



# Saving for College

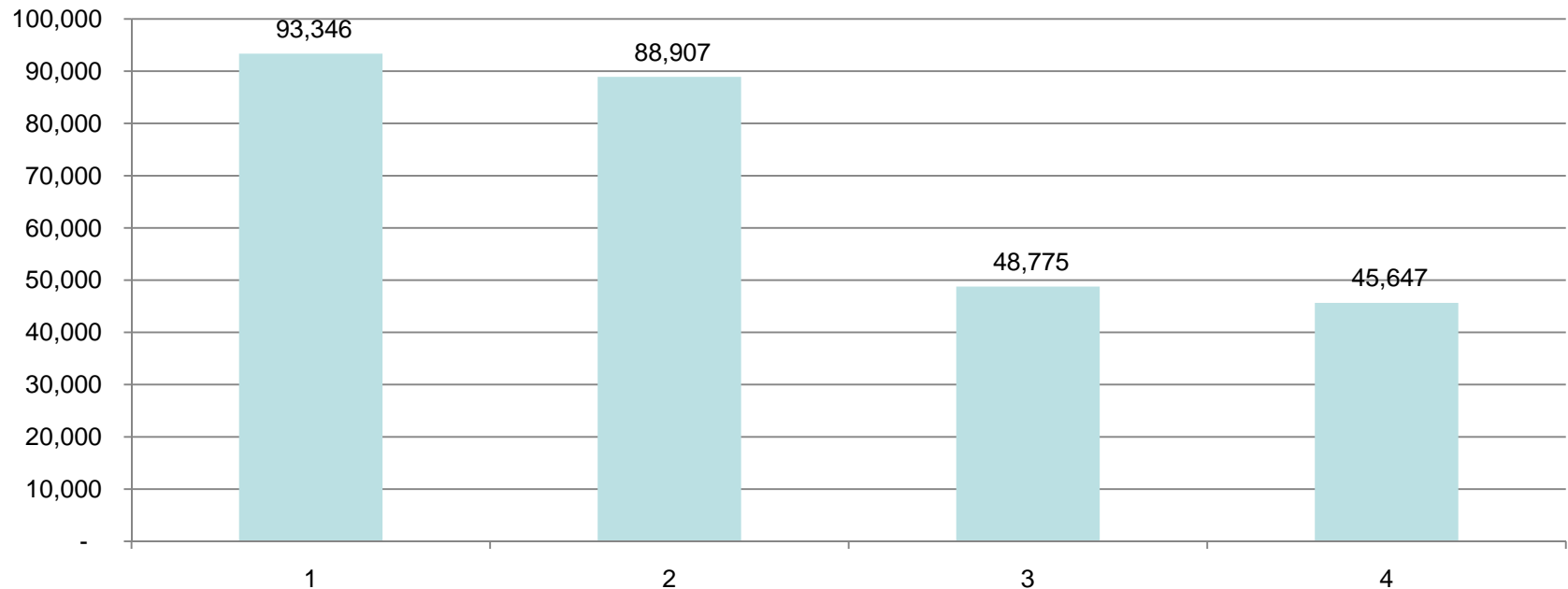
# College Savings Options

- + 529 Plans
  - Prepaid Tuition Plans
  - College Savings Plans
- + Coverdell Education Savings Accounts (ESAs)

# Important Rules – College Savings Options

	<b>529 College Savings Plan</b>	<b>Coverdell ESA</b>
Contribution Limits	None, but considered gifts; 5 years permitted	\$2,000
Tax on Withdrawals	None, if used for qualified education expenses	None, if used for qualified education expenses
State Tax Deduction	VA - \$2,000 / \$4,000 in '09 MD - \$2,500 DC - \$4,000	None
Qualified Expenses	College tuition, fees, books/supplies/equipment, room and board	Elementary, high school, and college tuition, fees, books/supplies/equipment, room and board
AGI Limits (MFJ)	None	\$220,000

# Annual Funds Available for Four Years of Higher Education Expenses Starting at Age 18



- 1 – Start when a child is 2 - \$60,000 in year one and \$12,000 per year starting in year six
- 2 – Start when a child is 2 - \$12,000 per year starting
- 3 – Start when a child is 8 - \$60,000 in year one and \$12,000 per year starting in year six
- 4 – Start when a child is 8 - \$12,000 per year starting



# Saving for Retirement

# Retirement Savings Options

Employees (W-2)	Self-Employed (1099)
Traditional IRA <ul style="list-style-type: none"><li>- Deductible</li><li>- Nondeductible</li></ul> Roth IRA	Traditional IRA <ul style="list-style-type: none"><li>- Deductible</li><li>- Nondeductible</li></ul> Roth IRA SEP IRA Solo 401(k) Defined Benefit Plan Others

# Important Rules – IRAs & Roth IRAs

	Traditional IRA- Deductible	Traditional IRA - Nondeductible	Roth IRAs
<b>CONTRIBUTIONS</b>			
Deductible	Yes	No	No
Maximum for 2008	\$5,000 / \$6,000	\$5,000 / \$6,000	\$5,000 / \$6,000
Age Limit	70 ½	70 ½	None
Timing of Contribution	By April 15 of following year	By April 15 of the following year	By April 15 of the following year
AGI Limits (MFJ) (S)	\$85,000/\$105,000 \$53,000/\$63,000	None None	\$159,000/\$169,000 \$101,000/\$116,000

# Important Rules – IRAs & Roth IRAs

	Traditional IRA-Deductible	Traditional IRA - Nondeductible	Roth IRAs
<b>DISTRIBUTIONS</b>			
Tax Treatment on Qualified Distributions	Ordinary income	Ordinary income on earnings only	Not taxable income
Required Minimum Distributions	Optional at 59 ½ required at 70 ½	Optional at 59 ½ required at 70 ½	Optional at 59 ½ & after 5 years
Early (10% Penalty)	Exceptions Include: Disability; Qualified Higher Education; \$10,000 for 1 <sup>st</sup> Home; others	Exceptions Include: Disability Qualified; Higher Education; \$10,000 for 1 <sup>st</sup> Home; others	Contributions come out first without penalty

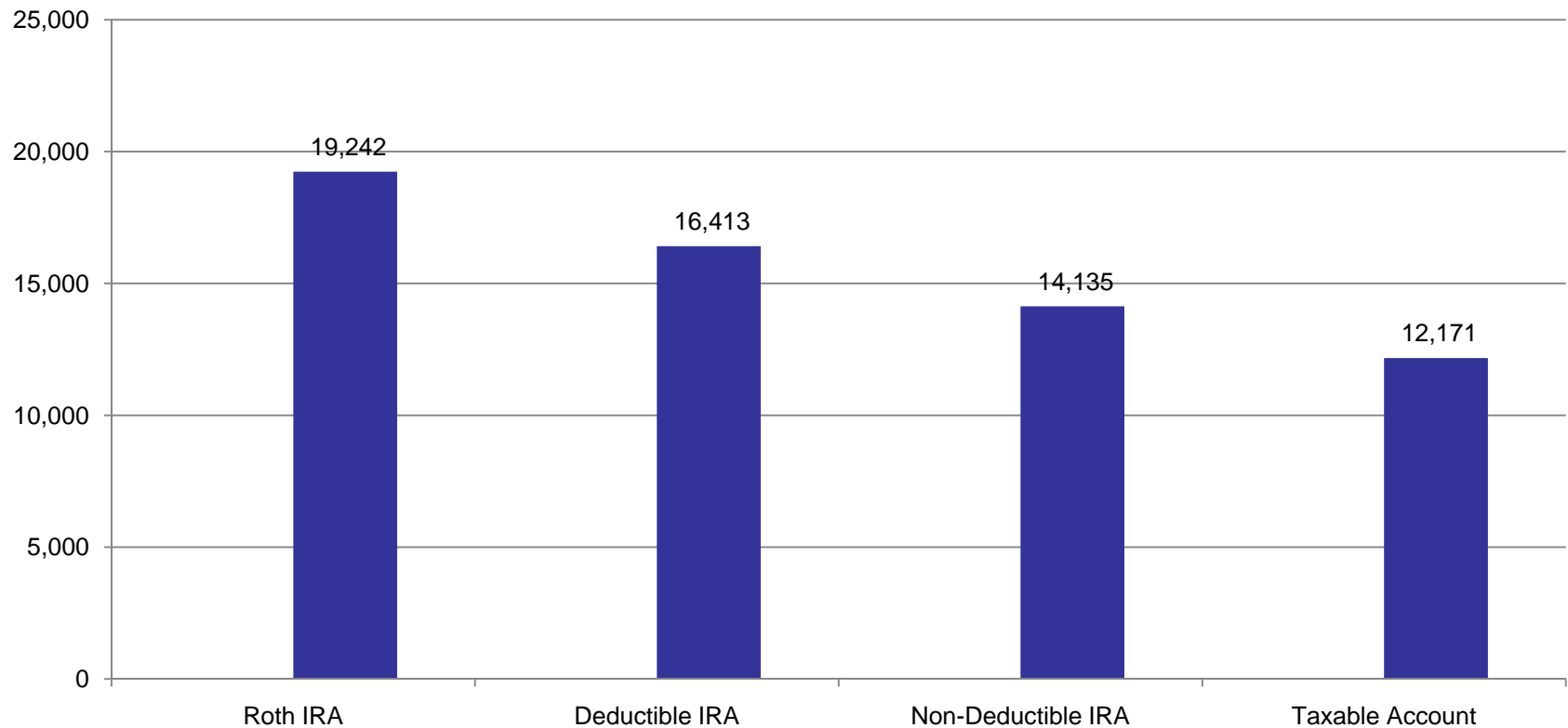


# Retirement Savings Example - Assumptions

- + Pre-tax savings of \$8,333 or \$10,000 to provide for maximum annual Roth IRA or non-deductible Traditional IRA contribution of \$5,000 and \$6,000
- + 40% tax rate
- + 6% investment return
- + Annual distributions starting at age 70 for 20 years

