4Q09 THE FSAG ADVISOR

Market & Economic Update

September marked the seventh consecutive positive month for stocks. At the most recent Federal Reserve meeting, the benchmark federal funds target rate was unchanged at a range of between 0% and 0.25%. The Federal Reserve indicated that economic conditions have continued to improve and retained the message that "economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period." As such, we have no expectation that the Federal Reserve will begin tightening policy any time soon.

We believe that while the broad financial crisis is largely over, the economic crisis is only halfway through. While we do believe the recession has ended, we would argue that the recovery has only just begun and will likely require a period of years to return the United States to trend levels of economic activity. This means we are likely to see continued high levels of unemployment and ongoing deflationary pressures for some time. To be sure, conditions have clearly improved on a number of fronts, and even recent consumer confidence figures have surprised to the upside, reflecting both the reality of better economic growth and improved expectations for the future. Nevertheless, the economy still faces a number of headwinds. State and local governments remain deeply troubled and are faced with the choice of raising taxes, reducing spending or some combination of the two. Additionally, global trade policy remains a concern, as there has been increasing noise about enacting protectionist trade policies, which we believe would hurt overall global economic growth. This is an important point given that even before the recession began, we were seeing a shift in global consumption patterns away from the United States and Western Europe and toward emerging markets. That trend has only accelerated over the past couple of years and spending patterns in the emerging markets are having an increasingly large effect on overall global growth. Finally, we would also point out that commercial banks are still experiencing credit contractions despite their improved ability to raise capital and their reduced reliance on government funds and guarantees. We would argue that a healthy commercial banking system is one of the prerequisites for a sustained economic recovery and an ongoing equity bull market, and if the contraction in bank credit persists, we would have to adopt a more cautious outlook.

2009 Returns

DOW	*13.42%*
S&P 500	*19.25%*
NASDAQ	*34.58%*
Russell Small Cap	*22.43%*
Russell Mid Cap	*32.63%*
MSCI EAFE	*28.97%*
Barclay US Agg	*6.14%*
Barclay Muni.	*16.21%*

Against this backdrop, it would come as no surprise to us if stocks struggle in the near term, and volatility is likely to remain an ongoing issue. Over the longer-term, however, a combination of supportive monetary policy, low inflation and positive economic growth, combined with reasonable valuations, suggest that stock prices should continue to grind higher.

Source: BlackRock

Key Reforms Issues Facing 111th Congressional Session

Health Care

In a special address to a joint session of Congress, President Obama has made it clear that the top priority of his aggressive agenda this year is reform of the current health care system. It will clearly dominate the fall agenda. So far, however, getting agreement on provisions to reform such a significant part of the economy has proven difficult.

President Obama put forth reform principles and suggestions for raising revenue to pay for his reforms, including the creation of a new government insurance plan to compete with private insurers and provisions to expand coverage to the uninsured. As has been made clear over the past month, providing the details of health care reform and drafting a reform bill that has sufficient votes to pass Congress is a very difficult exercise. Concerns abound with the trillion-dollar cost, the effect on existing insurance policies, potentially new taxes and increased government involvement in health care. Due to the complexities of the issue and need to reform both spending and revenue provisions, multiple congressional committees have been tasked with drafting the legislation. The House and Senate are taking different paths to complete a bill with House negotiations occurring only among Democrats, while the Senate is working to reach a bipartisan agreement.

Energy/Environment

Another top issue on the President's agenda is the environment

Continued on page 2

Inside this issue:

Contact us:

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com

Roth IRA Conversions in 2010: Goodbye, Income Limitations!

With the lure of tax-free distributions, Roth IRAs have become popular retirement savings vehicles since their introduction in 1998. But if you're a high-income taxpayer, chances are you haven't been able to participate in the Roth revolution. Well, that's about to change.

What is—and isn't—changing
In 2006, the Tax Increase Prevention and Reconciliation Act (TIPRA) became law. TIPRA repeals the $100,000 income limit for conversions, and allows conversions by taxpayers who are married filing separately, beginning in 2010. This means that regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in 2010.

Unfortunately, TIPRA does not repeal the income limits for annual Roth contributions. However, depending on your circumstances, beginning in 2010 you may be able to make your annual IRA contribution to a traditional IRA, and then convert that IRA to a Roth. Your FSAG advisor can help you determine if this works for you.

Convert now, pay later
Normally, when you convert a traditional IRA to a Roth IRA, you're required to include the amount converted--minus any nondeductible contributions you've made--in your gross income in the year you make the conversion.

