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## April 2011 Newsletter

**A Double:** The Dow Jones Industrial Average's correction in 2009 hit bottom at 6,547.05 on March 9th. Six weeks ago it reached 12,391 and, including dividends, had doubled in value in just less than two years. Two years ago who would have thought that that was even possible. Certainly not the popular media!

**Year to date** Given the market's run, especially since September, we have all been waiting for a 4 to 10 % correction. It came with headlines of political unrest in Tunisia and Egypt and a civil war in oil-producing Libya. Despite all that the market only dropped 2% then began to rally back. Then we got hit with a record earthquake in Japan, the world's 3<sup>rd</sup> largest economy, followed by a Tsunami and meltdowns at several Japanese nuclear plants. The market then moved lower, getting down to 6% off its high.

As bad as all that news was, I personally used it to add to my own stock positions. On a fundamental basis the markets now are as cheap as they were in March 2009. Although the market may have doubled these past two years, so too have corporate earnings. As I write the market seems to be rallying back. I have been impressed with the market's resilience so far this year given all the bad world headlines.

**Resistance at 14,000:** I still think that there is a 50/50 chance the Dow Jones Industrial Average will hit its new all time record high of 14,085 this year, but it just might stall for a while when it does. That would be expected and healthy longer term. No reason to sell, but important to keep your expectations in check.

**Buy and Hold:** Despite what we have been through these past 3 years, there are still adherents to the philosophy of buy and hold. I certainly do not think of myself as an active trader, but do think there are problems with the old buy and hold philosophy; the world just moves too fast these days and one must always be mindful of the dangers – and opportunities. Holding a static portfolio for 10 years rarely makes sense; if you had a 10 year old car wouldn't you take it in periodically for a check up and adjustment? Many are hesitant to sell out long positions with big gains but the historically very low capital gains tax has been extended two years. It might well make sense to "bite the bullet", sell out or at least reduce some of those old positions and re-allocate to securities that should do better moving forward. Give us a call and we can "tune up" your portfolio and thereby increase the probability it will safely and reliably get you to your destination.

**Some Historical Perspectives at Tax Time:** Not sure this will make tax time any less painful, but I thought you'd enjoy some longer term perspective on taxes here in the USA:

- When this country was first created there was no income tax. Instead government revenues were raised by import taxes, enforced by "Revenue Cutters" cruising the American shoreline enforcing import taxes (this later led to the establishment of the U.S. Coast Guard) and by the selling of Federal lands.
- The first proposed income tax in the United States was suggested in 1814 to help pay the cost of the War of 1812. The war was soon over, however, and the idea was dropped.

- The first national income tax was created in 1861 to finance the Civil War. A flat 3% tax was charged to all high income earners; by the end of the war this included the top 10% of this country's wealthiest individuals. Ten years later when the war debts were paid off, the income tax ended.
- For the next 30 years the income tax was an off and on situation As the federal government needed money they would institute an income tax. When there was a surplus they would end it.
- The first permanent federal income tax was established in October 1913, with taxes due the following March 1st.
- Income tax rates for the highest earners in this country continued to grow until 1944 when, amidst WWII, they peaked at 94% (that is not a misprint!). President John Kennedy in 1960 and President Ronald Reagan in 1980 later successfully reduced the maximum rate to 50%. Today it is 35% (State and local income taxes, Social Security and Medicare taxes need to be added to these numbers for total income tax liabilities).
- Based on 2008 tax data, it took an adjusted gross income of \$160,000 to rank in the top 5% of US taxpayers, a group that paid 59% of all federal income taxes for the year. In 1980, the top 5% paid 37% of all federal income taxes.
- Americans filed 140 million tax returns for calendar year 2008 income. Through the use of deductions, exemptions and credits, 52 million of the 140 million returns (37% of all returns filed) paid no federal income tax at all (source: Internal Revenue Service).

sources: IRS website, Wall Street Journal, 2/1/2011, p.C2, and "Enterprise: The Dynamic Economy of A Free People" by Stuart Bruchey)

Glenn

#### From Adam:

We often are asked when someone should begin to take Social Security. As with many financial questions, there is no easy answer, and you and your neighbor (or spouse!) may be best served taking social security at different ages despite how similar your situations may seem.

Here are some of the factors to consider:

#### When is your full retirement age?

The chart below, as well as additional information, may be found on the Social Security Website ([ssa.gov](http://ssa.gov))

<b>Age to receive full Social Security benefits</b>	
<b>Year of birth</b>	<b>Full retirement age</b>
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

**NOTE:** People who were born on January 1 of any year should refer to the previous year.

**How much may your benefit be reduced if you receive social security before your full retirement age?**

In general by taking benefits at 62 rather than your full retirement age you will permanently decrease your benefit by 25%

**Are you married?**

We recommend in many circumstances that the spouse with the larger benefit wait until their full retirement age, as the surviving spouse is entitled to receive their own social security or their deceased spouses, whichever is greater. This maximizes what the surviving spouse receives regardless of who lives longer.

**When will I "break even"?**

This varies depending on your full retirement age, but assuming a 2% inflation adjustment of social security each year if your full benefit age is 66 at age 76 you will have received more benefits by waiting to age 66 to receive social security vs. taking social security at 62.

There is a very helpful benefit estimator on the SSA.gov site that allows you to do more personalized calculations.

**But what if I invested the money, or did not remove funds from my investments because I was receiving social security?**

I have had a number of folks ask me over the years about receiving social security so their investments could continue growing, and argue that it makes more sense to let the investments grow. The answer to this is... maybe. If the investments DO increase in value at a high enough rate, yes, it does make sense to take social security early and let your investments grow. However, as we have experienced twice this past decade, there are time periods where the market may not go up, or even sideways, but down, and the first few years of retirement are the most critical finance wise (if your nest egg is depleted between negative market returns and distributions there is nothing to rebound with the market to fund the remainder of retirement).