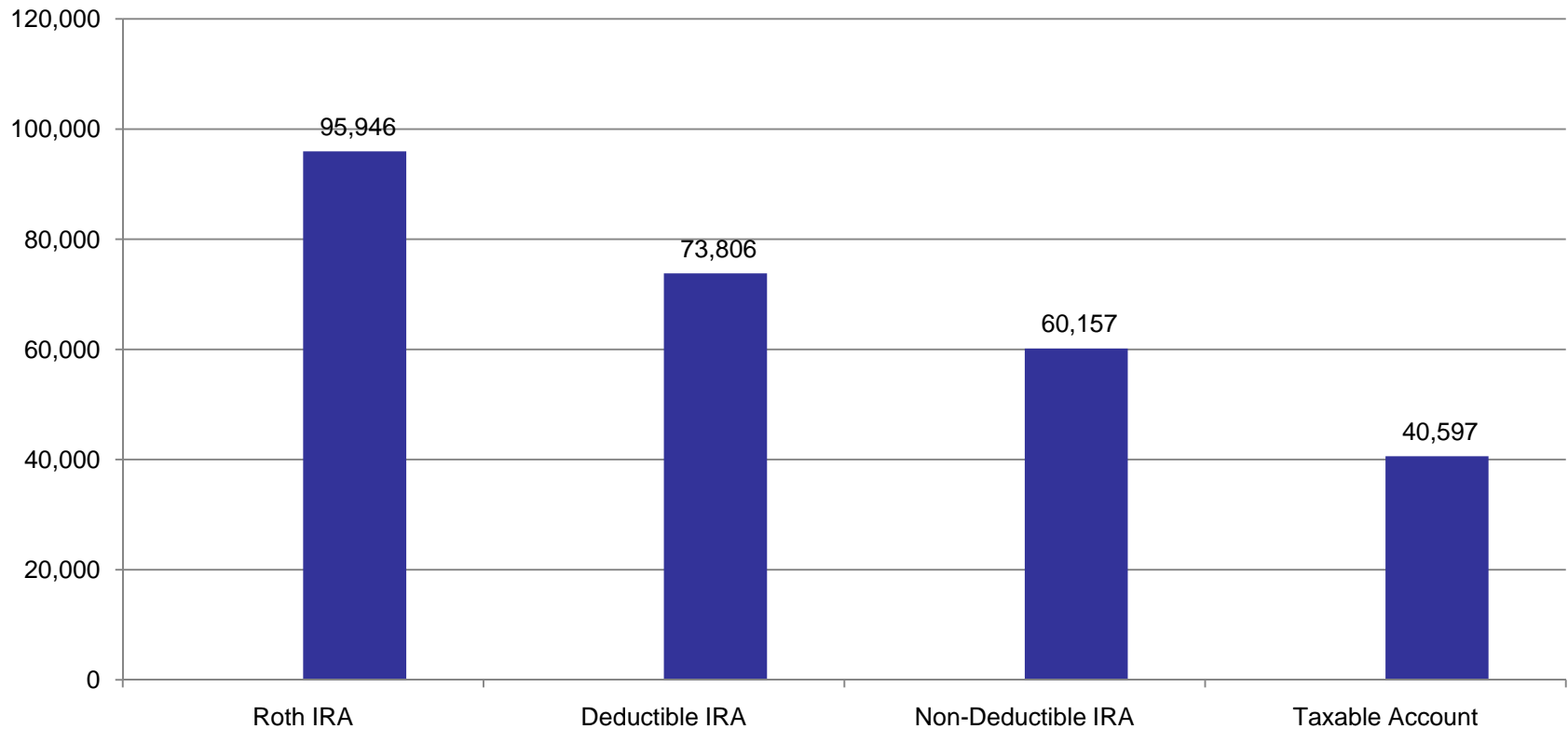
# Retirement Savings Example

Equal Annual After Tax Cash Flow Provided – Savings Begin at Age 50



# Retirement Savings Example

Equal Annual After Tax Cash Flow Provided – Savings Begin at Age 25



# Should You Convert to a Roth IRA?

- + Advantages
  - No taxes on earnings or distributions
  - No required minimum distributions
  - Easier to get early distributions
- + Disadvantages
  - Taxes due at conversion
- + Key Considerations
  - Source of funds to pay taxes due at conversion
  - Future returns

# Important Rules – Roth Conversions

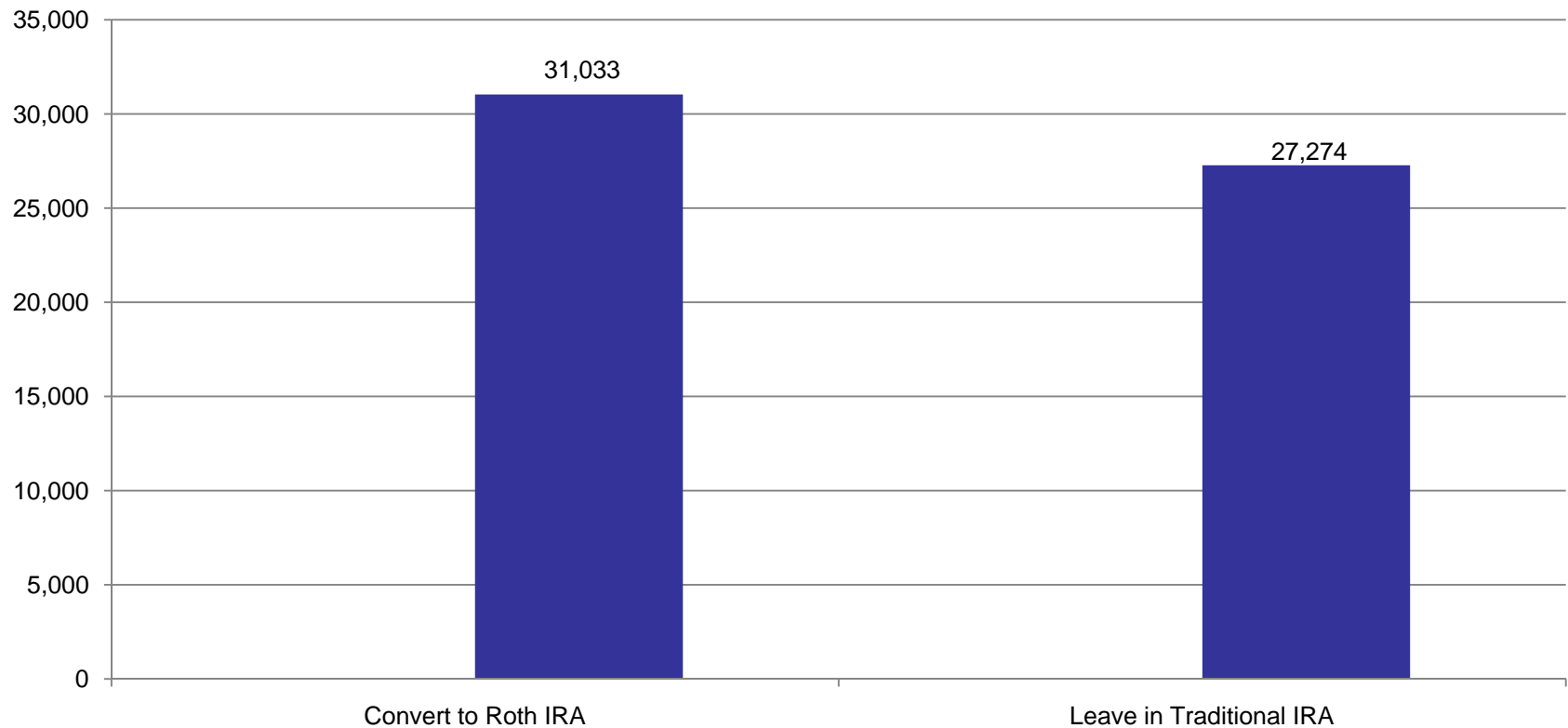
- + Prior to 2010, taxpayers with modified AGI of \$100,000 or less may convert traditional IRAs or company sponsored retirement plans to Roth IRAs
  - Distribution included in taxable income
  - No 10% penalty
  
- + Starting in 2010, no modified AGI limit on conversions
  - For conversions in 2010, distribution included in taxable income in 2011 and 2012

