In This Issue...

RB Capital Management, LLC

986 W. Alluvial, Suite 101
Fresno, CA 93711
(559) 432-6100
(559) 432-6110 Fax
rob@rbcapitalmanagement.com
www.rbcapitalmanagement.com

Rob Ballan
Portfolio Manager

The Bulldog Bulletin

3RD QUARTER 2012

Dealing with Your Investment Personality

How do *you* define investment success? Is it:

- ❍ Doubling your money every year?
- ❍ Beating the stock market?
- ❍ Earning a low but steady rate of return?
- ❍ Never losing a penny?

To many people, the idea that they have an "investment personality" may seem a bit odd, but you probably have a good idea of what your investment personality is. Essentially, it's the inner voice that tells you how to spread your investments among stocks, bonds, and cash. That's because each of these asset classes has a distinct risk-reward profile, and your investment personality determines the trade-off between risk and reward that lets you sleep at night.

By determining your tolerance for risk, articulating your investment personality helps to define your standards for investment and, hence, your overall potential return. But it also has a potential downside, because catering to your personality can prevent you from reaching your long-term financial goals.

Financial advisors usually arrive at an estimate of your investment personality from your answers to a questionnaire. The number and names of the types of personalities may vary, but they eventually result in a mix of asset classes and sub-asset classes that correspond to a potential rate of return, which is achieved over a long period of time that could vary from 10 to 85 years.

Your Personality Can Conflict with Your Goals

Your investment personality is only one guide to determining your

Continued on page 2

Converting to a Roth IRA

Two years ago, Congress provided a way for individuals whose AGIs were over the eligibility limit to utilize Roth IRAs. Starting in 2010, there is no income criteria for converting from a traditional IRA to a Roth IRA. But now the question is: Should you convert? Here are some factors to consider:

The advantages of a Roth IRA. There are several reasons to prefer a Roth over a traditional IRA. First, when you make withdrawals in retirement, you won't have to pay income taxes on the amounts withdrawn from a Roth IRA, which means your assets may last longer. Second, unlike traditional IRAs, which require you to make minimum annual withdrawals when you reach age 70½, you are not required to take withdrawals from a Roth IRA. Third, if you leave your Roth IRA to your beneficiaries, they aren't required to pay taxes on withdrawals, even if they haven't reached retirement age (although estate taxes may apply upon inheritance).

How much do you have in convertible assets? Tally up any assets you may still have in a prior employer's traditional 401(k) plus any personal or rollover IRAs. You can convert any portion of those funds you want by consolidating them into a single rollover IRA and then making the conversion. If you participate in a 401(k) plan with your present employer, you can convert those assets, too, but only if your plan allows in-service rollovers (many plans don't).

You are required to pay income tax on the converted balance. Remember those income

Continued on page 3

FR2012-0214-0013

Investment Personality

Continued from page 1

investment strategy. Another is the rate of return needed to accumulate the amount of money required to fund your long-range goals. This depends on several other factors, including 1) how much you already have saved for that purpose, 2) how much of your annual income you can afford to put aside, and 3) how many more years before you stop saving and start taking money from your portfolio.

Sometimes, people run into a conflict between the rate of return compatible with their risk tolerance and the rate they need to reach their goal. For example, given the size of someone's existing retirement portfolio and how much he or she can afford to contribute, a conservative investor might need a higher rate of return than the potential return of the recommended strategy.

If this happens to you, short of increasing your portfolio risk, there are three potential solutions. The first is to save more, which could be accomplished by cutting expenses or increasing your income. The second is to postpone retirement for as many years as you need to make up the shortfall in your savings. The third and potentially most painful is to reduce your expectations for your retirement lifestyle. If none of these solve the problem to your satisfaction, the only remaining choice is to change your investment strategy and learn to live with more risk.

Is your investment strategy compatible with both your appetite for risk and your long-range goals? To be sure, please call. ❍❍❍

Retirement and the 4% Rule

Wouldn't it be great if there was a nice, simple rule you could follow to know how much money you could safely withdraw from your retirement savings if you want it to last for 30 years or more? Well, it just so happens that there is…

It's called the 4% Rule, and it doesn't require much explanation. In retirement, take out no more than 4% of the combined value of all the financial assets you own, and they'll last 30 years or more.

Is there anything wrong with this rule? It's a crude solution, it may hurt a lot more than necessary, and success is not guaranteed. In other words, the 4% Rule may be much more valuable as a guide than a steadfast rule.

Origins: The Trinity Study

The rule originated in a 1998 study by three professors from Trinity University in San Antonio, Texas. They tested five different portfolio asset allocation strategies using historical market index performance for stocks and bonds for the 70-year period from 1926 through 1995 and annual withdrawal rates ranging from 3% to 12%. They found that regardless of the asset allocation — from all stocks to all bonds and several mixes in between — capital remained in the accounts after 30 years if withdrawals didn't exceed 4% a year.

