



Quarterly Update

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Specializing in socially conscious investors
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Should You Stop Maximizing Your Retirement Plan Contributions?

A common piece of advice from financial planners is to maximize contributions to your 401K, 403B or IRA, but this may not always be your best tax strategy as you near retirement.

If the plan is to start drawing from savings and retirement funds within five years, you should decide whether it's better to invest outside of your retirement. Here are some reasons why a **non-deductible** investment may ultimately be more beneficial:

- Conventional wisdom assumes that after retirement, your tax bracket will be lower than when you were working. Now that there are only a few wide brackets, your tax bracket may remain unchanged or even increase some years. If you expect to receive a good pension soon, the primary financial benefit is deferring tax on the income from those contributions for a few years.
- **Earned income** can be taxed up to 35%. If you are in a high tax bracket, your **investment gain** is taxed at a 15% rate when you sell an asset.
- Tax cuts and the additional cost of the Iraq war is ballooning the national debt. Interest required to pay

this debt is a major component of the federal budget. As interest rates rise, these fiscally irresponsible policies may create a crisis. Taxes can't be cut perpetually without risking insolvency by the federal government. So, the tax cost of pension withdrawals may exceed what you initially save.

- If you lose money on non-retirement investments, these losses can be used to reduce current taxes. Proper timing of harvesting tax losses can also be beneficial.
- IRAs have estate-planning disadvantages. Most non-retirement investments provide your heirs with the beneficial stepped-up basis that treats most inherited assets as if they had been

purchased for the value at the date of death. In contrast, the total value of an IRA would be taxed at a beneficiary's ordinary tax rates when liquidated.

- Roth IRAs (which provide no current tax savings, but are untaxed at retirement) should be viewed as another option, particularly during a low income year.

My suggestion is to "tax-diversify" your assets. Give yourself the option of choosing between fully-taxable pension income, partly-taxable capital gain income or tax-free withdrawals from untaxed sources (such as savings accounts).

Here's a simple example. \$10,000 a year contributed to a tax-deductible retirement plan during each of your last five earning years will grow to \$61,500, assuming a 7% rate of return. Your contributions will initially save \$12,500 in federal taxes, assuming a 25% tax bracket, but if you are in the same tax bracket, \$15,375 in taxes will be due when the funds are withdrawn. Net after-tax amount: \$58,625.

If \$10,000 per year is invested outside a retirement plan, it also grows to \$61,500. Though no taxes are saved initially, only \$1,725 in taxes would eventually be paid based on a \$11,500 gain at the 15% capital gain tax rate. Net after-tax amount is \$59,725.

This situation is oversimplified, but you can see that it makes sense to strategize as you approach retirement.

WHAT IF? AN EDITORIAL

(Opinions expressed below are Bob's alone.)

September 11th united all Americans, in sadness, in anger and in pain. Not since World War II had the country been so unified, but three years later we are a deeply divided country. Not since the early 1970s has there been such an intolerance of opposing views and such an intensity of political feeling.

Would things be different today if the leaders of our country had acted differently after September 11th?

- What if our leaders had viewed this awful event as an attack on the civilized world, not just on America?
- What if the rare worldwide goodwill directed toward America after 9/11 had been harnessed to attack the world's common enemies: terror, hatred and intolerance?
- What if the current administration had not exploited the collective thirst for revenge to justify the war in Iraq?
- What if a different President had been in power three years ago? Would American soldiers be at war in Iraq or closer to home protecting against terrorists? Would our foreign policy be creating new martyrs and terrorists daily? Would America be signing new treaties instead of breaking old ones? Would we have alienated so many of our allies? Would America be safer and would the world be more harmonious? Finally, would Americans be so deeply divided at a time when we urgently need to be united?

ONE VIEW FROM EUROPE

Recently I asked a friend with connections in Europe what Europeans thought about Americans now. She said that individual Americans aren't yet being blamed for starting the Iraq War. They view the last few years as a coup d'état that happened during the subverted 2000 electoral process or because Bush's campaign foreshadowed little of the harsh reality of his Presidency that started even before 9/11.

If President Bush is re-elected, she said, Americans will be endorsing the actions our country has taken during the last four years. Furthermore, we will be deemed responsible for this administration's future actions.

YOUR TAX DOLLARS AT WORK

(A)fter the U.S. Congress appropriated over \$80 billion to (Iraq and Afghanistan) last fall, the Pentagon did not add a single auditor. The increasing privatization of Pentagon functions means that private firms are sometimes auditing their own use of government funds...

—Lauri Kallio quoted in the Sacramento Area Peace Action Newsletter (916) 448-7157

LIBERAL MEDIA: FINALLY, THERE IS ONE

I've been hearing about the Liberal Media for years. I can't seem to find it, though I once saw Dan Rather raise his eyebrows suspiciously after a Presidential photo opportunity. In May, I drove along the back roads of the Midwest (Illinois, Iowa, Kansas, Missouri and Indiana). I listened to the radio often, but never once did I hear a liberal talk show host. Conservatives dominate radio as well as most of cable news TV. Even the three major TV networks are owned by large conservative corporations (GE, Viacom and Disney).

