

Summer 2003

## The New Tax Laws and You

The Jobs and Growth Tax Relief Reconciliation Act of 2003 was signed into law May 28th of this year, accelerating tax rate reductions incorporated in the previous law and lowering tax rates on both dividends and long-term capital gains. Other deductions and credits that are included provide additional benefits to families.

Here is a look at how the new laws impact you and some strategies to allow you to take advantage of them.

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### Tax rate reductions

Tax rates now range from a low of 10 percent to a high of 35 percent. The new law reduces the top four tax bracket rates by 2 percent to 3.5 percent. New rates are in effect as of January 1, 2003.

Tax rates for the top four tax brackets	
<i>Before the new law</i>	<i>After the new law</i>
38.5%	35%
35%	33%
30%	28%
27%	25%

### Family-friendly deductions

Families reap big benefits with the new tax laws. First of all, the “marriage penalty” has been reduced. The standard deduction for married couples has increased from \$7,950 to \$9,500, making it double the single-filer deduction.

In addition, the amount of income taxed at the 15 percent tax rate on the married, filing joint table has been increased by almost \$10,000.

Another important feature of the new tax bill for families is that the tax credit for each child under the age of 17 has been increased from \$600 to \$1,000. A tax credit is a direct reduction of the taxes you owe. Typically this means that a family with two children under the age of 17 will decrease their tax bill by an additional \$800. This tax credit is not equal across the board though; it is tied to earnings. Those whose income exceeds \$110,000 (married filing joint) or \$75,000 (single filers) will not receive the full \$400 per child increase.

### Tax cuts on dividends and capital gains

Under the previous tax law, dividends and interest income were both taxed as ordinary income, but the new tax laws significantly reduce the tax rate on dividends. The maximum tax rate for stock dividends is now 15 percent, down from last year’s maximum tax rate of 38.5 percent for ordinary

income. This means that taxes on dividends could be as much as 20 percent lower than the taxes on interest income. This 23.5 percent reduction translates to a savings of \$23.50 for every \$100 of dividends. The dividend tax cut is especially good news for people 65 and older since they are the recipients of almost half of all dividend checks. This rate reduction is retroactive to January 1, 2003.

Tax rates for long-term capital gains are reduced from 20 percent to 15 percent by the new law. To qualify for this new rate, sales must occur on or after May 6, 2003 and the investments must have been owned more than 12 months.

People whose taxable income is less than \$28,400 (\$47,450 for married filing joint) will pay even less. Their capital gain taxation rate is now only 5 percent.

Both the dividend and the capital gain tax rate cuts are in effect through December 31, 2008. Short-term capital gains will continue to be taxed as ordinary income for all taxpayers.

### Investment strategies

The type of account in which you place your investments can impact your return under the new tax law. For example, it is generally more advantageous to hold long-term stock investments that earn dividends and generate capital gains in your regular (non-retirement) accounts. Likewise, it is more advantageous to hold taxable government or corporate bonds, certificates of deposits, guaranteed income contracts, real estate investment trusts and short-term stock holdings in your retirement accounts.

It is not wise, however, to make your investment decisions based solely on tax considerations. It is important that you first determine the appropriate asset allocation and then invest in your non-retirement and retirement accounts in a way that minimizes your taxes. If you have any questions regarding your account and the new tax laws, please contact us. •

# Your Questions

## Whether Giving Now or Saving for Later, Be Sure to Plan!

**Q:** *With the volatile performance of financial markets over the past couple years, how do I know if I am still on track with my long-term financial objectives, such as retirement?*

**A:** Many people are concerned about this issue. It is always important to periodically review your financial strategies to determine whether your objectives are still being met. But the recent volatility we have experienced has made such assessments even more vital. Update your personal balance sheet and cash flow. Then rerun your financial projections to determine if your current assets will reach your future goals based upon estimates of inflation and investment returns. This analysis should determine if your long-term strategy will yield a shortfall or a surplus, allowing you to fine-tune your savings pattern to meet your goals. As always, Bedel Financial Consulting stands ready to assist you in the process.

