// BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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BRIAN D. LOWDER, INC.

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FINANCIAL MARKET OVERVIEW

Goodbye and good riddance to 2008. The Dow Jones Industrial Average posted its biggest annual loss since 1931, the S&P 500 Stock Index was down over 38% and the NASDAQ Index posted its biggest annual loss in history – down over 40%. U.S. stocks are down below the level established ten years ago.

Diversification didn't help. Foreign-country stocks (in U.S. dollar terms) were down 29% to 96%. The countries that nearly everyone wanted to buy over the past few years were decimated: China down 65%, India down 52% and emerging markets as a group was down 55%. Commodities (oil, agriculture, natural resources etc.) were up 37% at mid-year only to fall precipitously to finish the year at negative 37% by December 31st.

Investment real estate (excluding homes) was down 40% for the year with a nearly 39% decline in the fourth quarter alone. Gold prices started the year at $847 per ounce, rose to over $1,000 per ounce in March, reversed course and dropped below $750 per ounce in September and finished the year at $870 per ounce.

U.S. Treasury bonds posted positive returns during the fourth quarter and for the entire 2008 calendar year. However, interest rates for 10-year Treasury Notes have dropped to 2.5%. The positive return on Treasuries came as a result of interest rates falling considerably thereby pushing up the value or price of the bonds. Bond prices (values) rise as interest rates drop and visa versa. In order to attain a repeat performance in 2009, yields or interest on 10-year Treasuries would have to drop to 1% to 1.5% - not a likely scenario.

The following chart displays sample returns of various asset categories during the fourth quarter and 2008 calendar year:

2008 4th Qtr	**Calendar-Year '08**	**Index Return *(includes dividends reinvested)***
(18.4%)	(32.0%)	**Dow Jones Industrial Average**
(21.9%)	(37.0%)	**Standard & Poor's 500 Index**
(22.9%)	(37.3%)	**DJ Wilshire 5000 (Broad Market)**
(23.3%)	(40.7%)	**Large-company stock-Growth**
(21.7%)	(37.4%)	**Large-company stock-Value**
(27.0%)	(44.5%)	**Mid-Size Stocks – Growth**
(25.0%)	(38.3%)	**Mid-Size Stocks – Value**
(26.6%)	(42.1%)	**Small-company stock- Growth**
(25.9%)	(33.5%)	**Small-company stock- Value**
(21.3%)	(44.2%)	**International (excludes U.S.)**
(29.9%)	(55.5%)	**Emerging Markets**
(38.7%)	(40.0%)	**Real Estate Investment Trusts**
		Fixed Income
+ 2.1%	+ 4.1%	**Short-term U.S. Treasury *(includes appreciation)***
(0.8%)	(0.1%)	**Intermediate U.S. Treasury *(includes appreciation)***
		Alternative Investment Category
(0.7%)	+ 2.4%	**Gold**
	(37.0%)	**Commodities**
+ 6.5%	+ 6.8%	**Managed Futures**

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Future Economic Outlook

The near-term outlook is simply too confusing and difficult to diagnose. Enough hardship and gloom has been revealed over the past six months. Oil, commodities, stocks, hedge funds, real estate, natural resources, international stocks and just about every other category is down 25% to 60% in 2008. We do not have sufficient confidence or information about the true health of the economy over the near term to offer a high-probability forecast.

Our opinion is the financial markets will recover – faster than the opinions and feelings of most investors. After experiencing such financial pain, many investors are angry, confused and scared. Time-tested advice such as buy and hold, stocks will outgain other asset classes over time, and diversify did not help minimize losses during 2008. It will take some time to rebuild their confidence – which is why most investors will miss the biggest part of the initial recovery in prices.

The amount of capital (money) stashed away in low-yielding money market funds (currently earning less than 2%) is at its highest level - ever. On average, over 42% of investors' personal and retirement funds are invested in cash equivalents.

We will have a new President leading this country soon, and the balance of power in Congress has changed. Expect new income tax laws to change – some temporary, a few permanently. In addition, conflict and tensions are mounting around the world. This scenario certainly doesn't generate confidence, but rather a high degree of uncertainty and doubt.