# Roth Conversion Examples Assumptions

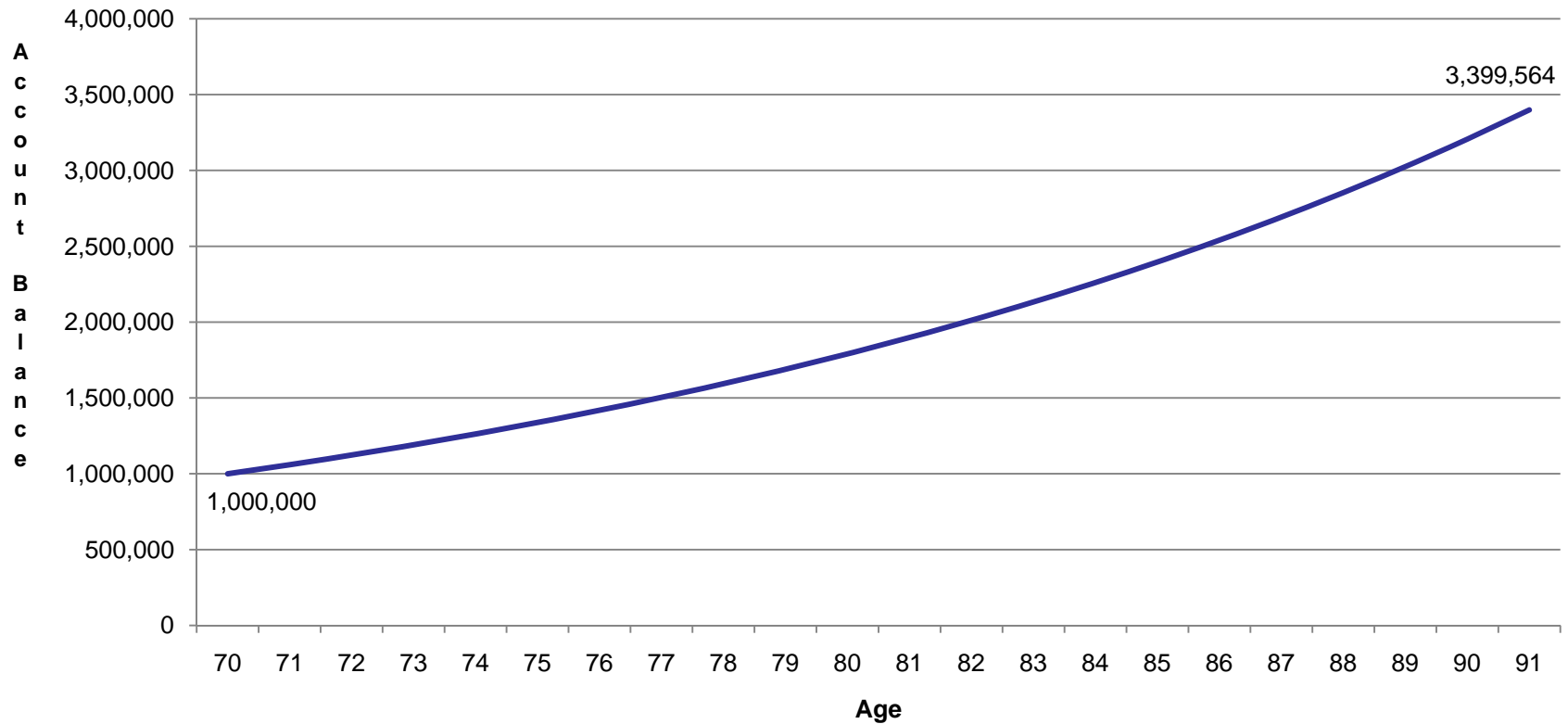
Income Taxes Upon Conversion Paid with Other Funds and No Further Contributions are Made		
	Needs the Money	Doesn't Need the Money
Account Balance	\$250,000	\$1,000,000
Age	65	70
Tax Rate	40%	40%
Investment Return	6%	6%
Estate Tax Rate	N/A	Assume paid with other assets
Other		Funds are left to a 40 year old beneficiary after 20 years

# Roth Conversion Example – Needs the Money

Equal Annual After Tax Cash Flow Provided for 20 years at Age 70

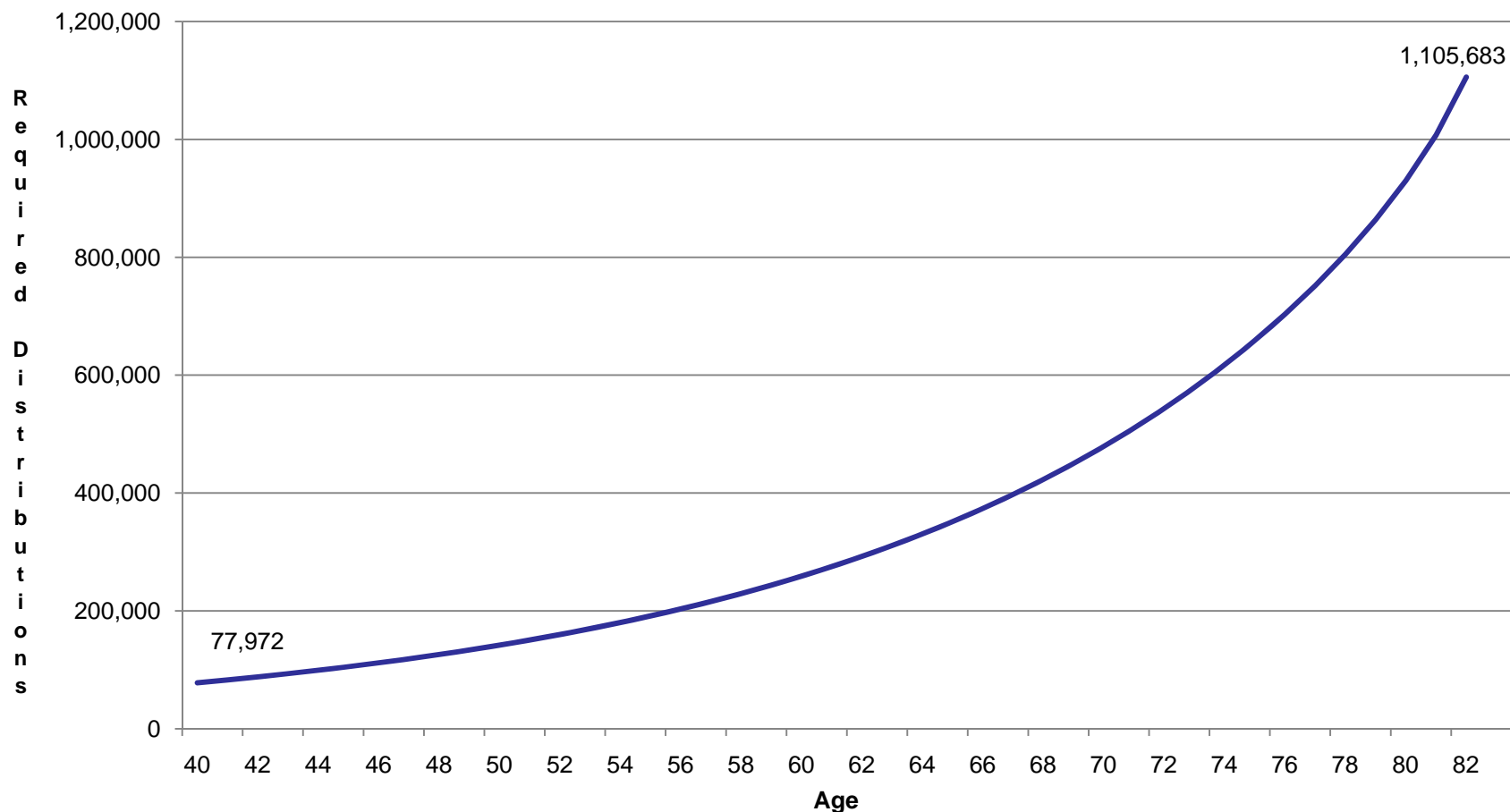


# Roth Conversion Example – Doesn't Need the Money





## Roth Conversion Example – Doesn't Need the Money (Continued)





# Protecting Your Cash

# Options to Protect Your Cash

- + US Treasuries
  - Interest taxable on federal return, exempt from state/local tax
- + FDIC Insured Accounts
  - Up to \$250,000 per depositor per account category per institution
  - Insurance amount reverts to \$100,000 on January 1, 2010
  - Certificate of Deposit Registry Service (CDARS)
- + Other Government Insurance
  - Money Market Fund Guarantee Program – shares held at 9/19/08 guaranteed through 12/19/08