However, to ease the pain of a potentially large tax hit in 2010, TIPRA includes a special rule for 2010 conversions only: if you convert your traditional IRA to a Roth IRA in 2010, you can report half the income from the conversion in 2011, and the other half in 2012.

For example, assume that in 2010 your sole traditional IRA is worth $200,000, and you've made $50,000 of nondeductible contributions. If you convert the entire IRA to a Roth in 2010, $150,000 will be subject to federal income taxes. If you use the special rule, you can report half of the taxable amount ($75,000) as income in 2011, and the other half as income in 2012. Alternatively, you can report the entire $150,000 as income in 2010. (Note: state tax rules may differ.)

A SEP IRA can also be converted to a Roth IRA, and a SIMPLE IRA can be converted two years after you begin participating in your employer's SIMPLE IRA plan.

Is a Roth conversion right for you?
The answer is complicated, and depends on many factors, including your income tax rate, the length of time you can invest the funds without withdrawals, your state's tax laws, and how you'll pay the income taxes due on the conversion. Whatever amount you owe, don't convert if you need to tap tax-deferred savings to pay the taxes. If you have to use some of that money to pay taxes, this is not a good strategy, and if you are under 59 1/2, it's even worse because you'd pay a penalty (for early withdrawal) just to pay taxes. If you expect your rate to be higher in retirement, you can pay the taxes up front at the lower rate. While it's impossible to know what your rate will be in the future, it seems

Continued on page 4

Key Reforms Issues Facing 111th Congressional Session

Continued from page 1

and the creation of a cap and trade system for carbon emissions to force a corresponding shift towards clean and renewable sources of energy. In July, the House passed H.R. 2454, the American Clean Energy and Security Act of 2009, a bill to establish enforceable caps on carbon emissions. Under the bill, about 85 percent of the carbon allowances would be provided without cost to various industries, with the remaining allowances auctioned off by the government to raise revenues that would be used to fund various subsides for the energy costs of individuals and incentives for clean and renewable energy sources. In addition, under the bill, utilities would be required to generate about 20 percent of their electricity from renewable sources under a new federal renewable electricity standard (RES).

So far, there are insufficient votes in the Senate to pass a cap and trade bill through the Senate. Thus, Senate cap and trade proponents have postponed the introduction of a cap and trade bill. In addition, the Senate Energy Committee has passed a comprehensive energy bill that would create a new 15 percent RES, expand incentives for renewable energy, and promote more energy efficiency, but does not contain a cap and trade regime. Given the delay and troubles in the Senate, enactment of a cap and trade regime is unlikely to be achieved before representatives from U.S., Europe and other parts of the world gather in Copenhagen in early December to work on an international climate agreement.

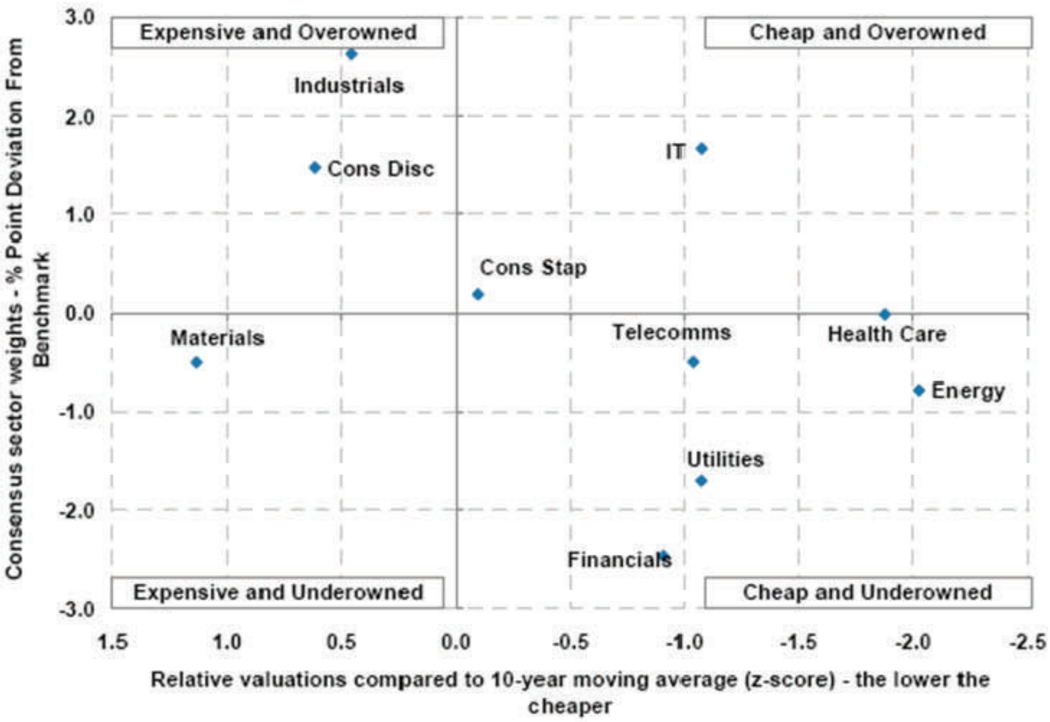
Taxes
In accordance with what has become an annual tradition, the Congress is expected to consider an end of year tax bill to extend various tax provisions that are set to expire, including the R&D tax credit, the Subpart F exemption for active financial services income, and several energy tax provisions. In addition, a new $8,000 tax credit for first-time homebuyers expires at the end of November. Already, there are significant efforts to both extend and expand the tax credit to provide further support to the housing market in this economy. It is possible that the homebuyer credit could drive Congress to consider the extenders bill in late October or early November.