Now there is a radio alternative that is available in many areas of the country. Sacramento's affiliate is KSQR (AM1240). Check it out if you haven't already.

ALTERNATIVE SOURCES FOR NEWS

Even newspapers with liberal editorial pages don't report certain uncomfortable stories until they have become common knowledge rather than news. News such as the real Private Jessica Lynch story and the US Military's orchestration of the toppling of the Saddam Hussein statue were prominent in foreign news reports long before they were "discovered" by American media.

One of the best places to find underreported news is from alternative and foreign sources on the Internet. Here are some of the websites worth viewing to find news that is not being reported in mainstream sources.

All the following are preceded by [http://](http://www.commondreams.org)
www.commondreams.org, democracynow.org,
alternet.org, tompaine.com, indymedia.org,
truthout.org, inthesetimes.com, guardian.co.uk/
worldlatest.net

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Stock Market Commentary

For the first six months of the year, the stock market was flat. There have been a few good weeks and a few bad weeks, but as of mid August, the S&P 500 Index is right near where it started the year. There has been less than a 7% difference between the high and low point of the S&P index this year.

This isn't all bad. I prefer a lethargic stock market to the dramatic surges and drops that have dominated the stock market during the last five years. My feeling is that the big money players are hoarding their cash and being cautious.

In a presidential election year, economic statistics can be selectively used by each side. Some statistics show that the administration in power is doing a dreadful job; others highlight economic strength. Regardless, investors are being cautious.

In July and August the market has dropped 5%, then rebounded. There is growing concern about oil prices, interest rates, the lack of economic growth, and the constant threat of a major terrorist attack. Volatility seems to be increasing because investors are wary of change, but I expect there to be restraint until after the election.

SRI NEWS

In April, California's CALPERS, the largest U.S. pension plan with \$168 billion in investments, announced a proactive program on the environment and climate change, becoming a hugely influential leader on these issues.

Values (Walden Asset Management newsletter)

We observed remarkable progress toward more inclusive nondiscrimination policies. Now, 98 of the Fortune 100 countries explicitly prohibit discrimination based on sexual orientation (with ExxonMobil and Alcoa the outliers).

Values (Walden Asset Management newsletter)

North American companies are among the global leaders in terms of the percentage of women on their board of directors, although women still represent less than 13% of directors on U. S. boards. Only .4% of Japanese companies have a woman on their boards. Also, according to the Ethical Investment Research Services, of the 1817 worldwide companies surveyed, 46% have no female directors and only 23% have more than one female director.

Three U. S. Senators have called on Defense Secretary Donald Rumsfeld to account for 8.8 billion dollars entrusted to the (Iraqi) Coalition Provisional Authority (CPA) in Iraq earlier this year, but now gone missing.

The report says that in one case some 8,000 guards were listed on a payroll but only 603 real individuals could be counted.

—Inter Press Services, August 21, 2004



YEAR-TO-DATE INDEX**/AVERAGE SCOREBOARD THROUGH AUGUST 20, 2004

	% Change
Standard and Poor's 500 Index	(1%)
Domini Social Index 400	(1%)
Dow Jones Industrial Index	(3%)
NASDAQ Index	(9%)
Lipper* Balanced Average	+1%
Lipper* Small Company Core	+1%
Lipper* International (non-U.S.)	+0%

*Lipper Services, Inc., 2004

** You cannot invest in the above indices and averages. Past performance is no guarantee of future return

*From "EPITAPHS OF THE WAR" by RUDYARD KIPLING
If any question why we died,
Tell them because our fathers lied.*

*Regimes without checks and balances are prone to
grave miscalculations.*

*DEFENSE SECRETARY DONALD RUMSFELD,
SEPTEMBER 10, 2003*

explore
**SOCIALLY-CONSCIOUS
INVESTING**
Align your investments
with your values



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I Need Your Feedback

I need your help. Writing *Bob's Quarterly Update* has become a challenging task lately. I have fussed with the issue way too much. After ten years and 31 issues, this may be the last.

About a thousand households receive BQU. My mailing list includes clients, friends, peers, journalists, and other people who have signed up at a seminar or Earth Day booth. Some of you may not even know who I am or why you receive this newsletter.

So, I'm humbly requesting your honest feedback. You can either return the enclosed postcard or send me your thoughts via e-mail to bdreizler@protectedinvestors.com. Your responses will help me determine what I should do and what changes I should make.

Some of the options I'm considering are 1) sending my newsletter by e-mail, except to those who request mailed paper copies, 2) significantly reducing my mailing list, 3) writing only about what I want to write about, even if it has nothing to do with the stock market or the economy, 4) sending commentaries in a format less structured than this four-page setup, 5) limiting or expanding my tirades, like the essay on page two, or 6) discontinuing *Bob's Quarterly Update*.

It takes time, energy and money to produce BQU. I don't mind this effort if I know that what I write will be read and appreciated. I anticipate your comments.