# The Times That Try Investor Confidence

*Joseph M. Brodecki*

*Principal*

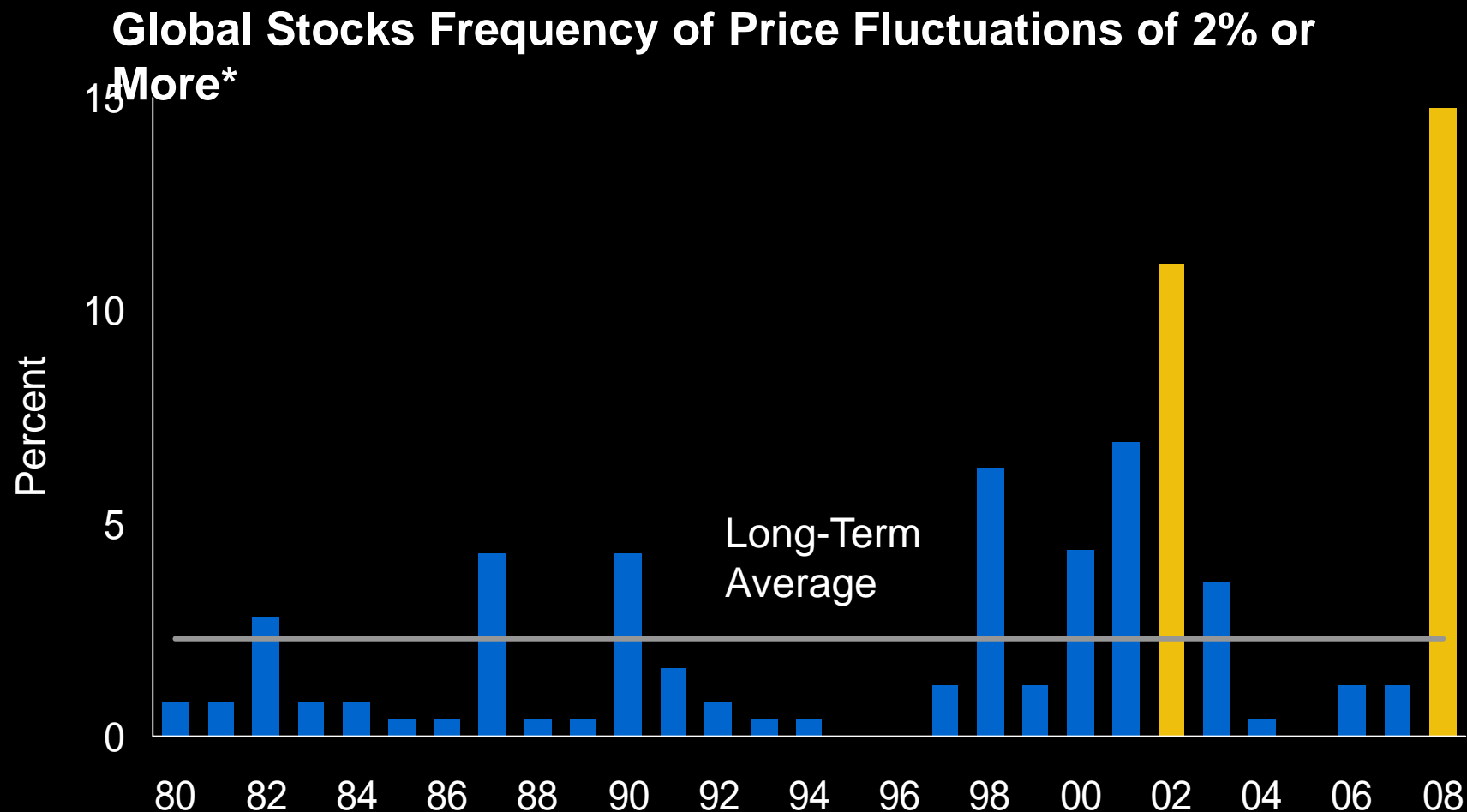
# Investor Emotion Drives Markets

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Source: *The New Yorker*, August 19, 2002, Alex Gregory

# Global Stocks Are Experiencing Record Volatility



As of October 20, 2008

\*Percent of days in the year in which the MSCI World Index moved up or down by 2% or more; 2008 is calculated from January 1 through September 25. Long-term average is measured from January 1980 through September 25, 2008.

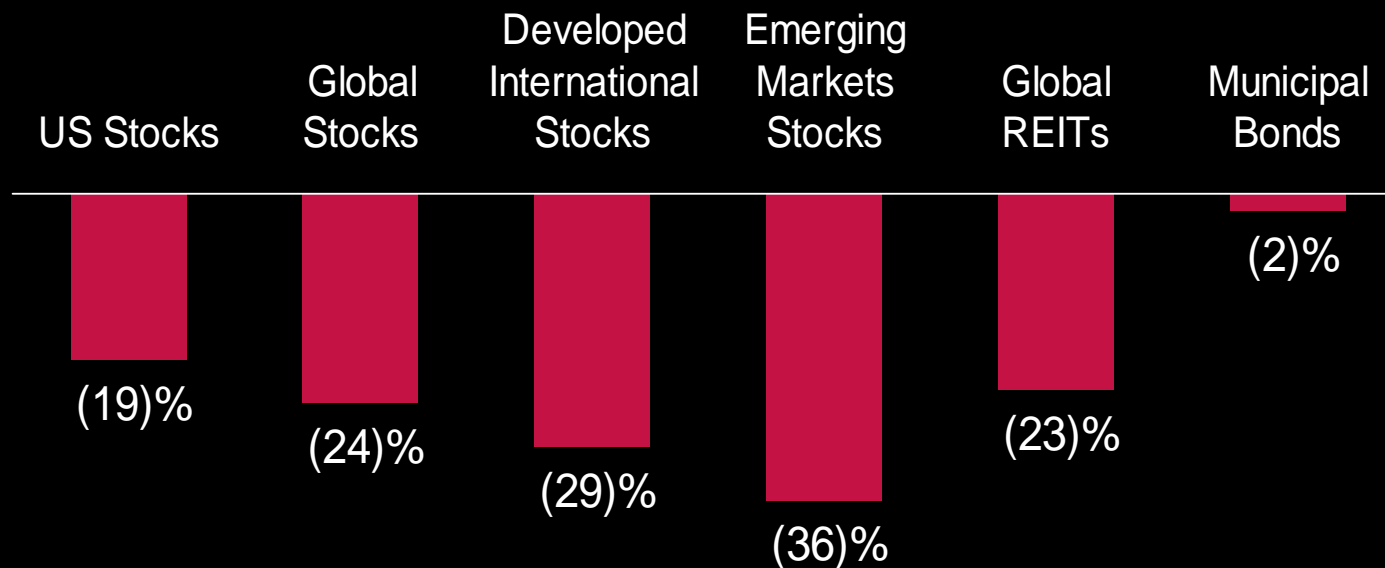
Source: Morgan Stanley Capital International (MSCI) and AllianceBernstein

# Markets Around the Globe Plummeted Through September...

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## Total Returns

January 1, 2008–September 30, 2008



**Past performance does not guarantee future results.**

US Stocks are represented by S&P 500 Index; Global Stocks by MSCI World Index (capitalization-weighted, currencies unhedged); Developed International Stocks by the Morgan Stanley Capital International (MSCI) EAFE index of major markets in Europe, Australasia and the Far East; Emerging Markets Stocks by MSCI Emerging Markets Index; Global REITs by FTSE EPRA/NAREIT Index; Municipal Bonds by the Lipper Intermediate Municipal Bond Fund Average.

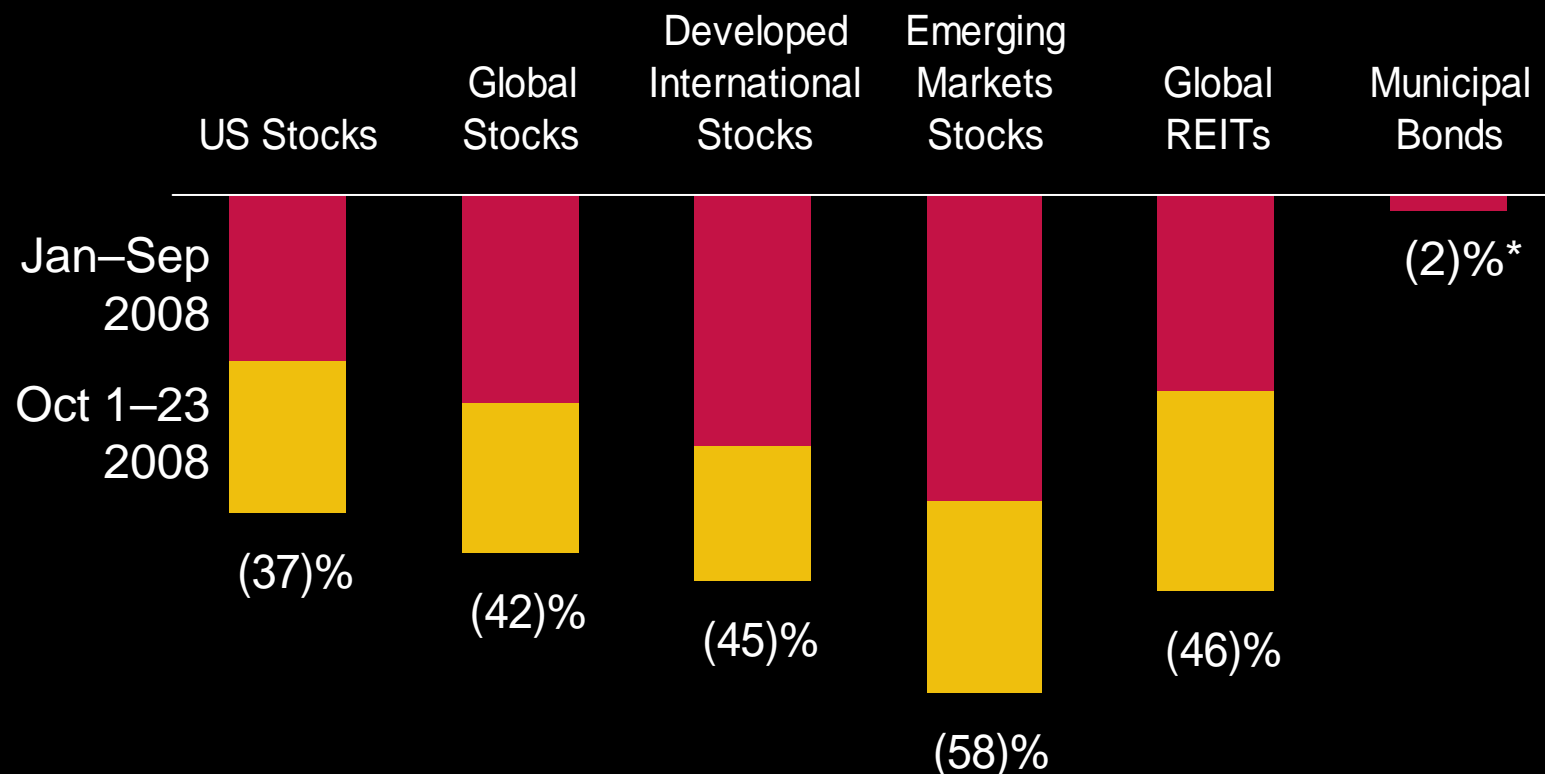
Source: FTSE, Lipper, MSCI, Standard & Poor's and AllianceBernstein



# ...And Fell Further, with Breathtaking Speed, in October

## Total Returns

January 1, 2008–October 23, 2008



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\*The Lipper Intermediate Municipal Bond Fund Average is only available monthly.