**Q:** *I am thinking of making a substantial gift to a charity. What issues should I consider before making my contribution?*

**A:** First, have you discussed your thoughts with the charity? Oftentimes, the charity is experienced in assisting donors of sizable gifts and may even have specially designed investment vehicles or trusts available. Consider donating appreciated securities or property. It reaps two-fold benefits—you will receive a tax deduction based upon the fair market value on the date of the gift and you will not have to use liquid funds. Additionally, if the asset is sold and converted to cash by the charity, neither you nor the charity owes income taxes on the appreciation of the asset. Your tax deduction may be limited based upon the type of asset you donate and your level of taxable income. Ask Bedel Financial Consulting or your tax preparer to determine the best option for you before you make the gift. •

## From Elaine Brighter Prospects

It is nice to see the stock markets making favorable progress once again. We recently sent out the second quarter investment performance reports and it was much more enjoyable to give you good news! As you are aware, no one can assume the market will continue to increase, but the current environment is a welcome relief.

Our feature article addresses a few of the key tax law changes included in the Jobs and Growth Tax Relief Reconciliation Act of 2003. The bill benefits both families and investors. Please contact us if you have any questions concerning its impact on your financial-planning strategies.

Many of you have already spoken to Dawn Morley, the most recent addition to our Investment Management Staff. I have known Dawn for over twenty years and am pleased that she has brought her investment expertise to our firm. I have enclosed her bio for your review.

We also want to welcome Cassi Canen, who joined our staff in July as an Administrative Assistant. Along with her many other office responsibilities, Cassi will be greeting you when you phone or visit our office. We are pleased to have her in this important role.



Over the past year, we have started talking with our clients about creating a statement that reflects their personal values. This value statement generally goes beyond the goals and objectives used to guide the formation of the financial plan, such as education funding, retirement security, insurance needs, etc. We feel it is an important complement to the financial-planning process.

Value statements tend to reflect individual philosophies regarding the handling of money, the building of community and interactions with family and friends. Value statements are similar to the mission statements developed by corporations or organizations. After formulating their value statement, many people like to communicate their values and intentions to the next generation, with the hope of providing guidance. If creating a value statement appeals to you, we can schedule a time to discuss it with you.

If you have any questions concerning the articles in this newsletter, do not hesitate to call. We always look forward to hearing from you. I hope you enjoy the remaining days of summer.

Sincerely,  
  
Elaine E. Bedel, CFP®

## Bedel Financial Consulting is a Top Dog!

Bedel Financial Consulting, Inc. was recently named as one of the top wealth managers ("Top Dogs") nationwide in *Bloomberg Wealth Manager's* third annual listing. The financial magazine states, "Advisers who added services, offered alternative investments and were willing to do some hand-holding finished as the Top Dogs in Bloomberg's annual ranking of Top Wealth Managers."

# Client Dream — Client Reality

## Four Steps to Retaining Your Lifestyle

Purchasing life insurance is one way to lessen the financial impact on a family due to the loss of a family income earner. It is especially important for those who have not yet accumulated adequate assets, typically younger families. But the world of life insurance can be complicated and it is not often easy to know how much insurance you will need and how long you will need it.

Here are four basic steps to help calculate how much life insurance it will take to preserve your family's lifestyle now and in the future.

- 1. Immediate costs.** Determine the costs associated with medical needs, memorial services and the transition period for the remaining spouse and family. During this time period, costs ranging from \$25,000 to \$35,000 would not be unusual.
- 2. Debt elimination and education funding.** Add up all outstanding loan balances, house mortgage and your best estimate of future college costs.
- 3. Everyday living expenses.** Having the funding necessary to meet

everyday expenses is crucial. Begin with the family's current annual expenses and deduct any mortgage, loan payments and education savings addressed in Step 2. Add any after-tax earnings and/or social security payments that may be available. Factor in estimated inflation rates and any anticipated lifestyle changes—for example, the working spouse retires or the children reach adulthood. Then determine the present value of the annual future income need.

- 4. Compare the total funding needed to your assets.** Add all amounts in Steps 1, 2 and 3. This represents the total amount needed in the event of the death of a family income earner. If your assets are equal to or greater than this amount, you have met that need. If not, purchase enough life insurance to make up for the shortfall.

Now that you know how much insurance you will need, the next step is determining how long you will need it. The need for life insurance changes with lifestyle changes.



Generally, a young couple with a mortgage and children have the greatest need for life insurance. As the mortgage is paid down, as the children finish college and become independent, and as the couple accumulates investment assets over time, the need for life insurance decreases.

