



JOHNSTON INVESTMENT COUNSEL

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Johnston Investment Counsel

Gregory A. Johnston, CFA,
CFP, QPFC, AIF
President & Chief
Investment Officer
331 Fulton
Suite 429
Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com

Improve Your Chances of Getting a Home Loan

Okay, the housing market is in turmoil, but you figure now might be the best time to buy a new home, while prices are down. But you're worried about the credit crunch. Will you qualify for a mortgage? Here are some tips that should help you improve your chances.

Check your credit report and score

Make sure that what potential creditors will see about you is accurate and puts your "best face forward." Your credit report is an accumulation of what your creditors say about how you use credit. You are entitled to one free credit report a year from the three major credit reporting agencies (Equifax, Experian, and TransUnion). Order it online at www.annualcreditreport.com or by calling (877) 322-8228. Your credit score (the numerical result of a mathematical formula that's applied to all the information in your credit report) is not free, but you may purchase it either when you request your free credit report or by contacting any one of the credit reporting agencies.

Check your reports for any inaccuracies; if you find any, contact the credit reporting agencies that list them and ask them to address the errors.

And clean up your act, if need be.

Make sure you are current on all your accounts. If you discover any delinquencies, bring them current as soon as possible. Pay off any small outstanding debts, particularly any that might be in collections. And, to achieve a high credit score, try to maintain balances that are no more than 30% of your credit limits.

Improve your ratio

Generally, if you are applying for a conventional mortgage, your total long-term debt (monthly housing expenses plus other debt payments that won't be repaid within a year)

should be no more than 36% of your gross monthly income. What if your debt-to-income ratio is or will be higher? Here are a couple of things that might help improve your situation:

Pay down your consumer debt. Not only will this help your credit score, but it will also give you more flexibility within your monthly budget. Once your debt is repaid, for example, you can save more toward a down payment.

Take a second job. This doesn't have to be a life sentence. The income from a temporary second job can be used to reduce your debt, increase your down payment fund, and improve your debt-to-income ratio until you obtain a mortgage.

Build your down payment fund

While it is still possible to get a mortgage with a minimal down payment--Federal Housing Administration (FHA) mortgages require down payments of as little as 3.5% of the home's purchase price--a larger down payment will usually assure you a higher loan limit and a better interest rate. Generally, you'll have the best chance of getting the highest limit and lowest rate on a conventional mortgage if you can make a down payment of 20% of the purchase price of the home you want to buy.

In addition, if you are able to put 20% down, you can avoid having to carry private mortgage insurance (PMI).

If you'll have to take on PMI payments, however, keep in mind that you may not have to pay them forever. Your lender is obligated to cancel your PMI once you have reached 22% equity in your home, provided you have a good payment history. And if you do have a good payment history, you can petition your lender to remove the PMI once you reach 20% equity in your home.



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IRAs and 401(k) Plans: Four Strategies in a Declining Market

No doubt, 2008 was one of the worst years in the history of the stock market, and one of the worst for retirement savings. Here are four things you can do now to help make the best of a bad situation.

1. Review your retirement plan

Review your overall retirement plan with your financial professional. What, if any, adjustments can you make to help you reach your retirement goals? If you were planning to retire in a certain year, determine if that's still realistic, and calculate how much longer your assets might last if you work a few years longer. Can you reach your goals by using a smaller withdrawal rate assumption, or by increasing your IRA or 401(k) savings? Does your asset allocation still make sense? And if you don't have a plan for your retirement, now is a good time to think about establishing one.



2. Convert your traditional IRA, or transfer 401(k) plan securities, to a Roth IRA

Due to declining values, the tax cost of converting to a Roth IRA has dropped dramatically for many investors. Consider whether converting to a Roth IRA makes good financial sense for you. The taxable portion of your traditional IRA will be subject to ordinary income tax in the year of conversion, but qualified distributions from your Roth IRA will be entirely free from federal taxes.

For 2009, you're able to convert only if your modified adjusted gross income is \$100,000 or less (this dollar limit applies whether your tax filing status is single or married filing jointly). If you're married filing separately, you can't convert at all in 2009. But if these rules preclude you from converting, there's always next year—literally. These limitations are repealed in 2010, so anyone will be able to convert a traditional IRA to a Roth, regardless of income level or marital status.

Similarly, if you've decided a Roth IRA makes sense for you, and you're entitled to a distribution from your 401(k) plan, keep in mind that you can roll over (that is, essentially convert) your non-Roth assets to a Roth IRA (hardship withdrawals, certain periodic payments, and required minimum distributions (RMDs) can't be rolled over). This may be especially attractive if you're entitled to an in-kind distribution of employer stock whose values are seriously depressed—you'll pay tax on this reduced value and any additional appreciation may be

tax free. (The same income and marital status limitations that apply to traditional IRA conversions also apply to rollovers from 401(k) plans to Roth IRAs in 2009.)

