



# THE COMPASS ROSE

COHEN & BURNETT, P.C. NAVIGATOR WEALTH MANAGEMENT, LLC

ESTATE AND FINANCIAL PLANNING UPDATE

Spring 2009

Volume 4



## FOUNDING PARTNER

I. Mark Cohen JD, LLM & CFP®

Spring has arrived once again, and this time I am looking out from my new office onto an impenetrable cloud of white and pink petals that will soon be snowing on the passersby below. The return of warm weather also has me back outdoors on my bike. This year, my daughter Rachel, Wes and I are participating in the Tour de Cure bike event to benefit diabetes research in Reston on June 14. If you want to ride with us, or contribute to this cause, call me or go to [www.tour.diabetes.org](http://www.tour.diabetes.org) to find our team, the "Cyclones."

In mid-February I went on a 9-day, live-onboard, learn-to-sail course out of St. Petersburg, FL. I had a blast, learned a lot, and now have a bare-boat charter license. This means that I can now go anywhere in the world and charter a sailboat without having to also hire a captain and crew. Watch this column for reports on future sailing adventures.

Kathy is all for sailing, but did not want to take the 9-day course, so she instead flew to Scottsdale, AZ to visit with her parents. Michael and Rachel are fully engaged with college at William and Mary. We hear from them often, and saw them for a week during spring break. We are planning on doing Passover with them in Williamsburg in April, and then they will be back home again in mid-May for the summer.

Although the dismal economy keeps chugging along, I am certain that the steps taken by the new Obama administration will eventually turn it around and lead us back on the road to prosperity. I am not certain when this will be evident, but I continue to have great faith in the resilience and resourcefulness of the people of our country. Wes breaks down the new Economic Stimulus package into bite-sized pieces (see p. 4) in this and the next few issues of *The Compass Rose*. Let us know if you have any questions on its impact on you or how we can help you navigate your way through this new economy. ❖

## Navigator Goes Green

Navigator Wealth Management (NWM) is not just joining the eco-conscious bandwagon to get credit for saying they're "Going Green", but besides understanding that conservation is everyone's social responsibility, the firms are following in the footsteps of many major investment companies, such as Schwab, by taking initial measures to go paperless and educate people about environmentally-friendly financial investments.

NWM's eco-friendly effort that will most directly affect clients will be that all 2008 tax returns will be given to clients on cd rom instead of a hard copy.

"Moving to cd rom is not only eco-friendly and more cost-effective, but we believe it is in the clients' best interest to protect them from possible identity theft," said Manager of Finance, Greg Armstrong. "Having tax documents on disk mitigates the possibility of someone easily getting hold of these sensitive records."

In yet another effort to support eco-friendly standards, NWM will participate in a "Living Green" seminar series to be offered in collaboration with Commonwealth Home Remodelers of Vienna, VA in the Spring and Fall of 2009. Navigator has access to alternative investments such as timberland real estate investment trusts that appeal to people who may want to "invest green." This seminar series will be an opportunity for people to learn more about this sustainable investment option.

"Many of our clients have moved into these investments in order to have the double impact of diversifying their portfolios and giving back to the environment," said NWM President/CEO, Wes Burnett.

In 2007, Cohen & Burnett and NWM underwent a massive undertaking of scanning and electronically backing-up every client file ever handled. Since then, it is par for the course that all client documents are scanned, saved, and backed-up electronically, thereby helping to reduce waste, centralize staff's access to files, reduce costs, and preserve client files from the possibility of theft or fire.

Tax clients who wish to have a hard copy of their tax returns must specially request it; otherwise, cd roms will automatically be issued with their returns for this and in future years.

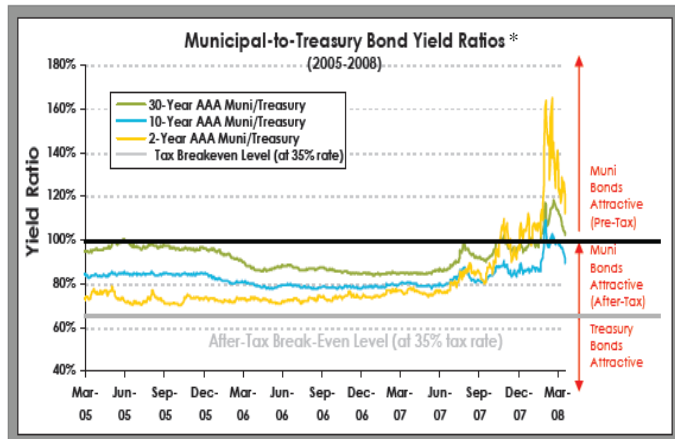
For more information about the "Living Green" seminar series, please visit [www.navigatorwealth.com](http://www.navigatorwealth.com) and click on News You Can Use in the Resources section of the site to obtain the Free Educational Seminar Schedule, or contact Nicci Yang at 703-847-8900 for a copy of the schedule. ❖



