

WESCAP Management Group Financial Developments & Topics

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Tips to improve your current and future financial situation.

Highlights:

- Prudent portfolio management requires maintaining an asset allocation appropriate for one's own investment goals and constraints. Techniques are available to effectively rebalance portfolios in a tax-sensitive manner.
- In 2008, a 0% capital gains rate will be available for taxpayers in the 15% federal marginal bracket. However, this rate will not be available to children under age 19 or full-time students under age 24, due to revised kiddie-tax laws.
- Taxpayers who are in AMT this year, but who do not expect to be next year, should defer payment of state and local taxes into next year.
- This year, married taxpayers can gift up to \$24,000 per donee without triggering gift taxes. There is no limit to the number of eligible recipients.
- 529 college savings plans allow married couples to make a one-time contribution of up to \$120,000 to a beneficiary's account without gift tax consequences.

Year-end Financial Strategies

As the end of the year draws near, there are several actions to take to improve your portfolio and minimize overall tax impact. Many of the strategies and techniques discussed below are used by WESCAP when appropriate. This requires having a good grasp of all financial matters, including income taxes and estate considerations. Therefore, if you have not provided recent information on these topics to your financial advisor, please do so soon.

Investments

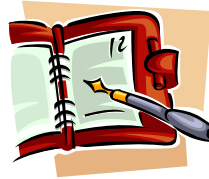
Several asset classes have performed extraordinarily well. For example, for the year-to-date period through October, emerging market stocks have returned nearly 50%, while energy-related stocks have gained nearly 30% (as measured by the MSCI Emerging Markets Index and the S&P Global 1200 Energy Index, respectively). Such results can cause your current asset allocation to be inconsistent with your long-term investment objectives. Should you discover that your portfolio's allocation is out of sync with your needs, it is time to do some portfolio rebalancing.

In taxable accounts, portfolio rebalancing can't be done without considering the tax impact. While tax matters should never drive the portfolio management process, they are an important factor. Fortunately, there are some techniques that allow for prudent, tax-sensitive portfolio management when rebalancing your portfolio:

- Be sure to sell those positions with a high cost basis first. This will result in lower realized capital gains.
- Avoid selling positions with gains that have been held for less than a year. If sold, such gains will be taxed at your ordi-

nary income rates instead of the more favorable long-term capital gain rates.

- Look for positions that you are holding with a tax loss. Rather than waiting for the securities to get back to the price you bought them for, sell those positions and use the losses to offset some of the other gains generated from the rebalancing process. If you feel strongly about a security you are selling, you can always buy it back after 30 days without violating adverse wash sale rules.



- If available, sell overweight positions in tax-sheltered accounts to help with the rebalancing process. Such holdings can be sold without concern over generating taxable gains.

- When increasing exposure to an asset class that is underrepresented in your portfolio, be mindful of mutual fund year-end capital gain distributions, which are taxable to current shareholders. Projected distribution dates are generally available on the fund company's website near year-end. Avoid making the purchase until after the payout has been made or consider buying an ETF or individual securities.

Taxes

Starting in 2008, taxpayers with taxable income at or under the 15% federal marginal bracket (in 2007, a \$63,700 threshold for married taxpayers and \$31,850 for singles) will be able to realize long-term capital gains and receive qualified dividend income, both at a 0% tax rate. Be aware that only a portion or none of your gains may qualify for the 0% rate if selling securities pushes you into a higher tax bracket. For those who expect to meet the tax bracket requirement, it may make

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About WESCAP: WESCAP Management Group is a registered investment advisor and fee-only financial advisory firm. WESCAP has been serving individuals and families since 1988. For additional information, please contact Rick Weinlein, Mark Gleason, Alan Gelb or Joel Edstrom. You can contact us at (818) 563-5170 or via e-mail at contact@wescapgroup.com

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sense to hold off selling highly appreciated assets in a taxable account until next year when taxes will be minimized.

Unfortunately, due to a recent change in the kiddie tax law which takes effect 1/1/08, next year's 0% capital gain rates have been effectively eliminated for minors under 19 as well as full-time college students under age 24 whose earned income is less than half of their own support. As a result, consider gifting appreciated assets in 2007 to students who are between 18 and 23 and sell those assets before year-end to get the benefit of the minor's lower tax bracket.

Generally, accelerating deductions into the current year can be a useful strategy to lower your income taxes. However, for taxpayers who are subject to the alternative minimum tax (AMT) this year but may not be next year (or who believe AMT reform will finally happen by then), deferring deductions such as the payment of state and local taxes (which are not deductible under the AMT anyway) into next year instead may be better strategy. Doing a tax projection may help uncover the best course of action. Since AMT tax planning can be complicated, a tax expert should be consulted.

Estate Planning

This year, you can gift up to \$12,000 (per donor per donee) to as many people as you choose without triggering gift tax conse-

quences. If you file a joint tax return, you and your spouse can increase the gift amount to a maximum of \$24,000 per recipient. Not only do you have the opportunity to see your beneficiary enjoy the gift, but you are also effectively reducing your taxable estate. In addition, unlimited contributions can be made to qualified charities without incurring gift taxes and will provide you with a tax deduction as well (subject to AGI limits).



Now is also a good time to review your beneficiary designations for your IRA and other retirement accounts in addition to any life insurance policies you own. Make sure that the person listed as the primary beneficiary is in fact who you intend it to be; naming a contingent beneficiary is a good idea as well. An estate attorney should be consulted for complex beneficiary designation and other estate planning issues.

Retirement Planning

If funds are available, it is always wise to make the maximum contribution allowable to your retirement accounts. This year, if you are a participant in a 401(k) or 403(b) plan you can contribute up to \$15,500 by year-end; an additional \$5,000 contribution is available for those over age 50.

The maximum allowable contribution amount to IRAs and Roth IRAs this year is \$4,000, which is due by April

15, 2008; an additional \$1,000 contribution amount is available to individuals over age 50.

Different contribution limits and funding deadlines may apply to other types of qualified plans and for those who are self-employed - see IRS Publication 560 for further information.

Finally, do not forget about taking your required minimum distribution (RMD) from your IRAs and other qualified plans, if applicable. Distributions must begin by April 1 of the year following the year in which you turn age 70½. Subsequent RMDs must be taken by December 31 of each year thereafter. There is a 50% penalty on the amount that should have been taken out, but was not. This year, you can directly donate up to \$100,000 of your RMD to a qualified charity without having the distribution count towards your taxable income. However, no tax deduction is allowed for the charitable contribution.

College Funding

You can help plan for a young person's college expenses by gifting into a 529 College Savings Plan. Any individual, regardless of income level, can fund a 529 account for another individual beneficiary. In 2007, you can make a one-time contribution of up to \$60,000 (or \$120,000 joint) towards the beneficiary's account without gift tax consequences. WESCAP has written a detailed report on 529 plans and how they compare to other college savings vehicles. This complimentary report is available upon request.