Source: FTSE, Lipper, MSCI, Standard & Poor's and AllianceBernstein

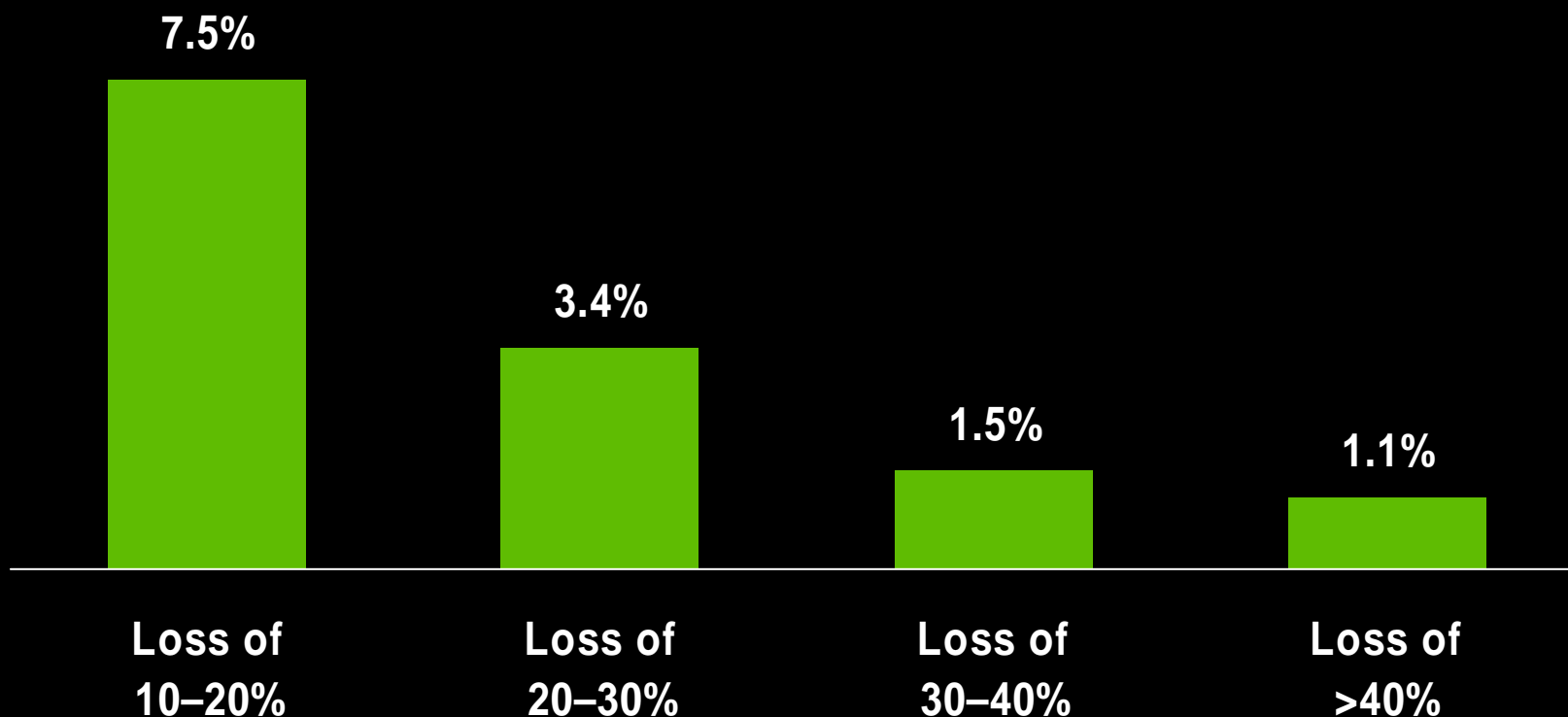
# A Historical Perspective

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## Frequency of Annual Loss

1926–September 2008

US Stocks\*



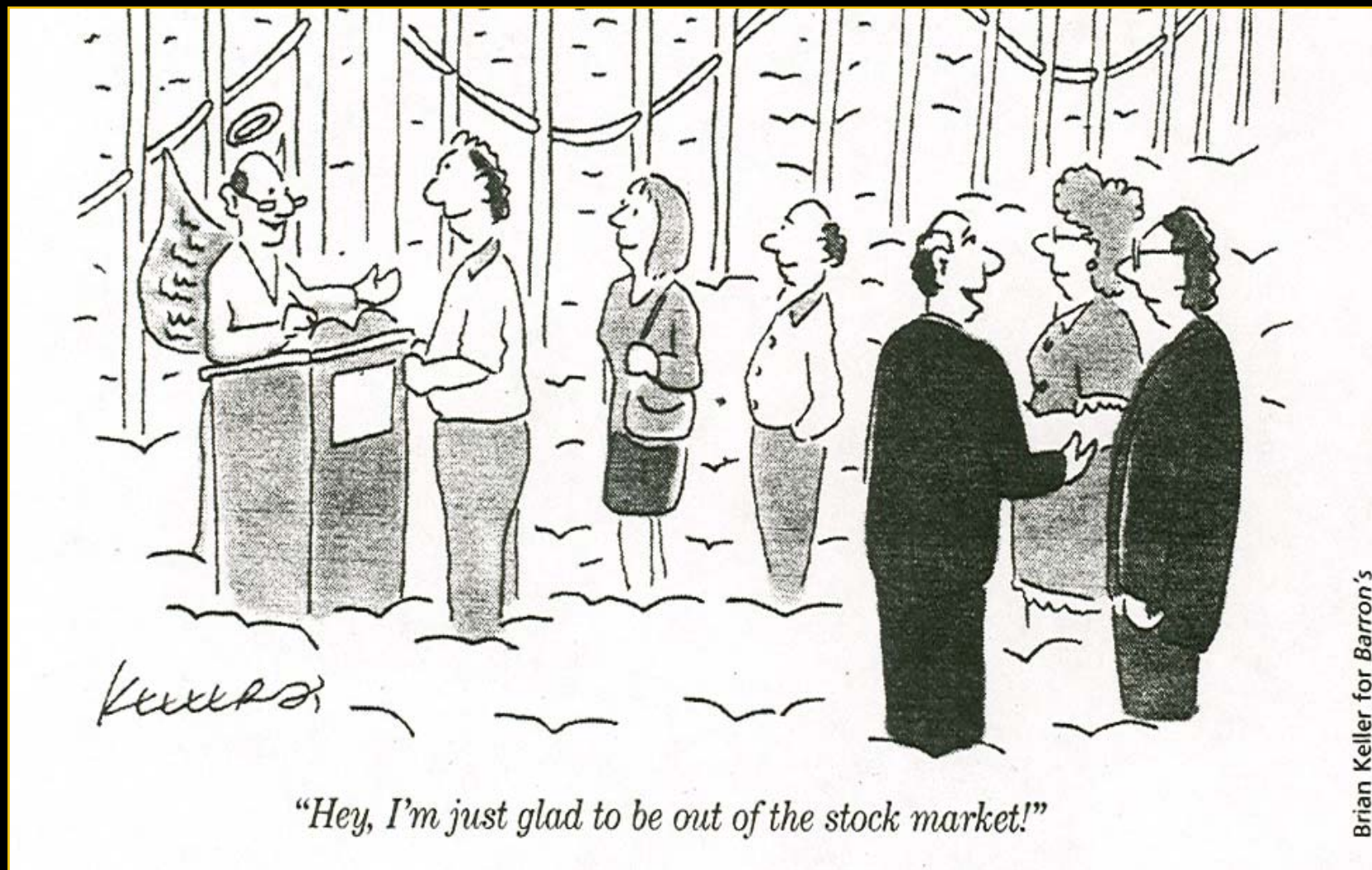
\*As represented by Ibbotson through 1974 and the S&P 500 thereafter

Frequency of annual loss measured by rolling 12-month periods from January 1926 through September 2008

Source: Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press *Journal of Business*, Standard and Poor's and Alliance Bernstein

Bernstein

# Bear Markets Feel Bad



Source: *Barron's*, Brian Keller

# Risk-Averse Investors Fled to Safety

## Three-Month Treasury Yield



As of September 30, 2008

\*Current real yield includes estimated core inflation of 2.5%.

