



The Mint Edition

from Yerba Buena Financial Partners, LLC

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YBFP empowers its select clientele to make informed decisions regarding building, protecting, and distributing wealth by providing conflict-free independent management advice, comprehensive education, and service of the highest caliber.

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Mid-Point 2010

NEW Investment Process Fully Implemented

As we previously reported to you, we have enhanced the conventional wisdom of "Modern" Portfolio Theory (MPT) when managing your assets. MPT espouses the philosophy of Buy, Hold, and Hope for the best. We have put in place Advance & Protect (A&P), a disciplined process of tactical portfolio management advocating *risk-managed* portfolios. Our philosophy is to acknowledge the world has dramatically changed since the academic theory MPT was developed in 1952. Thus, the behavior of the economy, market participants, and markets, has also changed. The level of erratic/irrational market behavior, as well as world events beyond our control, makes market analysis difficult to say the least. Therefore we at YBFP will continue to evaluate the economy, and create diversified portfolios, but with a sell discipline; prepared to be wrong in our assessments and minimize losses or optimize growth.

Limiting Drawdowns in Volatile Times

A drawdown is defined as the peak to trough movement in prices over a full market cycle. Our goal, not promise, when managing our clients' hard-earned/saved money is to participate in 80% of the upside, but only 50% of the drawdown. This enables us to bring superior value to YBFP clients versus our peers - we reduce risk and improve risk-adjusted returns over time. The back testing of our proprietary investment models is beating that goal significantly. While past performance is not indicative of future returns, empirical data suggests that A&P outperforms buy/hold/hope by a wide margin.

YBFP Due Diligence

It's important to note that the process and tools we are using are not untested. After over 10 years of development and use on a limited basis, it has been in place in our independent advisor community since 1998. We interviewed several of these advisors about their experience and their

clients' response. Additionally, our business consultant has been using this system for 8 years; we have been directly observing him for 3 of those years - All with great success.

So why doesn't everyone manage money this way?

Three primary reasons, none attractive unfortunately. First, it's a lot of work. Let's face it, the concept of buy/hold/hope means the advisor doesn't have to work very hard - just use automated rebalancing every quarter and BAM, they're done. At YBFP we are busy daily, weekly, and quarterly with our system to manage risk. Second, investment policy statements and fund prospectuses dictate how the managers must manage assets. There are scant few that give discretion to the manager to raise capital/cash in the account should risk and trends move against them. Third, conflicts of interest. The mutual fund companies and the brokerage houses make money when your assets are invested, not when they are in cash or short term fixed income accounts staying dry for new opportunities. These organizations create marketing campaigns to all of us that skew the data and support the academic theory of 1952. Some of this research claims missing the 10 best days of the market will ruin your returns. The problem is they don't talk about also missing the 10 worst days, their fees/expenses, or all of the above. Please ask us to show you.

The track record is solid, the empirical evidence is no guarantee but impressive, and the logic for the new economic paradigm is overwhelming. This warrants, as stewards of our clients' wealth, and entrepreneurs, we must separate ourselves from the herd and innovate to what we believe is in the best interest of our clients and our business. Who do you know that gets a blank stare when they ask their advisor about a sell and re-entry discipline for the next market downturn or recession? They would be an ideal introduction to YBFP for which we are very grateful.

Returning to Work After You've Retired

No matter how much you've looked forward to retirement, you might find yourself missing the social interaction and financial benefits you enjoyed when you were employed. Perhaps getting a full- or part-time job will enable you to rely less on your retirement savings, leaving more to potentially grow for the future. Or maybe you're looking forward to pursuing your dream of owning a business. Whether working during retirement is a choice--or a necessity--make sure you understand the financial implications.



Finding the right work opportunity

Many people spend 20 years or more in retirement, so it's important to do something you love. If you don't quite know what that is, or you aren't ready to commit to a permanent position, you might try working in a contract job, or signing up with a temporary employment agency that will allow you to work when, and where, you wish. Some agencies even offer health and retirement benefits. If it's been a while since you searched for work, get in touch with a local career counselor to get tips on preparing a job application or resume, and to learn more about the jobs available in your community.

To help you determine your salary requirements and how many hours you'll work, spend some time reviewing your retirement plan, focusing on your retirement income needs. Then limit your job search to businesses that offer the right combination of pay, benefits, and working environment.