**THE  
NORTHWEST  
QUADRANT**  
MUNIS SAVE THE DAY

Larry Solomon, MBA, CFP®

Tax-exempt municipal bonds (“munis”) have long been considered an effective investment vehicle for those in high federal tax brackets looking for superior after-tax income. Over the past several years, muni bonds have delivered on those expectations, providing favorable after-tax yields relative to taxable bonds, such as U.S. Treasury and corporate bonds. (See chart below). More recently, after-tax yields have become even more attractive, as fallout from the subprime-induced credit crisis caused tax-exempt bond yields to rise well above those on U.S. Treasury bonds—and at some maturities, even higher on a pretax basis. This phenomenon peaked in April, 2008, when muni yields traded at an all-time high of more than 125% of U.S. Treasury yields of similar maturities. Although the spread has since narrowed, the ratio of muni-to-Treasury yields remains roughly 30% above its long-term average, making this asset class extremely attractive for all investors in taxable accounts.



The yield differential is even more dramatic for investors living in high tax states like Maryland or California. As of 2/19/2009, the Bond Buyer Municipal Index was yielding 5.52%. For an investor in a 40% combined income tax bracket, that’s a taxable-equivalent yield of 9.2%!

Outside of their tax advantages, there are key reasons why municipal bonds can provide enhanced portfolio diversification. First, munis have different credit exposure than corporate bonds, with steadier revenue streams, higher credit quality, and lower default rates. According to a Standard & Poor's study, BBB-rated munis (the lowest rung of investment grade) have experienced a default rate of less than 0.1% during the past five years, well below the 3.2% rate experienced by BBB corporates during the same time span. Second, there are supply and demand characteristics unique to municipal debt, which historically have provided even larger yield advantages at longer maturities. On average, municipalities have the ability to issue bonds with longer maturities than corporate issuers because of their more dependable revenue streams. Finally, munis historically have had very low price volatility compared to many types of taxable bonds. For the 5- and 10-year periods ending December 2008, the volatility of muni bonds (as measured by standard deviation) was significantly below similarly dated high-quality corporate and Treasury bonds. For these reasons, investors may want to consider owning muni bonds as a way to diversify the fixed-income allocation of their portfolios. ❖

**ONE YEAR REPRIEVE:  
RMD WAIVED FOR TAX YEAR 2009**



Andrew Vanderhoof, JD, LLM

The Worker, Retiree, and Employer Recovery Act of 2008 was signed into law on December 23, 2008. The Act provides that required minimum distributions (RMDs) from defined contribution plans and individual retirement accounts are waived for 2009. As a result, most participants and beneficiaries of such plans are not required to make any withdrawals in 2009. However, individuals who were permitted to delay taking their 2008 RMD must take it by April 1, 2009.

The temporary relief from RMD rules applies to individual retirement accounts (traditional IRAs, IRA Rollovers, Simple IRAs, SEP IRAs) and employer-provided qualified defined contributions plans (such as Keogh accounts, 401(k), 403(b), 457 etc.). The provision allows a retirement plan participant or beneficiary to suspend (or skip) their RMD for calendar year 2009 without triggering the 50% excise tax penalty that would normally apply for RMDs that are not distributed. So, for example, the penalty for refusing to take a \$10,000 distribution is \$5,000.

The next required minimum distribution would be for calendar year 2010. This relief also applies to minimum required distributions for after-death distributions to beneficiaries from such accounts as inherited IRAs and inherited Roth IRAs. The law allows retirement accounts to recover from market losses for older adults who don’t yet need to tap their investments.

The reason behind the RMD law is that it allows the IRS to collect taxes that were deferred when the money was put into savings. But the problems facing the financial markets meant that older people had to take withdrawals based on last year’s higher values.

Congressman Max Baucus, (D-Mont.), chairman of the Senate Finance Committee, said in a statement that measures in the bill “will allow folks to avoid being saddled with a tax hit that wouldn’t exist under normal market conditions.”