Source: AllianceBernstein

# The Suspension of Disbelief

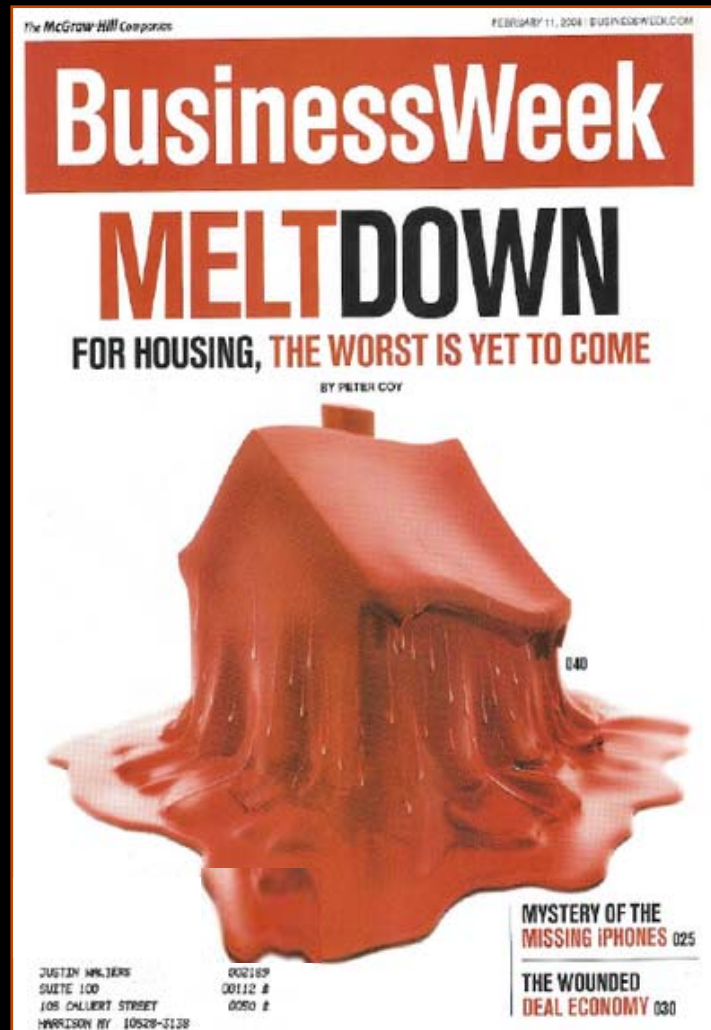
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Source: *Time*, June 13, 2005

# It's NOT Different This Time

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Source: *BusinessWeek*, February 11, 2006

# The Challenges in Today's Markets

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- Housing bubble and bust
- Subprime mortgage and credit crisis
- Financial-institution stresses and illiquidity
- Dramatic global economic contraction





# Financial Excesses Were Huge But the Adjustment Is near an End



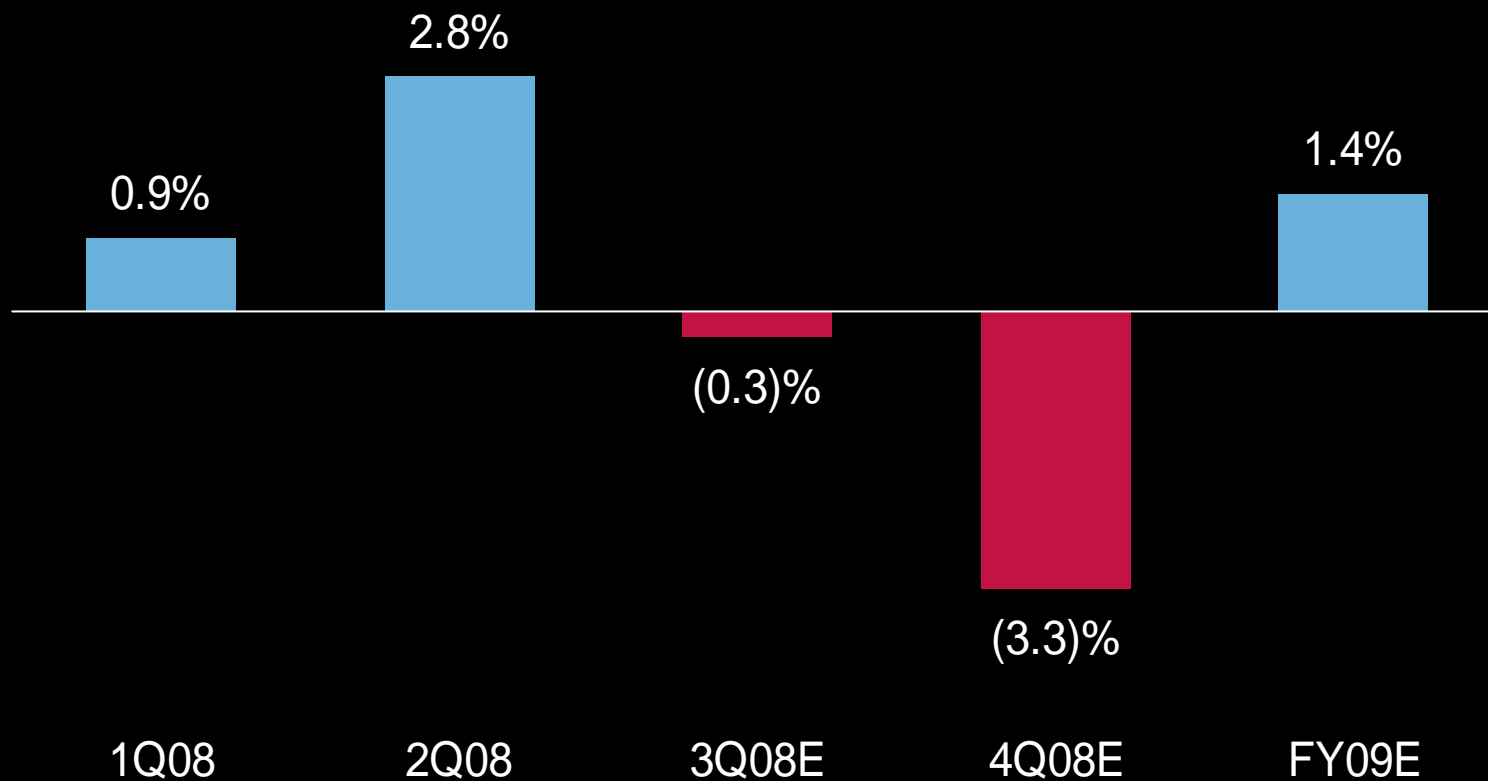
# **Governments Worldwide Take Potent Stimulative Action**

- Expanded deposit insurance
- Insurance for money-market funds
- Guarantees on bank notes and bonds
- Capital pools to buy illiquid mortgage-related assets
- Equity investments in banks on attractive terms for shareholders
- Synchronous interest-rate cuts by central banks

# Negative GDP Growth in the Near-Term

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## US Real GDP Growth



# Stocks Can Thrive During Recessions—

Recession	Return (Cumulative)	12 Months
Nov 1, 1948–Oct 31, 1949	4%	31%
July 1, 1953–May 31, 1954	28	36
Aug 1, 1957–Apr 30, 1958	(7)	37
Apr 1, 1960–Feb 28, 1961	18	13
Dec 1, 1969–Nov 30, 1970	(4)	11
Nov 1, 1973–Mar 31, 1975	(18)	28
Jan 1, 1980–Jul 31, 1980	16	13
Jul 1, 1981–Nov 30, 1982	15	26
Jul 1, 1990–Mar 31, 1991	8	11
Mar 1, 2001–Nov 30, 2001	(7)	(17)
<b>Average</b>	<b>5%</b>	<b>19%</b>
<b>Probability of gain</b>	<b>60%</b>	<b>90%</b>

Past performance does not guarantee future results.

\*As defined by National Bureau of Economic Research (NBER)

Source: Compustat; Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press *Journal of Business*

(January 1976); National Bureau of Economic Research; Standard & Poor's and AllianceBernstein

# Losses Have Usually Been Made Up Quickly

Down Markets	Total Return (S&P 500)	First Year After Decline
Aug 1957–Dec 1957	(15)%	43%
Jan 1962–Jun 1962	(22)	31
Feb 1966–Sep 1966	(16)	31
Dec 1968–Jun 1970	(30)	42
Jan 1973–Sep 1974	(43)	38
Jan 1977–Feb 1978	(14)	17
Dec 1980–Jul 1982	(17)	60
Sep 1987–Nov 1987	(30)	24
Jun 1990–Oct 1990	(15)	34
<b>Apr 2000–Mar 2003</b>	<b>(41)%</b>	<b>36%</b>
<b>Average</b>	<b>(24)%</b>	<b>35%</b>
<b>Current (Thus Far): Oct 9, 2007–Oct 23, 2008</b>	<b>(37)%</b>	<b>?</b>

Past performance does not guarantee future results.