Our biggest concern and challenge is how/when to carefully and prudently re-adjust our client portfolios back to their "normal" allocations in growth assets. Many might refer to this endeavor as "market timing" and not worth the effort. During most economic circumstances, we would agree. However, we have been deploying tactical moves in our client portfolios for over three years now, and without it, the damage would be much greater.

We expect to move gradually back into both domestic and foreign stocks. Energy looks very attractive to us right now. We can survive with fewer banks, brokerage firms, toy stores, auto factories, and clothing retailers, but not energy resources. The price of oil is down over 60% during the last ten months. It won't stay at this level for a long period of time, just as the price could not hold at $145 per barrel six months ago.

Water has been and continues to be an attractive choice for our investors. We plan to continue adding to our five favorite water companies.

Many other market-leading companies are selling at attractive prices and their dividend yields exceed the interest earned on certificates of deposits. We plan to continue adding carefully selected companies to client portfolios. Many other alternatives are likely to surface over the next few quarters and we will consider them as well. In our opinion, investment real estate should continue to be avoided and the bottom is not near. Only private deals and or individually selected properties should be considered at this time.

2009 Changes to Income, Estate, Gift and Real Estate Taxes

The last of a series of prior income tax law changes go into effect on January 1, 2009. After 2009, the entire income tax and estate tax rules will be changed by the "new" Congress and President. In addition, new and undefined "middle-class" income tax cuts are likely to take effect in 2009 as part of the new President's effort

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to help stimulate the economy. The most significant tax law changes for 2009 are summarized below:

Retirement Plans

Good news for taxpayers age 70 ½ or older in 2009. *You can skip the required minimum distributions from most retirement plans and IRA accounts in 2009*. Current law requires all taxpayers age 70 ½ or older to withdraw and pay income tax on at least a "minimum" amount from their retirement plans and IRA accounts each year. The formula for this required minimum distribution is simply the retirement plan balance or value at the end of the prior year divided by your life expectancy. For example, if a taxpayer's 401(k) plan or IRA account balance was $200,000 on 12/31/07, then the required minimum distribution for 2008 would be $200,000 divided by 27.4 (27.4 years is the life expectancy of a 70 year-old according to the IRS). In this example, the RMD (required minimum distribution) for 2008 would be $7,300. For 2009, the life expectancy, or divisor drops to 26.5.

Taxpayers age 70 ½ or older who do not financially need to take the 2009 required minimum distribution should consider foregoing the distribution and the income taxes assessed on the withdrawal **in 2009 only**. For example, a taxpayer who has other funds or accounts to take withdrawals from for living expenses (in addition to an IRA or retirement plan) may choose to take withdrawals from a personal bank or investment account for living expenses in 2009 and avoid (skip) the taxable distribution from their retirement plan(s).

This one-time election also applies to all taxpayers who have *inherited IRA accounts* as well. Required Minimum Distributions are mandatory for all taxpayers regardless of their ages if they have an inherited an IRA. Under current law, only surviving spouses under the age of 70 ½ who have inherited and rolled over an IRA account into their name are not required to take minimum required distributions. For 2009, all taxpayers who have inherited a qualified retirement plan or an IRA can forego the required minimum distribution. If you don't need the funds or have other personal bank or investment accounts to withdraw from, don't take the taxable required minimum distribution in 2009.

There is no change in the *maximum allowable IRA contribution* in 2009. The limits remain at $5,000 per taxpayer, plus $1,000 more (total of $6,000) for anyone who is age 50 or older in 2009 (anyone born in 1959 or earlier).

The maximum *Roth IRA contribution limits* are the same as regular IRAs above, however the taxpayer income caps or limits have increased. For married taxpayers, the maximum Roth IRA contribution is allowable if adjusted gross income is $166,000 or less. A partial contribution is allowable up to $176,000 adjusted gross income. Roth contributions are disallowed if married taxpayer income exceeds $176,000. For single taxpayers, the income limits are $105,000 and $120,000.