Working for yourself

Once you retire, you may finally be ready to turn your ideas and talents into a business. Mature entrepreneurs often have the time and experience necessary to become successful business owners. However, make sure you have enough capital to start up and run your business--it may take longer than you think for your business to become profitable. And don't jeopardize your retirement security by relying on your credit cards, life savings, and home equity to finance your business.

Will working affect your Social Security benefits?

If you're receiving Social Security retirement benefits and you're younger than your full retirement age (65 to 67), your benefits will be reduced if you earn more than a certain amount. In 2010, \$1 in benefits will be withheld

for every \$2 you earn over the annual earnings limit of \$14,160. A higher earnings limit applies in the year you reach full retirement age. If you earn more than this limit (\$37,680 in 2010), \$1 in benefits will be withheld for every \$3 you earn over that amount, until the month you reach full retirement age--then you'll get your full benefit every month thereafter, no matter how much you earn. (But note that even if your benefits are withheld, that reduction isn't permanent. Your benefit will be increased at full retirement age to account for the amount withheld because of your earlier earnings.)

Not all income reduces your Social Security benefit. In general, Social Security only takes into account wages you've earned as an employee, net earnings from self-employment, and other types of work-related income, such as bonuses, commissions, and fees. Pensions, annuities, IRA payments, and investment income won't reduce your benefit.

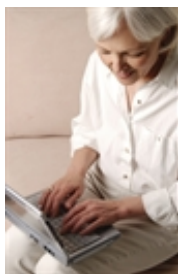
Also, keep in mind that working may enable you to put off receiving your Social Security benefit until a later date. In general, the later you begin receiving benefit payments, the greater your benefit will be. Whether delaying the start of Social Security benefits is the right decision for you depends on your personal circumstances.

What about income taxes? In general, your Social Security benefit won't be subject to income tax if that's the only income you receive during the year. But if you work during retirement (or you receive any other taxable income, or tax-exempt interest), a portion of your benefit may become taxable. IRS Publication 915 has a worksheet that can help you determine if any part of your Social Security benefit is subject to income tax.

Will working affect your pension?

Unless you plan to return to work with your former employer, your pension benefit won't be affected--you can work, receive a salary from your new employer, and also receive your pension benefit from your former employer. However, if you are considering taking another job--even part-time--with your former employer, check with your plan administrator. Some plans require that your pension benefit be suspended if you retire and then return to work for the same employer.

According to the U.S. Department of Labor, 29% of Americans age 65 to 69 are currently employed.



How Much Life Insurance Is Enough?

Your life insurance needs often depend on a number of factors, including whether you're married, the size of your family, the nature of your financial obligations, your career stage, and your goals.

There are a number of approaches you can use to figure out how much insurance you should have. One method, called the "family needs approach," focuses on the amount of life insurance it would take to allow your family to meet its various financial obligations and expenses in the event of your death.

Family needs approach

With the family needs approach, you divide your family's financial needs into three main categories:

- Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit card and other debts including mortgages (unless you choose to include mortgage payments as part of ongoing family needs), an emergency fund for unexpected costs, and college education expenses.
- Ongoing income needs for expenses related to food, clothing, shelter, and transportation, among other things. These income needs will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's capacity to earn income, your debt (including mortgages), and whether you'll provide funds for your surviving spouse's retirement.
- Special funding needs, such as college funding, charitable bequests, funding a buy/sell agreement, or business succession planning.

Once you determine the total amount of your family's financial needs, you subtract from this total the available assets that your family could use to defray some or all of their expenses. The difference, if any, represents an amount that life insurance proceeds, and the income from future investment of those proceeds, can cover.

Example: John and his wife, Wendy, are estimating the appropriate amount of life insurance to buy on John's life. They first estimate their immediate needs as follows:

- Final medical expenses: \$5,000
- Estate settlement costs including funeral and burial expenses: \$37,500

- Debts, including credit cards and mortgages: \$317,000

- Emergency fund: \$100,000

Subtotal: \$459,500

Next, they estimate ongoing income needs, such as:

- Providing for their dependent children's needs for a period of time: \$500,000

- Wendy's income needs until her retirement: \$450,000

- Wendy's retirement income needs: \$380,000

Subtotal: \$1,330,000

Adding the sub totals together, John and Wendy estimate that, should John die, their family would need \$1,789,500. They then determine that assets available to offset their needs include:

- Bank savings: \$40,000

- Investments: \$220,000

- Retirement assets: \$250,000

- Existing life insurance on John's life: \$300,000

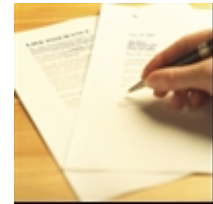
Subtotal: \$810,000

The difference between their family needs (\$1,789,500) and their available assets (\$810,000) equals their life insurance need (\$979,500).