One new wrinkle this year is the estate tax. Under legislation passed in 2001 under President Bush, the estate tax is repealed in 2010, but then reinstated in 2011 at pre-2001 tax rate and exemption levels. In order to prevent this from happening, the extender tax bill is expected to address the estate tax, mostly likely with a short-term fix that extends the current estate tax rates and exemption levels beyond 2009 and leaving any broader reforms for the future. Finally, a tax reform tax force set up by President Obama and headed by former Federal Reserve Chairman Paul Volcker to examine tax reform options is expected to release its report in December, kicking off a discussion of tax reform that will be a significant topic in 2010 as most of the tax cuts enacted during the Bush Administration, such as lower marginal and capital gains tax rates, are set to expire.

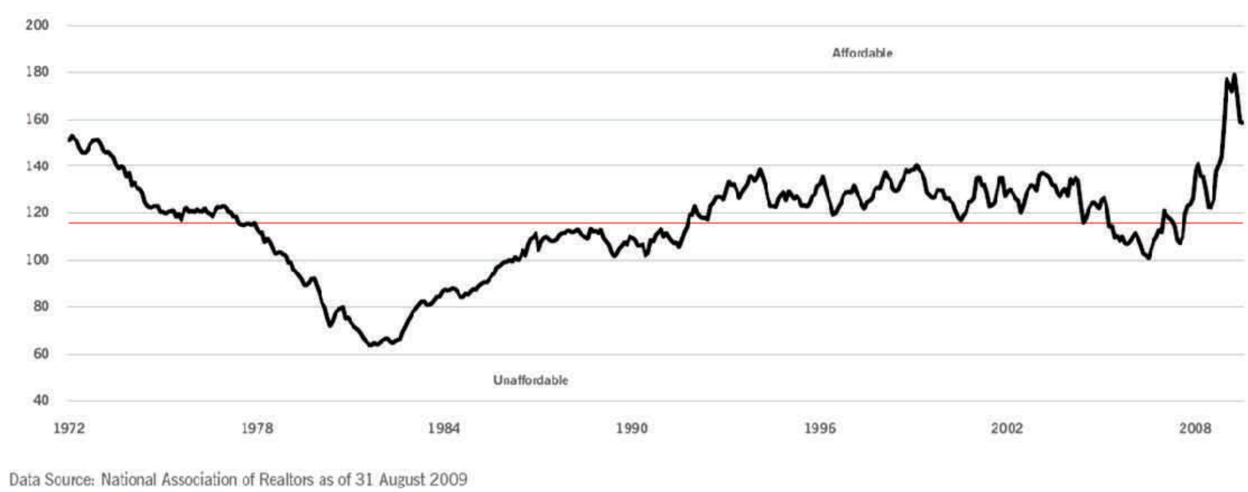
Source: Morgan Stanley

Charts of Interest

The following chart provides comparison of sector relative valuations and ownership levels.



The **Housing Affordability Index**—which takes into account housing prices, mortgage rates and income levels—is down from its peak but is still historically high.



Source: Morgan Stanley

At Financial Solutions Advisory Group, you'll find a fee-only Registered Investment Advisor (RIA) committed to putting your interests and your needs first, eliminating the commissions and self-serving incentives that get in the way of solid, successful financial planning and investment management.