I recently read an interesting take on semi-retiring. The author's thesis was to delay retirement until at least your full benefit age but stop saving as much and instead take more time off and go on trips you were planning on "in retirement". There are several benefits to this strategy – it eases the transition in to retirement, it allows your retirement savings to continue growing rather than being drawn down upon, and also may increase your social security benefits. This only works of course if you are delaying retirement beyond what you had planned.

The Financial Goal Analysis most of you update annually helps us answering all of these questions for your specific situation, and we can even model the "semi retirement" I just mentioned. If you would like to update the analysis, go through the process for the first time (there is no charge) or someone you know could benefit from a financial plan please give us a call.

From Melissa:

**What are Required Minimum Distributions?**- Required minimum distributions, often referred to as RMDs, are amounts that the federal government requires you to withdraw annually from traditional IRAs once you reach 70 ½ years of age. Individuals with IRAs are required to begin lifetime RMDs no later than April 1 of the year after they reach age 70½. You can always withdraw more than the minimum amount from your IRA in any year, but if you withdraw less than the required minimum, you will be subject to a federal tax penalty. A person with multiple IRAs may add the balances in each account to determine the total RMD for the year, then take that full amount from a single IRA, or split it in any manner between two or more IRAs.

For those of you who are age 70 ½ and older and have an IRA with us, UBS sent out your required minimum distribution amounts in late January. You can also view them on your March statement around page 3 of your IRA statement.



Many of you are already set up to take your RMD on an annual basis or in the fall. For many of you I will start contacting you in the summer or the fall months to see when you would like to take your RMD. If you would like to take it sooner or have any questions regarding this please don't hesitate to call me.

**Emails from Pearsall Financial Group and UBS-** We find emails to clients can sometimes be flagged by a spam filter and, as a result, may be automatically deleted or directed to a quarantine folder.

To ensure that our e-Delivery communications are delivered successfully, please remember to add the following e-mail addresses as approved senders:

- prospectus\_mbox@investordelivery.com
- elerts@ubs.com
- id@proxyvote.com
- and of course melissa.imbarrato@ubs.com; glenn.pearsall@ubs.com and adam.pearsall@ubs.com

### **Annual Account Fees and Automatic Redemption of Mutual Funds-**

Just as a reminder there are a number of clients who were assessed an annual fee in December 2010 and had outstanding debit balances.

Clients with outstanding annual fee debit balances may have had eligible mutual fund shares liquidated on *Monday March 14, 2011* to pay the outstanding amount.

I like to remind clients of this for two reasons:

- We send confirmations of the mutual fund sale around the third week of March, so I just want to remind you why you are receiving a sell confirmation.
- If you would rather us invoice you for your annual account fee, please let me know. You always have the option of paying any account fees by check or transferring money from another account within UBS (if applicable).

More detail on the annual fee payment process was provided to you in your "Agreements and Disclosures" booklet when you opened your account. If you opened your account prior to October 2009, these details were included in a September 2010 statement insert titled "Important updates regarding your relationship with UBS." These details are available at [www.ubs.com/accountdisclosures](http://www.ubs.com/accountdisclosures). If you have any questions at all please don't hesitate to ask.

### **New UBS Card Program coming this summer!**

I wanted to give everyone a heads up about some exciting changes we have coming to our UBS Card Program this summer/fall.

*Why this is important-* Right now we offer a dual card program. We offer an American Express Debit card and a Visa Credit Card. Starting later this summer we will go to a Visa only program- Visa Debit Card and Visa Signature credit card.

*What this means for you -* For those clients who use our American Express Debit card there will be some changes over the summer and into the fall. We will be contacting you about your cards.

For those clients who do not use our card program yet, think about if this is something that might interest you. I will be sending out more information about our card program when it is finalized in July. Please contact me anytime with questions.

**Pearsall Financial Group Charity Challenge:**

We are pleased to announce that we have matched \$2,000 in gifts/donations raised by Ronald McDonald House Charities (RMHC) of the Capital Region, Inc. Below you will find a picture of us presenting the check to the kid's at the House in Albany. What a great experience it was, getting a tour of the house, meeting some of the kids and directors, and seeing how much they help people in the Capital Region and beyond.



Past recipients of the Pearsall Financial Group Charity Challenge have been the Regional Food Bank of Northeastern New York, The Glens Falls Lions Club, The Saratoga Center for the Family, Caritas Inc. of Glens Falls, North Country Hardship Fund, the Empire State TAPP/INY Canadian scholarship Fund, and now the Ronald McDonald House Charities (RMHC) of the Capital Region, Inc.

We did not have any applications for our second quarter event.

As a reminder, we're accepting applications until Wednesday June 1<sup>st</sup> 2011 for our third quarter 2011 charity match. We will continue matching the profits raised from the charitable events we select until the Dow Jones Industrial Average reaches a new high. The last record high on the Dow was 14,087.55 set October 1, 2007. Our challenge to you is to get involved in a not-for-profit and its fundraising. Submit your fundraising event to us. On a quarterly basis we will select one event. For this upcoming quarter, to be eligible, the event you wish to get involved in must be held between *July 1, 2011 and September 30, 2011*. For this event we will help publicize the event by mailing a flyer to all of our other clients. For the event we designate each quarter, the Pearsall Financial Group will also match the first \$2,000 raised. An application is enclosed. Since the start of this program we have matched donations of over \$11,000. Please call us with any questions.

Have a great Spring!



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