-back-mortgage-refinancing-for-millions.html) [8/25/11]

<sup>2</sup> - [foxnews.com/politics/2011/08/25/obama-administration-weighs-mortgage-refinance-plan/](http://foxnews.com/politics/2011/08/25/obama-administration-weighs-mortgage-refinance-plan/) [8/25/11]

<sup>3</sup> - [money.msn.com/investing/can-the-fed-chief-calm-our-fears-mirhaydari.aspx?page=2](http://money.msn.com/investing/can-the-fed-chief-calm-our-fears-mirhaydari.aspx?page=2) [8/24/11]

<sup>4</sup> - [foxbusiness.com/markets/2011/08/10/is-fed-reserve-operation-twist-20-around-corner/](http://foxbusiness.com/markets/2011/08/10/is-fed-reserve-operation-twist-20-around-corner/) [8/10/11]

<sup>5</sup> - [montoyaregistry.com/Financial-Market.aspx?financial-market=wealth-planning-using-the-stretch-ira-strategy&category=4](http://montoyaregistry.com/Financial-Market.aspx?financial-market=wealth-planning-using-the-stretch-ira-strategy&category=4) [8/28/11]

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