3. Undo a 2008 conversion in 2009

What if you already converted your traditional IRA to a Roth in 2008, and your IRA balance has taken a significant hit since then? The tax cost of converting was probably much greater than if you had waited until 2009 to convert. Well, don't fret—you can undo a 2008 conversion up until the due date for filing your 2008 tax return, including extensions. Technically called a "recharacterization," this procedure allows you to treat the conversion as if it never occurred.

To undo your 2008 conversion, you need to carefully follow these steps:

- Inform your IRA providers (the one holding the Roth IRA and the one providing the traditional IRA, if different) that you intend to recharacterize your Roth IRA to a traditional IRA. You must provide this notice on or before the date the assets are transferred back to the traditional IRA.
- Make sure the transfer is completed by the due date for filing your federal income tax return for 2008, including extensions. For most taxpayers, that can be as late as October 15, 2009. (If you've already filed a timely 2008 tax return, you can still recharacterize by making the transfer and filing an amended return by October 15, 2009. Be sure to write: "Filed pursuant to Section 301.9100-2" on your Form 1040-X.)
- Report the recharacterization to the IRS (see Form 8606 for more information).

You can even reconvert your traditional IRA back to a Roth in 2009 (if you meet the eligibility requirements) beginning on the 31st day following the recharacterization.

4. Continue to contribute

Despite the recent downturn, for many people IRAs and employer retirement plans remain important vehicles for retirement savings. Make sure you're taking full advantage of any company matching contributions you're entitled to. And if you're age 50 or older, keep in mind that you may also be able to make catch-up contributions (up to \$1,000 for IRAs and \$5,500 for 401(k) plans in 2009).

Roth conversions

Individuals who would like to contribute or convert to a Roth IRA in 2009 but don't qualify because of income limitations might benefit from making nondeductible contributions to a traditional IRA today, and converting the funds to a Roth IRA in 2010, when the income limits no longer apply. Additionally, for Roth conversions in 2010 only, any resulting taxable income will be deferred until 2011 and 2012 (with 50% taxed in each year).

You've Just Lost Your Job. Now What?

Maybe you saw it coming, maybe you didn't, but there it is--the pink slip in your In box, the personnel officer shaking your hand as you're shown the door. So, what are you going to do now--I mean, right now?

Evaluate your exit package

If you haven't already done so, find out the exact terms of your termination. Are you being fired for cause? Laid off? Downsized? Will you lose your health insurance immediately (unless you pay to extend it through COBRA), or will it carry you through the end of the month? Are you being offered a severance package? (Do you have any leverage to negotiate it?) Will receiving it depend on signing a waiver? (If so, you might want to consult an attorney first.) Are you required to sign a non-competition or a nondisclosure agreement? Will you receive any help searching for a new job (outplacement), or be allowed to use company equipment (copy machine, telephones, etc.) while you're doing so? Will your former employers write references for you? And what will they say about you when future potential employers call to verify your employment?

Call your state unemployment office

Since your unemployment benefits may not start until two or three weeks after you file your claim, the faster you can initiate processing of your claim, the sooner you'll receive your first check. In general, your benefits will be a percentage of your earnings, up to your state's maximum claim amount. Depending on your state, your benefits may last up to 26 weeks, and may be extended during periods of high unemployment.

Tell your family, friends, and associates

Losing a job is one of life's hardest experiences, and you shouldn't try to "go it alone." Tell your family, friends, and business associates what has happened. Not only can they be emotionally supportive, but they also may be able to help you find your next job. During any transition between jobs, particularly one that takes a while, your lifestyle may be affected, and your family, particularly those you support, will need to understand the financial implications of this.

Review your financial situation

Obviously, your financial situation will be impacted by your loss of income, especially if your lack of employment lasts a while, so now's the time to rethink your budget, even if it turns out only to be for the short term.

Determine your expected income from unemployment benefits and other sources (severance pay, part-time temporary employment, investment income, and perhaps spousal income). Then develop a bare-bones budget (one that pays the essentials and postpones the nonessentials) and compare it to your expected income.

If your expenses will exceed your income, schedule withdrawals from your cash reserve to cover the difference. (Your cash reserve? It's that "financial safety net" of 3 to 6 months income you've accumulated for a situation such as this.)

Also list any other possible sources of potential income, including investment accounts or other assets you could sell if you need to.