In other words, if you're 65, have a retirement portfolio of $1 million, and don't want to run out of money until you're 95, then you can withdraw up to $40,000 a year.

On Further Reflection…

Right off the bat, you may question the 4% Rule:

- ❍ What if you need more than $40,000 a year?
- ❍ What do you do if you live to be 100?
- ❍ What if you get really spectacular returns in your first few years so that by the time you are 95, you find you have a much bigger surplus than you expected?
- ❍ What if in the first few years of your retirement, the stock market drops by 45%?

Questions like these very quickly show the real value of the rule: it's a good place to start — nothing more. As a starting point, the rule can be especially sobering for people who think they can withdraw 8% to 10% a year or more for 30 years.

Four percent is a good number to use to guesstimate how much you need to accumulate in assets to retire. For example, if you want $100,000 a year, it's going to take a nest egg of $2.5 million in today's dollars. If you're far from that amount and you have less than five years before retirement, some revisions to your plans may be in order.

The Better Way

The truth is that choosing the "right" withdrawal rate year after year is a lot more complicated than applying a simple rule of thumb. You need to take into account your health, your family history for longevity, variable rates of return, your risk tolerance, and all of your goals, including what kind of legacy you may want to leave to your family or charities.

Ultimately, the only right way to determine how much you need in your retirement nest egg before you retire and how much you can withdraw annually once you're in retirement is to create a comprehensive financial plan and then update it at least once a year. Please call if you'd like to discuss this in more detail. ❍❍❍

Converting

Continued from page 1

taxes you avoided when you contributed to traditional accounts? Once you convert them to Roth assets, you must pay associated income taxes. Amounts converted must be included in income if taxable when withdrawn (i.e., contributions and earnings in deductible IRAs and earnings in nondeductible IRAs). And remember: if you're under age 59½, taking the cash out of a retirement account to pay the income taxes could trigger the 10% income tax penalty for preretirement withdrawals, in addition to incurring yet more income tax liability. It is better to pay the income taxes with funds outside the IRA. By doing so, you are in essence making an additional contribution to the IRA in the amount of the tax paid.

How many years until retirement? Is it worth it to cash out stocks, bonds, or other assets to pay the conversion tax bill? If you have only a few years until retirement, the conversion may not be worth the expense. While every individual's situation is different, a good rule of thumb is that you'll need five or more years before you retire to make the conversion pay off.

What will be your rate of return? How the markets perform and how you invest will affect the return your new Roth IRA achieves. The lower the rate of return, the longer it will take to replace the money spent on conversion taxes.

The conversion may render you ineligible for certain other tax benefits. For tax purposes, you have to declare the amount you convert as income in the year you convert. This might push you into a higher tax bracket and disqualify you for such things as the child tax credit or credits for higher education expenses.

What's your current income tax rate, and what will it be when you retire? If your current tax rate is higher than you expect it to be in retirement, it may not make sense to convert. That's because the conversion tax bill will be higher than your income tax liability when you make retirement withdrawals. In this case, it may be better to allow all of your assets to continue to grow tax free and pay the smaller income tax bill later as you withdraw the money. The flip side of this is that if you expect your income tax rate to be higher, it may well pay to convert sooner rather than later. Of course, this issue is difficult, because Congress has changed income tax rates dozens of times, and no one really knows what they will be 10 to 20 years from now.

After considering all of these factors, you can decide whether converting makes sense for your situation. Keep in mind that you do not have to convert your entire IRA balance at one time. You can convert over a number of years or only convert a portion of your IRA balance. However, be aware that if you have both deductible and nondeductible IRA balances, you cannot just convert the nondeductible balances to reduce your tax liability. You have to assume a prorated portion of both the deductible and nondeductible IRA funds are being converted.

Know When to Recharacterize

If you convert and your investments then decline, you end up paying taxes on more than the current market value. However, you can then recharacterize your conversion. For conversions made in 2012, you can recharacterize until October 15, 2013, meaning you can convert back to your original IRA. After the recharacterization, it is as if you did not convert, so you owe no taxes. You can then reconvert at the later of 30 days after the recharacterization or the beginning of the tax year following the first conversion.

You can recharacterize a portion of the conversion. However, if you have several investments in the IRA, you can't simply choose the ones with the largest losses. In that situation, a prorated portion of all the investments in the account will be considered in the recharacterization. You can bypass this rule by setting up separate Roth IRA accounts for each investment. Then, if one declines substantially, you can recharacterize that account, leaving the other accounts intact.