Review your coverage

Trying to figure out how much life insurance is enough isn't always easy, and that amount will likely change with your changing circumstances. By examining your family's anticipated expenses during various periods after your death, you get a more realistic estimate of your life insurance needs.

Unfortunately, many people underestimate their insurance needs and are underinsured. Often, the purchase of life insurance is based on cost instead of what's needed. By the same token, it's possible to have more insurance than you need. You may have purchased a large policy during a particular point in your life, and then didn't adjust your coverage when your insurance need was reduced. Both of these circumstances are reasons to review your insurance coverage periodically with your financial professional. Doing so can reveal opportunities to change your levels of coverage to match your current and projected life insurance needs.



An insurance coverage review is a periodic reassessment of your insurance needs. The main objectives are to confirm that the level of insurance coverage you have is still adequate, to alert you to shortages in coverage that can occur due to changes in your life, and to ensure that any cash value policies are performing as expected.





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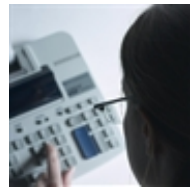
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Ask the Experts



I started a business that lost money this year. Do I have a net operating loss (NOL)?

If you're a sole proprietor and your business expenses exceed your business income, you have a reportable loss for income tax purposes. You're generally able to apply this loss against any wage income or other business income that you have (wages are considered business income) and any nonbusiness income (e.g., interest) that remains after taking your allowable nonbusiness deductions. If you still have a business loss remaining after offsetting all your income, you have a "net operating loss" for the year. The net operating loss (NOL) calculation is very complicated, though. For example, certain items, like personal exemption deductions and other nonbusiness deductions, aren't allowed in calculating an NOL.

The general rule is that you get to carry back an NOL for 2 years. This means that you can apply the NOL as a credit against income that was earned in--and reported on the tax returns

for--the 2 years preceding the year in which you have the net operating loss. Any remaining loss is carried forward for up to 20 years after the year in which you have the NOL. You can, however, choose not to carry back the NOL to the prior 2 years and simply carry forward the entire NOL.

While NOLs are generally allowed to be carried back 2 years, special rules apply to NOLs incurred in 2008 and 2009 that allow NOLs to be carried back for up to 5 years. There are also exceptions to the general 2-year carryback rule, and alternative minimum tax (AMT) implications. Even in the most straightforward cases, NOLs are complicated.

If you have an NOL, you'll want to read IRS Publication 536, *Net Operating Losses (NOLs) for Individuals, Estates, and Trusts*, and the instructions for IRS Form 1045, *Application for Tentative Refund*. You should also consider discussing your situation with a tax professional.



Is it too late to take advantage of the special 2009 net operating loss (NOL) rules?

The Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA) included a provision that allows almost all taxpayers with business losses to make an irrevocable election to carry back losses incurred in *either* 2008 *or* 2009 for up to 5 years (the election can only be made for 1 year, however). Specifically, you're able to elect to extend the general 2-year NOL carryback period to 3, 4, or 5 years; NOLs carried back 5 years can offset up to 50% of the taxable income from the fifth year, and 100% of the taxable income from the other carryback years.

Even if you took advantage of a similar provision in earlier legislation to carry back a 2008 NOL, you're still able to elect to carry back a 2009 NOL under the provisions of the WHBAA. Certain taxpayers are specifically excluded from making the election, however. For example, any business in which the federal government acquired an equity interest pursuant to the Emergency Economic

Stabilization Act of 2008 (i.e., a "TARP" recipient) is not eligible. Special rules apply to insurance companies.

If you're a calendar-year filer, you have to make the WHBAA election by the due date of your 2009 federal income tax return, including extensions. This deadline applies regardless of whether you're making the election for a 2008 NOL or a 2009 NOL. If you filed your 2009 federal income tax return by April 15, 2010, without making an election, you have until October 15, 2010, to do so.

You can make the election in one of two ways. You can attach an election statement to the federal income tax return or amended return for the tax year in which the loss is incurred. Or, you can attach the election statement to the carryback form itself (1040 filers would use Form 1045 or Form 1040X). Your election statement must contain specific language. You can find more information by checking the IRS website (www.irs.gov) or by talking to a tax professional.