The Act also clarifies that a non-spouse beneficiary can roll over an inherited eligible retirement plan to an IRA created to receive the inherited eligible retirement plan in a direct trustee-to-trustee transfer. The Act further provides that, for plan years beginning after 2009, a rollover by a non-spouse beneficiary is generally treated like any other eligible rollover. Plans therefore would be required to permit such rollovers by non-spouse beneficiaries.

If Cohen & Burnett is already your tax advisor, then there is no need to worry about this being taken into account. We hope this information proves helpful for those of you who self-prepare or employ a tax preparer. ❖



## MANAGING PARTNER

Weston D. Burnett JD, LLM & CFP®

For the firm, we had a busy start of the year marked by two new people joining us: Nicci Yang, our First Impression Specialist, who has prior experience in website design, marketing, and media outreach; and Jo Anna Young, our Budget and Tax Assistant. Mark and I think we are very blessed with our nine-person staff, most of whom hold postgraduate degrees, and each possessing an average of 20 years work experience. They all adore our clients and enjoy coming to work every day because you all are such great people to help and serve. Thank you. Please spread the word that we like clients just like you!

We will communicate tax, financial and legal updates or important notices to you by email more often from now on, via the new *Navigator Wealth e-News*. We have done this informally in the past, but will be doing it on a monthly basis going forward. Anyone reading this newsletter in March or April who has not received our e-News and wants to be added to the mailing list, simply send an email to [reception@cohenandburnett.com](mailto:reception@cohenandburnett.com) with the subject "Subscribe to e-News" and you'll get it from now on. Or if you know a friend who might benefit from the e-News alerts, feel free to subscribe them as well.

My family is doing very well. Barb and I saw our three children not just for the holidays, but again over Inauguration weekend as they joined the millions on the Mall for both the Sunday Lincoln Memorial concert and the actual Inauguration. David has more litigation than he knows what to do with at Quinn Emanuel in New York. Edward is excelling at Booz Allen Hamilton and was slotted to a senior analyst position in the Department of the Navy (N3/N5) in the Pentagon. Jennifer's PhD continues apace. Barb wrote over 100 letters of recommendation over the course of January and February, taking up all nights and weekends as her students all sought admission to the high schools of their choice and had to have their math teacher's letter of recommendation. My mother is doing well.

For myself, the new year has many exciting events. Notwithstanding the gloomy real estate market, I sold both our former Falls Church residence and an Arlington condominium for the asking prices within six days of listing in early February. Of special note, I would characterize my pricing as equivalent to 2005 listings, and I engaged an outstanding realtor, Kelly Olafsson ([kellycares@cox.net](mailto:kellycares@cox.net)), whom I met through several clients years ago who bragged about her service and results. All things are possible with the right pricing, the right realtor, and the right attitude, even in these tough economic times.

I continue to exercise daily. Besides the 100-mile Tour de Cure with Mark and some clients in June, I intend to do the Salisbury Century Ride again in October. I am readying my stamp collection for a philatelic competition at the NAPEX show at Tysons in early June.

Last but not least, many thanks to our clients who have recently been hosting dinners, inviting us to parties to introduce us to their friends and associates, or simply telling their loved ones about our high-standards and commitment to excellence. We grow our business on referrals and truly appreciate the trust and confidence you have in us to recommend us to others. ❖

## LEGAL NOTES:

### New Power of Attorney Act Makes Life Easier for Virginians



I. Mark Cohen JD, LLM & CFP®

The Virginia Legislature is reviewing the Uniform Power of Attorney Act (UPOAA) which, if signed into law this April, will have a significant impact on powers of attorney in the Commonwealth. The VBA Legislative Committee, of which I am a member, has been working on this bill for over two years and we expect it will be passed in substantially the form it was presented. Here are the significant changes to our law:

- ◆ The word "Agent" is used instead of "Attorney In Fact," which many people had found confusing.
- ◆ Institutions will be required to accept the authority of the Agent, or face legal sanctions. In exchange, an institution that accepts the authority of the Agent in good faith will be sheltered from liability and will not have to inquire into the Agent's actions. There are limited statutory exceptions to this rule, primarily where another law interferes.
- ◆ A power of attorney is presumed durable and immediately effective unless it provides otherwise. For powers that become effective upon the happening of a contingency (usually principal's incapacity), the person designated to make that determination automatically has the authority to act under HIPAA.
- ◆ The appointment of a conservator by the court does not automatically limit, suspend or terminate the authority of the Agent.
- ◆ A spouse's authority is automatically revoked upon commencement of legal proceedings for divorce or separation.
- ◆ Default rules are provided for Co-Agents and successor Agents, reimbursement of expenses, compensation, acceptance of appointment, and Agent's duties.
- ◆ There is a list of persons who may petition the court for review of Agent's actions.
- ◆ There is also a statutory form power of attorney with check-the-box features.