Roth IRA Contributions

With no income limits on converting to a Roth IRA, this essentially removes the income limitations for contributions to a Roth IRA. In 2012, Roth IRA contributions can be made by single taxpayers with adjusted gross incomes (AGIs) less than $110,000 (contributions are phased out with AGIs between $110,000 and $125,000) and by married couples filing jointly with AGIs less than $173,000 (contributions are phased out with AGIs between $173,000 and $183,000). It doesn't matter whether you participate in a company-sponsored pension plan. Individuals with AGIs over the limits can make contributions to a nondeductible traditional IRA and then immediately convert the balance to a Roth IRA. However, keep in mind that if you have other deductible IRA balances, you will have to assume a prorated portion of both the deductible and nondeductible IRA funds are being converted.

As you can see, there are no easy answers to whether you should convert to a Roth IRA. Please call if you'd like to discuss this in more detail. ❍❍❍

Financial Data

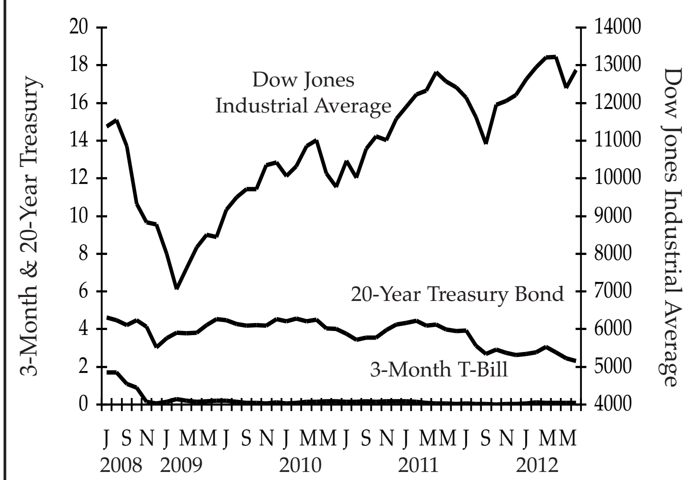
Indicator	Apr-12	May-12	Jun-12	Dec-11	Jun-11
	Month-end				
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.49	0.50	0.50	0.49	0.62
3-month T-bill yield	0.09	0.09	0.10	0.03	0.03
20-year T-bond yield	2.76	2.46	2.32	2.63	3.90
Dow Jones Corp.	3.21	3.32	3.14	3.74	3.56
30-year fixed mortgage	3.35	3.27	2.91	3.42	4.18
GDP (adj. annual rate)#	+1.80	+3.00	+1.90	+3.00	+0.40

Indicator	Apr-12	May-12	Jun-12	YTD	12 Mon.
	Month-end			% Change	
Dow Jones Industrials	13213.63	12393.45	12880.09	5.4%	3.8%
Standard & Poor's 500	1397.91	1310.33	1362.16	8.3%	3.1%
Nasdaq Composite	3046.36	2827.34	2935.05	12.7%	5.8%
Gold	1651.25	1558.00	1598.50	1.8%	6.2%
Consumer price index@	229.40	230.10	229.80	1.6%	1.8%
Unemployment rate@	8.20	8.10	8.20	-5.7%	-9.9%
Index of leading ind.@	95.60	95.50	95.80	-18.4%	-16.6%

— 3rd, 4th, 1st quarter @ — Mar, Apr, May Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

July 2008 to June 2012



Past performance is not a guarantee of future results.

News and Announcements

Your 401(k) Contribution Amount

Before deciding how much to contribute to your 401(k) plan, find out three key figures:

What is the maximum percentage of your pay that can be contributed? The maximum legal limit that can be contributed in 2012 is $17,000 plus an additional $5,500 catch-up contribution for participants age 50 and over, if permitted by the plan. However, most employers set limits in terms of a percentage of your pay to comply with government regulations. This limit helps ensures the plan does not discriminate in favor of highly compensated employees.

How much of your contribution is matched by your employer? Employers are not required to provide matching contributions, but many do. A common match is 50 cents for every dollar contributed, but many other variations also exist.

Up to what percentage of your pay does your employer match? Most plans only match contributions up to a certain percentage of your pay. For instance, the plan may only match contributions up to a maximum of 6% of your pay.

Assume your 401(k) plan allows contributions up to 10% of your pay annually, with a 50-cent match on every dollar contributed, up to a maximum of 6% of your pay. With a $100,000 salary, you can contribute up to $10,000 to the plan. Your employer will match up to the first $6,000 of contributions ($100,000 times 6%), contributing a maximum of $3,000 (50 cents for every dollar).

How much should you contribute to your 401(k) plan? If at all possible, contribute the maximum allowed. In the above example, that would be 10% of your pay. At a minimum, contribute enough to receive the maximum matching contribution. That would be 6% of your pay in the above example. Please call if you'd like help deciding how much you should contribute to your 401(k) plan. ❍❍❍

FR2012-0214-0013