Vorpahl Wing Securities
Investment Advice For Every Generation
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INVESTMENT PERSPECTIVE

Third Quarter 2007 Volume 5, Issue 3

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Comments or questions?
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The Ticker Year-to-Date 2007*

- DJIA +11.50%
- NASDAQ +11.80%
- S&P 500 +7.60%
- Russell 2000 +2.30%

*As of September 28, 2007

Coming events sponsored by Vorpahl Wing Securities

November 16, 2007—Client Appreciation Dinner

Ten-Percent Penalty Rule Need Not Apply

BY DENNIS C. ROGINSKI

Normally, if you are under 59 1/2 years old and withdraw from a pre-tax retirement plan such as a 401(k), 403(b), or a traditional IRA, a 10% penalty (hereafter called PENALTY) is assessed on the amount withdrawn (in addition to paying ordinary income tax).

There are some exceptions, though, to which the PENALTY would not apply. Some are applicable only to company retirement plans, some only to IRAs, and some to both. In almost all cases, the amount withdrawn is subject to ordinary income tax. The following is a discussion of these exceptions.

EXCEPTIONS TO BOTH COMPANY RETIREMENT PLANS AND IRAS: The PENALTY does not apply to beneficiaries of retirement plans because of the death of the original owner, no matter what the age of the beneficiary. Disability is another exception. Disabled, according to the tax code, refers to those who are so physically or mentally impaired that any substantial, gainful monetary activity cannot be accomplished, and their impairment is expected to last indefinitely or eventually result in their death.

Medical expenses are also exempt from the PENALTY if your retirement funds are used to pay unreimembursed medical expenses and if the medical expenses exceed 7.5% of your adjusted gross income, even if you do not itemize deductions (in most cases).

Annunitzing, also called 72(t), is another exception that applies to both. It consists of a series of EQUAL and UNADJUSTABLE payments over a five-year period or until you reach 59 1/2, whichever is longer. However, a major caution: any change in the amount withdrawn could result in the PENALTY becoming retroactive.

A new exception created by the Pension Protection Act of 2006 (PPA 2006) allows active reservists to withdraw from their retirement accounts if they have been on active duty more than 179 days between September 11, 2001 and December 31, 2007. Anyone on active duty between these dates, who took a distribution and

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DID YOU KNOW?

Did you know that when the Dow Jones Industrial Average Index (DJIA) was first published in 1896 with 12 stocks, the price of each stock was added together and then divided by 12 to get the "average?" The "average" in that year was around 40.91. In 1928 the index was increased to 30 stocks, so the total price of the stocks was divided by 30. But when a company paid a stock dividend or had a stock split, the divisor had to be adjusted to maintain compatibility. Today the divisor is around 0.1458, which means that for every dollar each stock in the DJIA increases, the average moves approximately seven points.

MARKET COMMENTARY

Five times daily I broadcast one-minute market commentaries and updates on KXLY 920 AM radio. You can hear me weekday mornings at 6:25, 6:55, 7:25, and 7:55 am. In the afternoons, you can hear me around 5:20 pm.

I hope you will tune in to my reports, because I am more aware now than ever of what investors (or should I call them traders) are thinking on a daily basis. "Traders" seem to me to be in a constant state of waiting for the next economic report that will help them determine if they should buy or sell their securities. When a report is released, after much anticipation, market watchers dissect it and buy or sell accordingly in an effort to predict market direction and make a profit in the short term. However, volatility abounds when there is uncertainty about the direction of the economy. The third quarter was one of those quarters.

The DOW started the quarter at 13,408 and climbed to 14,000 on July 19th—a new record.

The DOW started the quarter at 13,408 and climbed to 14,000 on July 19th—a new record. It was about this time that sub-prime mortgage problems began to surface. Banks cut back on the amount of loans issued (probably an overreaction); secondary securities, backed by sub-prime mortgages, were hard to sell because of the difficulty in determining their value, causing more liquidity problems; and the housing slump added to the uncertainty. Is the sub-prime mortgage problem seeping into other sectors of the economy? Is the housing slump worse than originally thought? It would seem these factors did come into play, and the DOW dropped 8.25% to 12,845 on August 16th, a month after setting a record high. Volatility continued over the next few weeks, and investors began to talk of a Federal Funds Rate cut to save the economy from a possible recession. Soon the markets were pre-

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INVESTMENT ADVICE FOR EVERY GENERATION

Beginning in 2007, the Pension Protection Act of 2006 (PPA 2006) will allow non-spouse beneficiaries of company retirement plans to do direct transfers to inherited IRAs.