Update and reflect

If you haven't done so, update your resume to reflect your recent work history, experience, and references.

There's no better time than this to determine if you're going where you want to with your career. Are you happy with the type of work you do, or is now a good time to make a change? Whether you're making a change or not, would now be a good time to update your skills (or learn new ones) to make yourself more marketable?

If you will be changing careers, slant your resume to highlight the skills and experience relevant to your new direction. Write generic cover letters that will be appropriate introductions for what you seek.

Hit the floor running

Looking for work is, in itself, a full-time job, and you should treat it as such. Look for employment online, in newspapers, and in trade journals. Contact employment agencies and headhunters. Attend industry conferences or seminars, relevant community events, and networking meetings to make new contacts and disseminate your resume. Follow up any new employment leads in writing and/or with telephone calls.

Be positive, and be aggressive. Believe in yourself and your abilities, and don't wait for the world to come to you.



Hard times

According to the U.S. Labor Bureau, 533,000 non-farm jobs were lost in November 2008. Employment has fallen by 2.7 million jobs since the recession first began in December 2007; almost half the decrease occurred in September, October, and November 2008.

Source: U.S. Bureau of Labor Statistics, December 5, 2008.



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Counsel**

Gregory A. Johnston, CFA,
CFP, QPFC, AIF
President & Chief
Investment Officer
331 Fulton
Suite 429
Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com

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Ask the Experts



Can I convert my traditional IRA to a Roth in 2009?

With recent market declines, many investors are taking a new look at converting their traditional IRA to a Roth IRA. For many, the tax cost of converting has dropped significantly, making this a more attractive option.

You can convert your traditional IRA to a Roth IRA in 2009 if your modified adjusted gross income (MAGI) is \$100,000 or less. If you file a joint federal tax return with your spouse, the \$100,000 limit applies to your combined income. If you're married filing separately, you're not allowed to convert at all in 2009.

You generally have to include the amount you convert in your gross income for the year of conversion, but any nondeductible contributions you've made to your traditional IRA won't be taxed.

If you're not eligible to convert in 2009, there's always next year--literally, in this case. Starting in 2010 anyone can convert, regardless of income level or marital status. Plus, if you

convert in 2010, you're allowed to spread the income tax hit over two years: you report half the taxable income from the conversion in 2011, and half in 2012. So, even if you're eligible to convert in 2009, you should discuss with your financial professional whether it makes sense in your particular case to wait until 2010 to convert in order to take advantage of this special tax rule.

If you're eligible, converting is easy. Simply notify your IRA provider that you want to convert your existing IRA to a Roth IRA, and they'll provide you with the necessary paperwork to complete. You can also transfer or roll your assets over to a new IRA provider.

Remember that you can also convert SEP IRAs (and SIMPLE IRAs that are at least two years old) to Roth IRAs. And, if you're eligible for a distribution from your employer retirement plan (for example, a 401(k) or 403(b) plan), you may also be eligible to transfer or roll over those distributions to a Roth IRA, subject to these same conversion rules.

I converted my traditional IRA to a Roth in 2008--can I undo this?

In most cases, yes. If you converted your traditional IRA to a Roth IRA in 2008, before the recent market downturn, you may find that you now owe taxes on a conversion amount that's significantly higher than what your investments are now worth. If that's the case, you may find it advantageous to undo your conversion. The IRS refers to this process as a "recharacterization."

You may also want to recharacterize if you converted in 2008, and now find that you weren't eligible because your 2008 income is higher than you expected.

A recharacterization is essentially a do-over. You're treated as if you never converted your traditional IRA to the Roth IRA. You accomplish this by transferring the Roth IRA assets, and any earnings, back to a traditional IRA (in a trustee-to-trustee transfer if you're using a new traditional IRA provider).

To undo your 2008 conversion, you need to carefully follow these steps:

- Inform your IRA providers (the one holding the Roth IRA and the one providing

the traditional IRA, if different) that you intend to recharacterize your Roth IRA to a traditional IRA. You must provide this notice on or before the date the assets are transferred back to the traditional IRA.

- Make sure the transfer is completed by the due date for filing your federal income tax return for 2008, including extensions. For most taxpayers, that can be as late as October 15, 2009. (If you've already filed a timely 2008 tax return, you can still recharacterize by making the transfer and filing an amended return by October 15, 2009. Be sure to write: "Filed pursuant to Section 301.9100-2" on your Form 1040-X.)
- Report the recharacterization to the IRS (see Form 8606 for more information).

If you undo your 2008 conversion in 2009, you generally won't be able to convert back to a Roth IRA until 31 days after the recharacterization.