Recently, many news articles are highlighting the advantages of converting a traditional IRA to a Roth IRA. The advantages and disadvantages of executing a *Roth IRA Conversion* should be evaluated carefully before making a decision.

In prior years and through 2009, to be eligible to convert traditional IRA assets to a Roth IRA, your modified adjusted gross income must be no more than $100,000 a year. This income limit applies whether you are filing as an individual or married couple filing jointly. The $100,000 income limitation prevents many of our clients from considering the Roth conversion opportunity.

However, **in 2010**, there are no income limits for Roth IRA conversions! And for conversions done in 2010, taxpayers can spread the income tax liability across 2011 and 2012. Why would a taxpayer consider a Roth IRA conversion? First, we will highlight the advantages.

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Anyone can execute a Roth IRA conversion in 2010 – previously only taxpayers reporting less than $100,000 of income could convert. Second, most IRA accounts values have dropped significantly in value during 2008 due to the financial market correction. A lower IRA account value means the income tax owed on the conversion will be lower. Third, the income tax liability can be paid over two years (2011 and 2012).

The disadvantages are equally compelling. First, a taxpayer must pay ordinary income tax on the value of the traditional IRA account (non-deductible IRA contributions, if any, are excluded from tax) in the year of conversion. Paying income taxes, especially on the entire IRA account value before necessary, is always hard to justify. And you definitely do not want to pay the income tax liability from the IRA account. You must have excess personal funds to pay the tax bill for the conversion to make financial sense.

Most taxpayers expect to be in a lower income tax bracket during retirement rather than today – so why pay income taxes today at a higher tax rate verses waiting until retirement? Well, who knows where the income tax rates will be during retirement? In addition, the new President has already indicated income tax rates will go up sometime in the near future for "high-income taxpayers". Converting to a Roth IRA means the value of your IRA account is added to your taxable income, which could potentially place a taxpayer in the "high-income" bracket area.

The obvious advantage of a Roth conversion is the converted value, all the future appreciation in the Roth IRA account value and all future withdrawals will not be subject to income taxes. In addition, Roth IRA accounts are not subject to the Required Minimum Distribution requirements (you never have to make withdrawals after age 70 ½). In addition, heirs would love to receive a non-taxable Roth IRA account as an inheritance.

The best situation or opportunity for a Roth conversion is taxpayers who are in a low income tax bracket in 2009 or 2010 and have relatively small traditional IRA account values. Process the Roth conversion, pay the income tax on the current depressed value and enjoy tax-free growth and tax-free withdrawals in the future. Others may consider converting one of several IRAs or splitting one large IRA into two equal or unequal IRAs and converting only one of the accounts.

One complex detail about the Roth conversion rule applies to taxpayers who have made *non-deductible IRA contributions.* If you have other IRAs and have made or will make non-deductible IRA contributions to a separate IRA in 2008 and 2009 ($6,000 for each year if taxpayer is age 50 or older) and expect to convert only the new smaller non-deductible IRA in 2010, it won't work out as planned. You must assume the conversion of the smaller IRA is coming pro-rata from the entire value of all IRAs. It is complex. Just be aware of a potential problem if you have made non-deductible IRA contributions, have multiple IRA accounts and are considering a Roth conversion. Contact us for a thorough review before converting to a Roth.

Lastly, just because you have a large IRA and do not wish to pay income tax today (or in 2010) if the IRA is converted to a Roth, a conversion might make sense for a spouse with a smaller IRA account value.

Retirement Plan contributions have increased for 2009. The maximum employee contribution to 401(k) plans increases by $1,000 to $16,500 total in 2009. Individuals born before 1960 can add an additional $5,500 for a total of $22,000.

The maximum contribution to SIMPLE IRAs jumps to $11,500 plus an additional $2,500 for taxpayers age 50 or older in 2009.

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The maximum contribution limit for defined contribution plans (profit sharing, Keogh etc.) increases by $3,000 to a maximum of $49,000.