Overall, passage of this Act would be a good thing for Virginia as it addresses many issues that are troublesome under current law. We have been drafting our powers of attorney consistent with the UPOAA for the past two years, but if your power of attorney is older, this is a good reason to come in for a review. ❖

## Just for Laughs

Dan was a single guy living at home with his father and working in the family business.

When he found out he was going to inherit a fortune when his sickly father died, he decided he needed a wife with whom to share his fortune. One evening at an investment meeting he spotted the most beautiful woman he had ever seen. Her natural beauty took his breath away.

"I may look like just an ordinary man," he said to her, "but in just a few years, my father will die, and I'll inherit \$200 million." Impressed, the woman obtained his business card and three days later, she became his stepmother. ❖



# A Brave New Economy

First in a Three-Part Series About the New Economic Stimulus Plan and Its Potential Impact on You

Weston D. Burnett, JD, LLM & CFP®

The \$787 billion dollar American Recovery and Reinvestment Act of 2009 represents a controversial and unprecedented attempt to change the direction of our economy. In this and the next two issues we will endeavor to capture the highlights for you, starting with taxes and health care.

## Taxes

The recovery package has tax breaks for families that send a child to college, purchase a new car, buy a first home or make the ones they own more energy efficient. Millions of workers can expect to see about \$13 extra in their weekly paychecks, starting around June, from a new \$400 tax credit to be doled out through the rest of the year. Couples would get up to \$800. In 2010, the credit would be about \$7.70 a week, if it is spread over the entire year. The \$1,000 child tax credit would be extended to more low-income families that don't make enough money to pay income taxes, and poor families with three or more children will get an expanded Earned Income Tax Credit. Middle-income and wealthy taxpayers will be spared from paying the Alternative Minimum Tax, which was designed 40 years ago to make sure wealthy taxpayers pay at least some tax, but was never indexed for inflation. Congress fixes it each year, usually in the fall. First-time homebuyers who purchase their homes before December 1 would be eligible for an \$8,000 tax credit, and people who buy new cars before the end of 2009 can write off the sales taxes.

Homeowners who add energy-efficient windows, furnaces and air conditioners can get a tax credit to over 30 percent of the costs, up to a total of \$1,500. College students — or their parents — are eligible for tax credits of up to \$2,500 to help pay tuition and related expenses in 2009 and 2010. Those receiving unemployment benefits this year wouldn't pay any federal income taxes on the first \$2,400 they receive.

## Health Insurance

Many workers who lose their health insurance when they lose their jobs will find it cheaper to keep that coverage while they look for work. Right now, most people working for medium and large employers can continue their coverage for 18 months under the COBRA program when they lose their job. It's expensive, often over \$1,000 a month, because they pay the share of premiums once covered by their employer as well as their own share from the old group plan. Under the stimulus package, the government will pick up 65 percent of the total cost of that premium for the first nine months. COBRA applies to group plans at companies employing at least 20 people. The subsidies will be offered to those who lost their jobs from Sept. 1 to the end of this year. Those who were put out of work after September but didn't elect to have COBRA coverage at the time will have 60 days to sign up. The plan offers \$87 billion to help states administer Medicaid. ❖

## BRING A FRIEND SEMINAR & WINE TASTING RECEPTION

Alternative Investments: Preserve Your Savings &  
Enhance Your Income in This New Economy

Hosted by Navigator Wealth Management  
Co-Sponsor & Guest Speaker:  
Thompson National Properties, LLC

Wednesday, April 22, 2009  
6:00 PM—8:30 PM  
At the NWM Office Suite

Featuring hors d'oeuvres by Helga's Caterers and  
Wine sampling by Willowcroft Vineyards, Leesburg, VA

Please RSVP to Nicci Yang by April 13  
703-847-0965 or [reception@cohenandburnett.com](mailto:reception@cohenandburnett.com)

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*A compass rose is a figure displaying the orientation of the cardinal directions, north, south, east and west on a map or nautical chart. We found it fitting to name our newsletter after this recognizable symbol of navigation and direction.*

If you prefer not to receive our quarterly newsletter or if you have any feedback or ideas for topics, please email Susan Greco:  
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