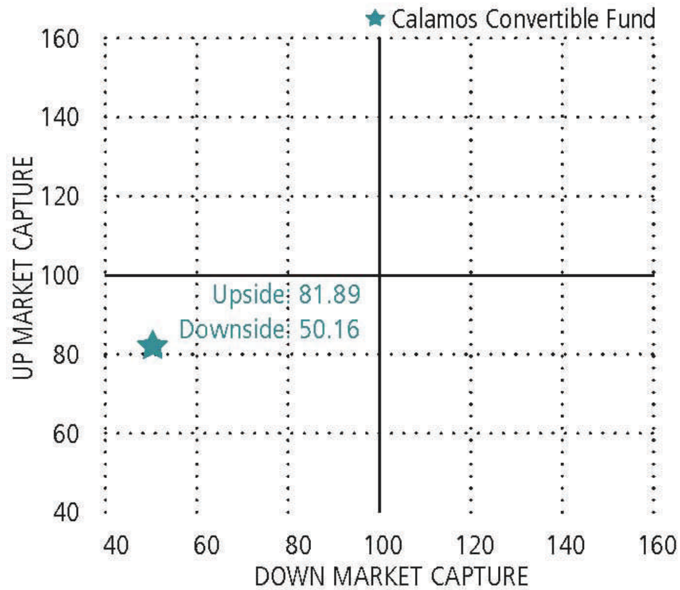
Please contact us if you would like to receive this publication by e-mail.

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com

Fund in the News: Calamos Convertible Fund (CICVX)

Fund Objective:
Current income with a secondary objective of growth.

Investment Strategy:
Invests in convertible securities issued by both U.S. and foreign companies.



Calamos Convertible is one finely balanced act. In theory, convertibles' appeal lies in their asymmetric risk/reward profile, offering much of the upside potential of equities with less of their downside risk. Theory won't always work in practice, though; as the extreme volatility of 2008's financial crisis and this year's subsequent rebound have shown. The Merrill Lynch All U.S. Convertibles Index lost about as much as the S&P 500 Index in 2008 (36% and 37%, respectively). But as last year's deleveraging and panic has subsided, the convertibles index has surged ahead, gaining 32% versus the S&P's 13%. Throughout the turbulence, this fund has come closer to delivering convertibles' theoretical promise than most. The team avoided the market's more troubled areas last year, including highly speculative issues and convertible preferred stock issued by struggling financial firms in 2008, resulting in a relatively muted 26% drop. For the decade ending July 31, 2009, the fund's cumulative gain of 83% is the largest among all convertibles funds, an advantage built not by winning in up markets, but by losing less in tough times. Its downside capture ratio, which measures the fund's performance during down markets for equities, is the lowest in the group at 51%. The fund won't always win in the short run, but we think few can replicate it over time. Topnotch management (among the most experienced convertibles investors around), solid quantitative and qualitative research capabilities, and shareholder-friendly practices win our vote.

Sources: Morningstar, Calamos

"We believe today's inflation concerns are overwrought. Indeed, resurgent inflation would likely require a major policy error—by the same people whose swift and decisive actions likely averted another Great Depression last autumn."

Source: Morgan Stanley

Roth IRA Conversions in 2010: Goodbye, Income Limitations!

Continued from page 2

likely it will be higher. The further off retirement is, the more worthwhile the Roth conversion, thanks to the value of tax-free compounding. Similarly, the less likely you are to need the money in retirement, the more valuable the Roth. That's because Roths aren't subject to the rules that force traditional IRA holders to begin drawing down assets at 701/2. If you're nearing retirement and haven't saved enough, you're likely better off not converting. But if you can keep your Roth intact in retirement, the power of tax-free compounding is enormous. The really big payoffs for conversion come to those who hope to leave assets to kids or grandkids. For those worried about the estate tax, the amount you pay in tax on the conversion lowers the value of your future estate. The inheritors will never owe income tax. While there are required minimum distribution rules for inheritors other than a spouse, those amounts are also tax-free.

Even if you decide to convert, whether it makes sense to use the special 2010 deferral rule depends on your individual situation. It may also depend on where you think income tax rates are headed. If you expect rates to be lower in 2010 than in 2011 and/or 2012, deferring the tax hit may not be a good idea. Your financial professional can help you run projections to determine if the special rule is appropriate in your particular case.

Source: BusinessWeek