Real Estate
There are new limits and rules on converting a second home or rental into a primary residence in 2009. (Many taxpayers have been wisely trying to avoid or minimize capital gain taxes by converting a rental or second home into a primary residence, living in it for two years, and then selling to take advantage of the $500,000 gain exclusion for couples or $250,000 for single taxpayers, on the sale of a primary residence.) Some of the gain will be taxable and ineligible for the home-sale exclusion. The portion of the profit on a future sale that will be taxed is based upon how long (a ratio) the property was a second residence or rental after 2008 compared to how long the seller(s) owned the house.

For example, if a seller has owned a home/rental for 3 years and continues to rent or use the home as a second residence for 2009 and 2010 (two years), then decides to move back in year 2011 as a primary residence, and then sells the house two years later, then 2/7 of the gain or profit will be subject to income taxes (owned the home for a total of seven years, rented it for two years *after 2008* and then converted the home to personal residence for two years before selling). The bottom line is – the longer a taxpayer maintains a second home or rental after 2008 with the intention of converting the home to a primary residence, the larger the potential income tax liability.

Gift and Estate Planning
Fewer estates will be subject to federal estate tax in 2009. The estate tax exemption jumps from $2 million to $3.5 million. Estate values above $3.5 million will continue to be subject to a 45% flat tax. In 2010, the final phase-in of President Bush's tax plan to eliminate estate tax altogether will never see the light of day. Our next President has already indicated that both income and estate tax rates will be increased. Due to the current poor financial state of the economy, expect tax rate changes to become effective in 2010.

The annual gift tax exclusion increases by $1,000 to $13,000 in 2009. Parents and grandparents have a greater opportunity to gift funds to children or relatives for education, support, or simply to reduce the size of their estate.

Income Tax Rates
The income tax brackets for 2009 are wider than for 2008 and the six (6) tax rates remain unchanged as shown below:

Married	
$ 16,700 or less	10%
$ 16,701 to $ 67,900	15%
$ 67,901 to $137,050	25%
$137,051 to $208,850	28%
$208,851 to $372,950	33%
Over $372,950	35%
Single	
$ 8,350 or less	10%
$ 8,351 to $ 33,950	15%
$ 33,950 to $ 82,250	25%
$ 82,251 to $171,550	28%
$171,551 to $372,950	33%
Over $372,950	35%
Trusts & Estates	
$ 2,300 or less	15%
$ 2,301 to $ 5,350	25%
$ 5,351 to $ 8,200	28%
$ 8,201 to $ 11,150	33%
Over $ 11,151	35%

YEAR-END PLANNING

We appreciate the trust and confidence you have placed upon us to assist you in making better financial decisions and preserving your wealth. We sincerely thank you for the opportunity to serve as

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your financial advisor and will continue to work hard to preserve that trust and confidence.

With the recent turmoil in the financial markets, we encourage our clients to make an annual appointment with us to review their goals and circumstances. An appointment is especially important if there has been, or soon will be a change in your financial situation, investment objectives or family circumstances. Now is the best time to discuss whether an update is appropriate for trusts, wills, or health directives. If you have not met with us over the past twelve months, we encourage you to call and schedule an appointment. We wish all of you a happy, healthy and prosperous New Year.

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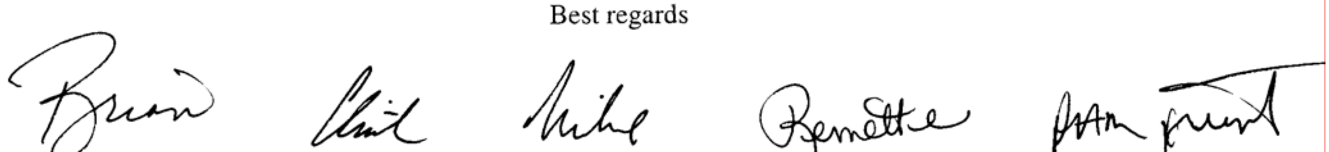
Brian D. Lowder, Inc., a California Corporation, is a fee-only wealth advisory firm specializing in comprehensive financial planning and investment management. Brian D. Lowder, Inc. is registered with the Securities and Exchange Commission and licensed by the State of California Department of Corporations as an Investment Advisor.

Best regards



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