If you have any questions about estimating the optimum amount of life insurance, how long you might need insurance or the type of insurance that would best meet your family's needs, we'll be happy to assist you. •

## Industry News

### Talking Heads Are Talking Bull Market—Are the Predictions Right?

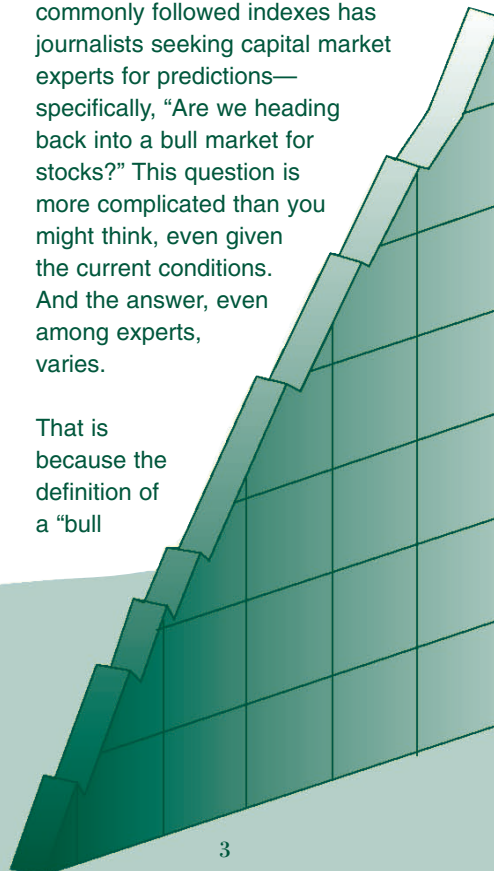
The Standard & Poor's (S&P) 500 Index has performed remarkably well in the last few months. From its March low to its June high, it increased nearly 29 percent, making it one of the best quarters in the last five years for the U.S. stock market. Small cap growth funds were the best performers in the U.S. domestic equity market (up 22 percent), while large cap growth funds (up 13 percent) trailed all other sectors. S&P 500 Funds generated average returns of more than 15 percent. Global equity markets also showed excellent returns during the quarter with international funds increasing almost 19 percent on average. The Dow Jones Industrial Average also performed well during this timeframe.

The rapid increase in these two commonly followed indexes has journalists seeking capital market experts for predictions—specifically, “Are we heading back into a bull market for stocks?” This question is more complicated than you might think, even given the current conditions. And the answer, even among experts, varies.

That is because the definition of a “bull

market” is controversial. Many experts define a bull market as an increase of 20 percent in the general market indexes. By this definition, the US has already registered a bull market in stocks.

But not all experts agree with that definition. Bedel Financial Consulting prefers the definition in the *Dictionary of Financial Terms* authored by Virginia B. and Kenneth M. Morris and published by Lightbulb Press. Their definition is: “A prolonged period when stock prices as a whole are moving upward is called a bull market, although the rate at which those increases occur can vary widely both from bull market to bull market and during the period a



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bull market lasts. Well-known bull markets began in 1923 and 1964, and the most recent prolonged bull market started in 1990 (or, by some reckonings, in 1982).” If you apply their definition to current market conditions, the “jury is still out” as to whether the US has entered into another prolonged period of rising stock prices. The next several quarters will determine the true nature of this recent stock rally.

Bedel Financial Consulting’s investment philosophies are designed to mitigate the focus on “bear markets” or “bull markets” through diversification across investment asset classes. First, in

situations where withdrawals are required, we encourage clients to maintain a portion of their assets in fixed income investments (bonds). Bonds tend to protect investors when stocks are declining. Secondly, we suggest diversifying your portfolio among various styles of stock investments, (i.e. international, growth, value, large, mid, and small cap) so your investment assets are moderately protected on the down side but will still participate in a rallying stock market.

While we hope the predictions of a “bull market” come to pass, being prepared to weather whatever the market brings is the mark of an appropriate strategy. •

## Please Note...

Due to a continued error by the phone company we are once again not listed in the white pages in the phone book. We ask you to please continue providing our phone numbers to business associates, friends or relatives when you refer them to us. The numbers are: **317-843-1358** or toll free **888-843-1358**. Thank you.

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