\*Return for last nine months of first year of recovery

Source: Compustat; Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press *Journal of Business*

Bernstein

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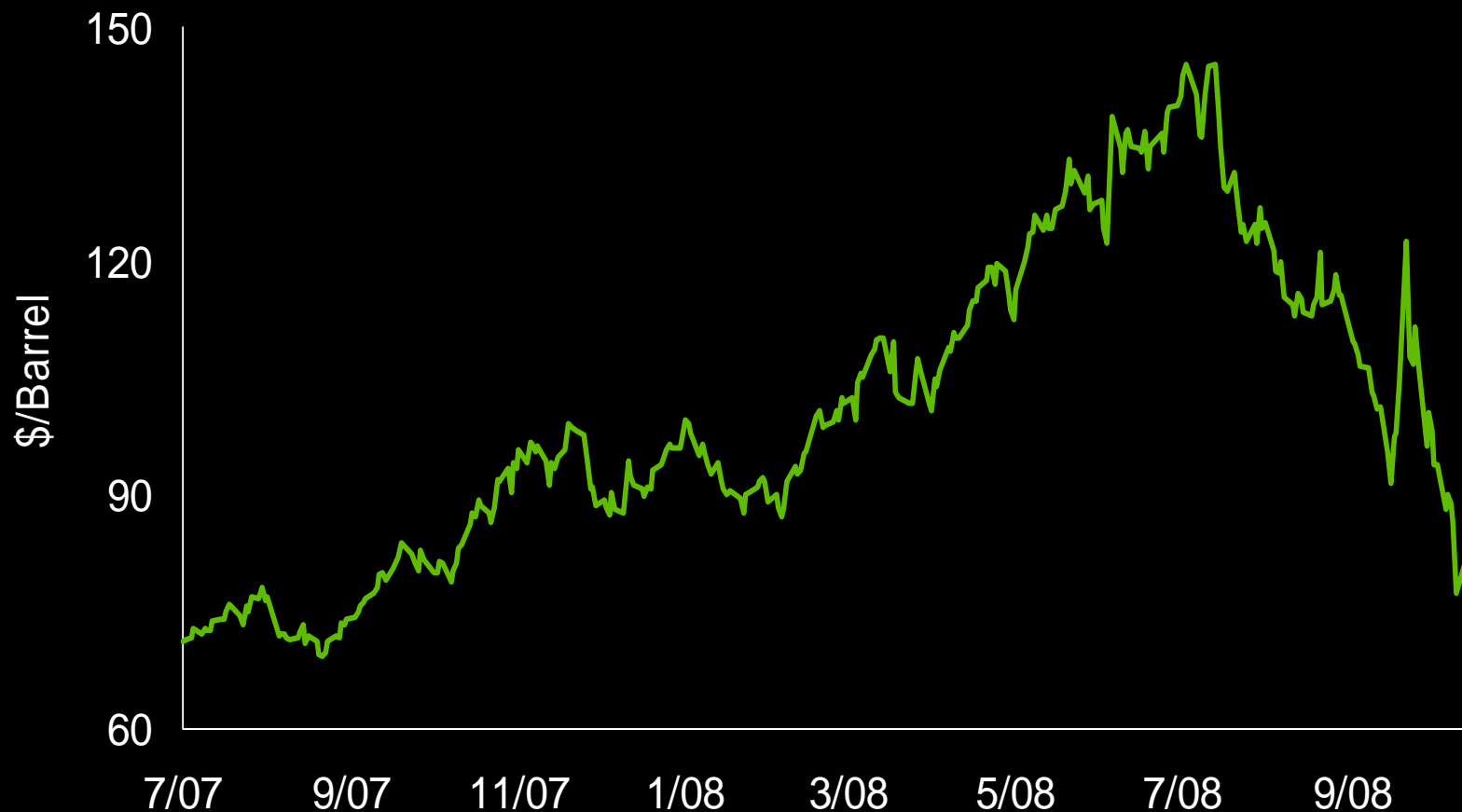
Source: Compustat; Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press *Journal of Business*

Bernstein

# Oil-Price Decline Should Help Expunge Inflation

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## Price of Oil



Through October 15, 2008; based on West Texas Intermediate  
Source: Global Financial Data and AllianceBernstein

# US Stocks Are at Their Lowest Valuations in Decades



Through October 10, 2008  
Source: Bloomberg, Standard & Poor's, Thomson First Call and AllianceBernstein



# Capital Market Pricing Prudent Risk taking Will Be Rewarded

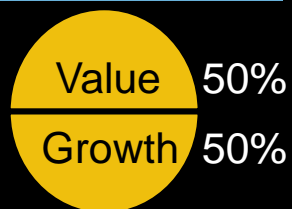


# Our Multi-Style Global Stock Portfolio

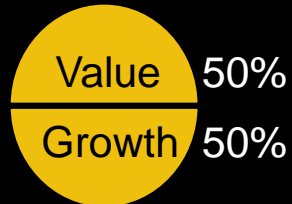
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## A Typical Allocation