Are you a beneficiary who inherited a company retirement plan from someone other than your spouse, and did the original owner die in 2006? Are the funds still in the deceased's company plan, and does that plan require you to either empty it within five years or take a lump-sum distribution? If you answered yes to these questions, be alerted that the plan may also have a provision that allows you to do a direct transfer to an inherited IRA. This would allow you to "stretch" the withdrawals over your life expectancy, which could result in hundreds of thousands of dollars in additional withdrawals! You have until December 31, 2007 to transfer the funds, but if you miss the deadline, you could be forced to abide by the distribution rules of the company plan.

Beginning in 2007, the Pension Protection Act of 2006 (PPA 2006) will allow non-spouse beneficiaries of company retirement plans to do direct transfers to inherited IRAs. This will allow non-spouse beneficiaries to stretch the distributions over their life expectancies. (Prior to PPA 2006, only a spouse beneficiary could transfer funds from a company retirement plan to an inherited IRA.) If the non-spouse beneficiary leaves the funds in the company plan and is forced to follow its distribution rules—instead of transferring the funds into an inherited IRA—the difference in the amount of withdraws could run into thousands of dollars.

Call your financial advisor for more details.

TEN-PERCENT PENALTY RULE NEED NOT APPLY

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paid the PENALTY, might be entitled to a refund, even if the statute of limitations has passed.

EXCEPTIONS FOR IRAs ONLY: Are you a first-time home buyer? You could actually be one without knowing it. If you bought a home, sold it, then rented for more than two years, you could still qualify. Additionally, if you withdrew funds from your IRA to make the down payment and the deal fell through, you have 120 days (versus the normal 60 days) to roll the funds back into your IRA without PENALTY *and* without paying any tax on the withdrawal. However, if the deal goes through, you must use the funds towards the purchase of the home within the 120-day period.

Another exception for IRAs only is for payment of higher education expenses. **Financial Advisor Tip:** If you want to use your company's retirement plan money for college, first do a direct transfer to an IRA (if your company allows this) and then withdraw the funds. The exception for higher education expenses does not apply to company plans.

EXCEPTIONS FOR COMPANY PLANS ONLY: The PPA 2006 created another exception. If you were a public safety employee (police or firefighter, etc.) and were separated from service in the year you turned 50 or older, withdrawals are PENALTY FREE. **Caution:** You cannot quit your job when you are 49 years old, begin taking distributions when you turn 50 and receive this PENALTY-FREE exemption. To receive it you must quit your job after you turn 50 or older.

Another exception that only applies to company plans is the age 55 exemption. This is very similar to the exception for 50 year olds mentioned above. The only difference is you must quit your job when you turn 55 or older; then the exception applies.

These are not all the exceptions available, but I think they are the most common. If you are thinking about withdrawing funds from your retirement account and claiming one of these, make an appointment with a financial advisor who specializes in retirement accounts. Don't try to do it on your own. If you were to make a mistake, it's usually irrevocable and possibly very expensive.

MARKET COMMENTARY

(CONTINUED FROM PAGE 2)

dicting and pricing a 1/4 point Federal Funds rate cut prior to the Fed's meeting on September 18th. When the Feds surprised the markets with a 1/2 point rate cut, investors responded by driving the DOW up 335 points to 13,739. The DOW traded in a fairly narrow range for the remainder of the month and finished the quarter up 3.63% to close at 13,895. If you stress about daily fluctuations in the market, then you had a stressful third quarter. But if you are a long-term investor, all that daily noise dissipates as it works its way through the markets. Warren Buffet said this the day the Feds lowered interest rates: "The important thing in stocks is to buy a stock in a good business at a reasonable price. Anybody that is buying or selling stocks based on what the Fed is doing, or what they think they're going to do at their next meeting, I think is destined to not having a great financial future. It really doesn't have anything to do with the value of good companies 3, 5 years from now. People who think they can dance in and out based on Fed signals, I think, they're going to make their brokers rich, but they're not going to make themselves rich." Sound advice for those looking long.

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