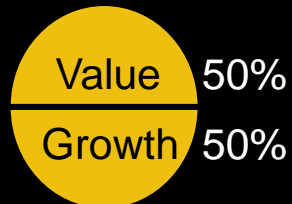
### US Stocks



### Developed Int'l

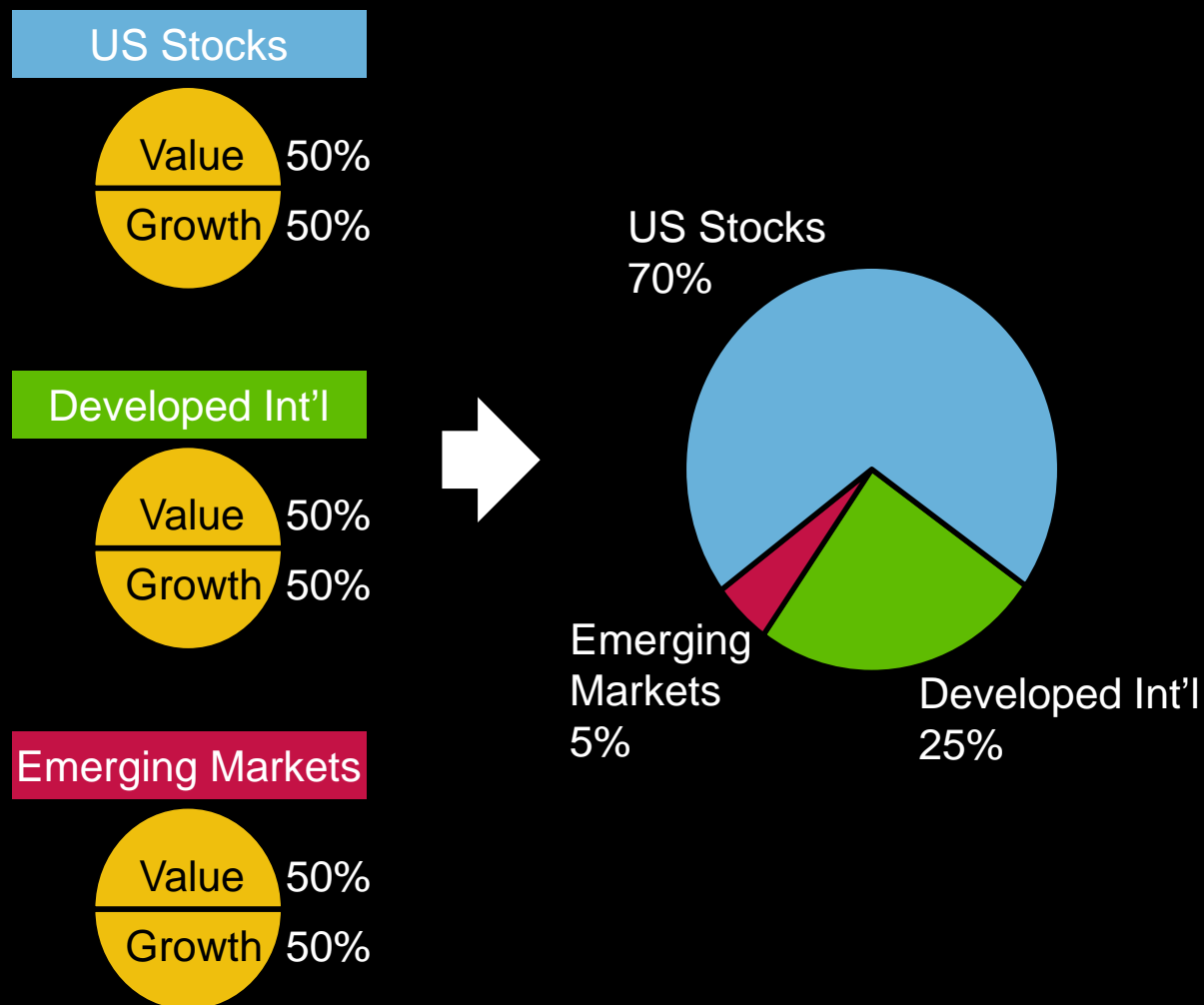


### Emerging Markets



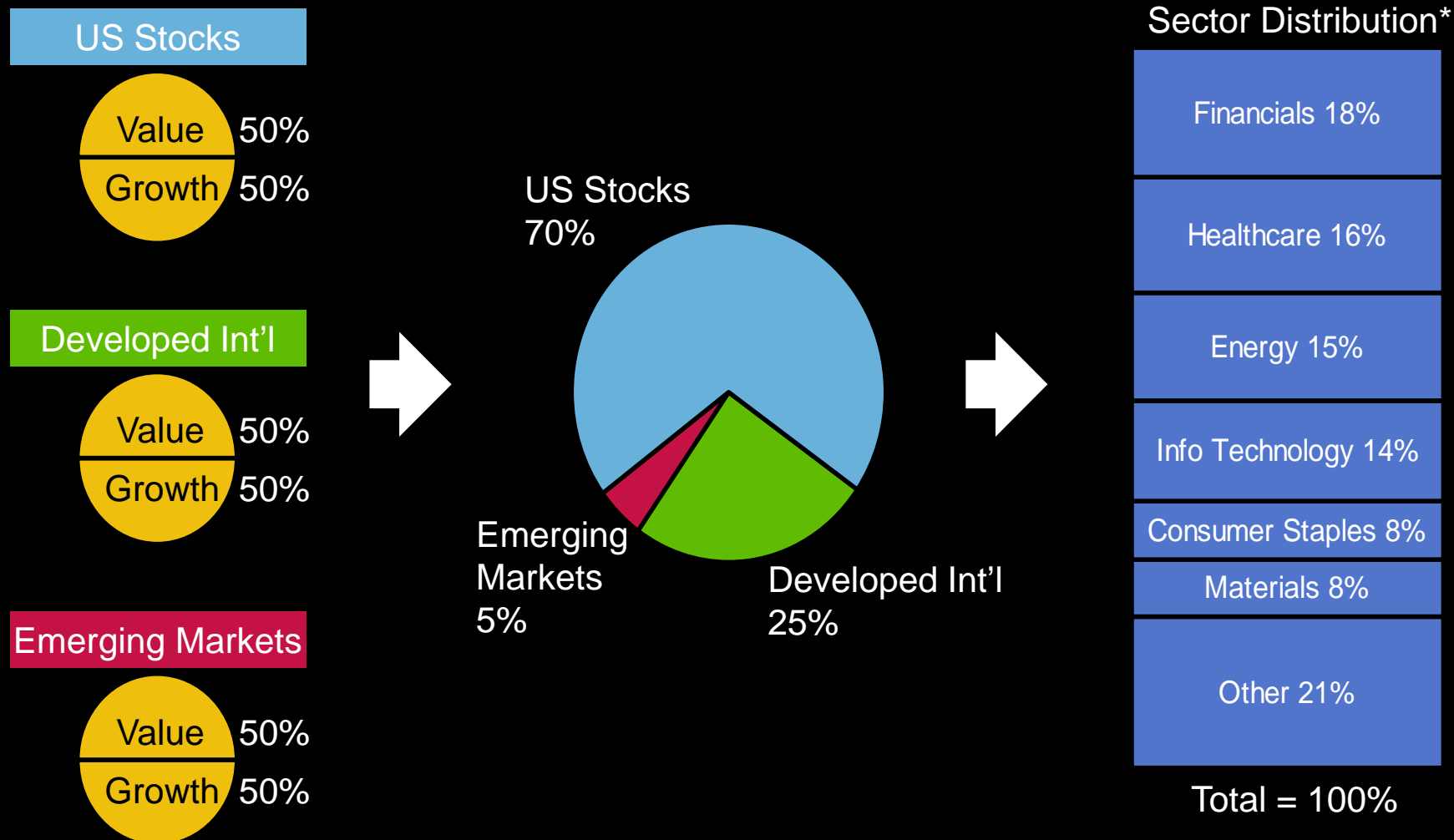
# Our Multi-Style Global Stock Portfolio

## A Typical Allocation



# Our Multi-Style Global Stock Portfolio

## A Typical Allocation



\*As of September 30, 2008

# Municipal Issuers Are Adjusting in a Slowing Economy

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## Controversy

## Our View

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■ Rash of defaults lies ahead

■ The 10-year cumulative default rate on municipal bonds is only 0.1%

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■ State revenues will fall

■ States have built large budget reserves, anticipating slower economic growth

■ Spending plans have been cut

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■ Local governments will suffer from lower property taxes

■ Property tax collections have been stable historically

- Assessed values lag housing values

- Property taxes can be raised if necessary



If It Feels So Right...  
How Can It Be So Wrong?

# Losses Have Usually Been Made Up Quickly

Down Markets	Total Return (S&P 500)	First Year After Decline	Months Late*
Aug 1957–Dec 1957	(15)%	43%	34%
Jan 1962–Jun 1962	(22)	31	27
Feb 1966–Sep 1966	(16)	31	23
Dec 1968–Jun 1970	(29)	42	21
Jan 1973–Sep 1974	(43)	38	26
Jan 1977–Feb 1978	(14)	17	3
Dec 1980–Jul 1982	(17)	60	26
Sep 1987–Nov 1987	(30)	2	5
Jun 1990–Oct 1990	(15)	34	17
Apr 2000–Mar 2003	(41)	35	17
<b>Average</b>	<b>(24)</b>	<b>35</b>	<b>20</b>
<b>Current (Thus Far): Oct 9, 2007–Oct 31, 2008</b>	<b>(37)%</b>	<b>?</b>	<b>?</b>

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Source: Compustat; Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press *Journal of Business* (January 1976); Standard & Poor's; and AllianceBernstein

# Gains Tend to Come in Bursts

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1970–2007

<b>S&amp;P 500</b>	<b>Average Monthly Return</b>
All 456 months (100% of the time)	1.0%
Best 60 months (13% of the time)	7.7
All other months (87% of the time)	0.0

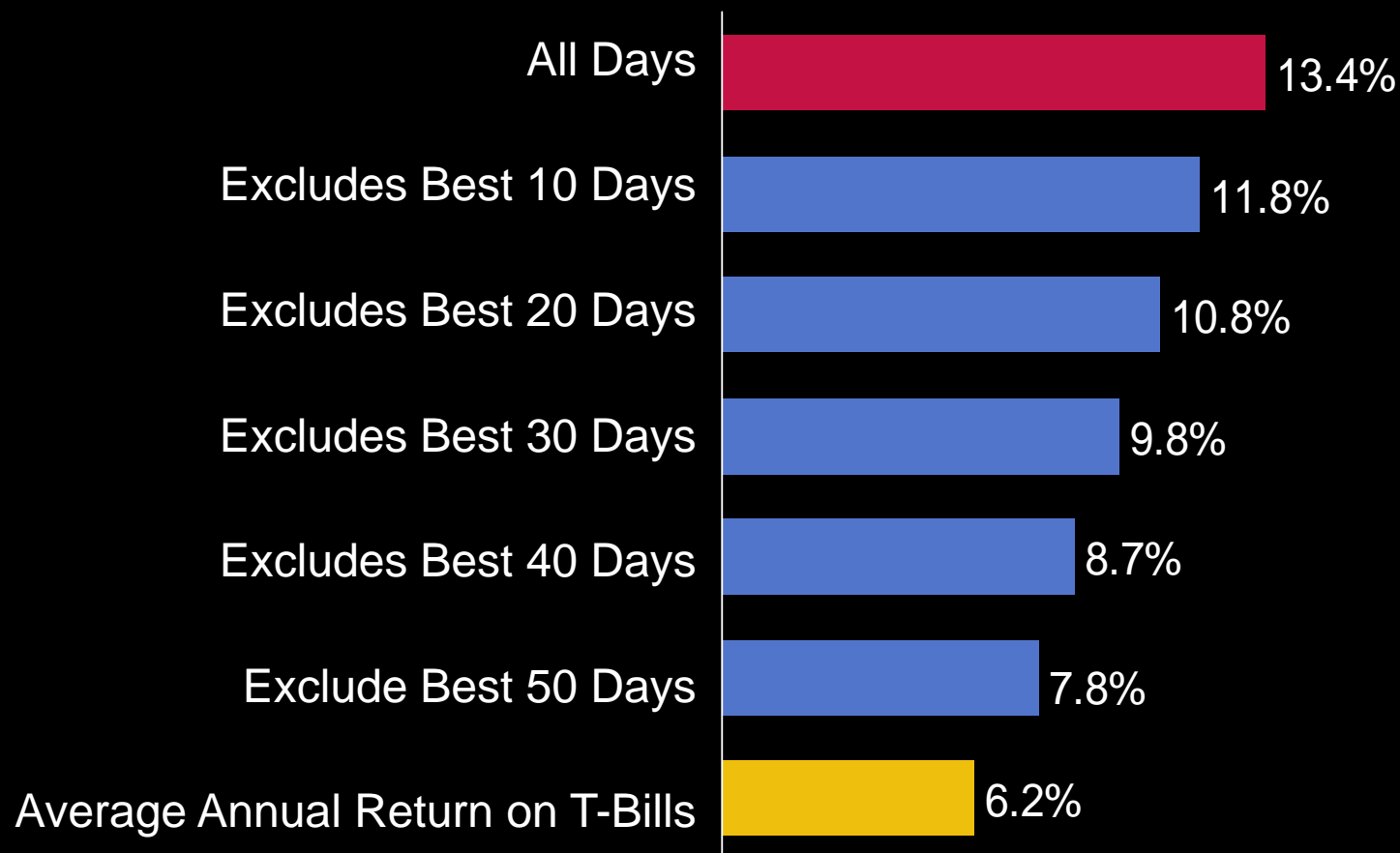
<b>MSCI World</b>	<b>Average Monthly Return</b>
All 456 months (100% of the time)	0.9%
Best 60 months (13% of the time)	7.1
All other months (87% of the time)	(0.1)

Past performance does not guarantee future results.  
Source: MSCI, Standard & Poor's and AllianceBernstein

# Penalties for Missing the Market's Best Days Are Stiff

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## S&P 500 Average Annual Returns 1974–2007



Past performance does not guarantee future results.

Source: Federal Reserve, Standard & Poor's and AllianceBernstein



# Summary: Perspective on Current Market Conditions

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- The stock-market decline has been extremely painful
- Challenges to earnings remain in the period just ahead
- Market anxiety creates investment opportunities
- Equity valuations have now become compelling around the globe