



# JFS INSIGHTS

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## ALL STAMPS ARE "FOREVER"

Beginning January 22, the U.S. Postal Service will issue first-class stamps without a denomination printed on them. That means every first-class stamp will be a "Forever" stamp and, therefore, will retain its value.

These stamps can be used to mail first-class letters no matter how many times the rate goes up.

The Postal Service has been raising postage more frequently in recent years. Rates have increased six times since 2001 when the first-class rate was \$.34.

The Postal Service said that 28 billion Forever Stamps have been sold since first appearing in April 2007 featuring the Liberty Bell.



## 2010 Tax Relief Act Overview

On December 17, President Obama signed the 2010 Tax Relief Act into law. In addition to providing a 13-month extension of benefits for the long-term unemployed, the legislation includes a long-anticipated extension of the "Bush tax cuts" that were scheduled to expire on January 1, 2011. Other significant provisions include a two-year alternative minimum tax (AMT) "patch"; a major modification of the estate tax; a new one-year 2% reduction in employee-paid payroll taxes and in self-employment tax; and numerous retroactively renewed and extended tax breaks for individuals.

Current federal income tax rates are preserved for everyone. The federal income tax brackets will remain at 10%, 15%, 25%, 28%, 33% and 35%

until 2012. Without the legislation, tax rates would have increased in 2011, and the 10% bracket would have disappeared.

Existing tax rates for long-term capital gains and qualified dividends are also extended through 2012. As a result, these gains will continue to be taxed at a maximum of 15%.

One of the few provisions of the new law that lasts for only one year is the reduction in Social Security employee tax. The employee's portion of the component is reduced by 2%. Normally equal to 6.2% of covered wages capping at \$106,800, this rate will be reduced to 4.2%. Self-employed individuals will also benefit. Their rate will be reduced from 12.4% to 10.4%. This provision replaces the Making Work Pay credit.

A two-year AMT "patch" for 2010 and 2011 provides a modest increase in AMT exemption amounts and allows personal nonrefundable credits to offset AMT as well as regular tax. Without the patch, an estimated 21 million additional taxpayers would have owed AMT for 2010.

The act extends several educational tax breaks. The American Opportunity Tax Credit and the above-the-line deduction for qualified higher education expenses are extended for two years. Current rules regarding Coverdell Education Savings Accounts, exclusion of employer-provided educational assistance from income, and the above-the-line student loan interest deduction will remain in place for two years. The \$250 above-the-line tax deduc-

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## Market Comments

Weighted results for world equities for the year 2010 were above long-term averages though the mood of the citizenry remains negative. Perhaps the violent swings of the market during the year which left the S&P500 down 5.8% in August only to swing up to over 15% by year end; the many debt crises in Europe; continued high unemployment; the uncertainty over extension of the Bush era tax cuts; and the continued concern over the large deficits in the U.S. have

contributed to our stressed out psyches. Indexes we use for benchmarking show the most recent quarter and year-end returns as follows: S&P500, 10.76% and 15.07%; Russell 2000, 16.25% and 26.85%; and MSCI-EAFE, 6.66% and 8.22%. While interest rates on the 10 year Treasury bond rose to 3.4%, the decrease in price of the bonds led to a quarterly decline in the total bond return as reflected by the Barclays Capital Aggregate Index. For the quarter, the index was

down 1.29% while the yearly return was 6.56%.

Faith and patience in abundance were required of investors in 2010 as there were substantial reasons for concern: predictions of a double dip recession, the May "flash crash," the drilling rig explosion and huge oil spill in the Gulf of Mexico, hundreds of bank failures, passing of the controversial healthcare act, housing weakness, North Ko-

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*"Character is like a tree and reputation like its shadow. The shadow is what we think of it; the tree is the real thing."*

- Abraham Lincoln

## Social Security Restart Gets Limits



A few years ago, a Boston University economics professor publicized an incredible discovery: retirees could dramatically increase their Social Security checks by reapplying for Social Security benefits. It was entirely legal; it was an opportunity that had lay unnoticed for years. It then was discussed on National Public Radio and PBS, in *USA Today* and in a number of financial magazines.

Everyone eventually applies for Social Security, but few people reapply. Retirees can start collecting Social Security benefits when

they first become eligible, and then restart the payments at a higher rate later. The recipient completes a Social Security withdrawal form, pays back all of the previous benefits received, interest-free, and then reapplies.

However, in December 2010, the Social Security Administration announced that it would tighten the rules of the little-used program. Now, retirees who first apply can still change their minds, but only during the first 12 months of benefits. Previously, they could receive benefits for years before restarting Social Security.

The Social Security Administration (SSA) said the new

regulation is designed to stop investment scams targeting retirees. The tactic involves filing a claim, investing the Social Security income then after a few years, suspending benefits and repaying. Seniors using this tactic pocket all interest or earnings. After reapplying, they then would receive boosted benefits. According to the SSA, the risk is when investments are not positive and seniors cannot afford to repay the benefits.

The SSA does not expect the new regulation to have a sweeping effect. In 2009, only 1,000 people took advantage of the benefit, and through the first six months of 2010, fewer than 400 had done so.

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## 2010 Tax Relief Act Overview, continued

tion for expenses paid by teachers and other school professionals is also extended.

The most controversial element of the tax package is a reinstatement of the estate tax, which had temporarily disappeared in 2010, with a higher exemption level and a lower rate than in the past. Beginning in 2011, estates valued at \$5 million or less (\$10 million or less for married couples) will escape the federal estate tax completely, and estates above these thresholds will be taxed at a 35% rate. The \$5 million exemption amount will be indexed for inflation in 2012 and is scheduled to sunset on December 31, 2012. The new law applies retroactively, but gives estates of decedents dying after December 31, 2009, and before January 1, 2011, the option to elect not to come under the newly revived estate tax. The estates have the option to elect to apply the estate tax based on the new rules or apply the 2010 law which has no estate tax and modified carryover basis rules.

Beginning in 2011, the gift tax is reunit-

fied with the estate tax with a top gift tax rate of 35% and a maximum applicable exclusion amount of \$5 million. For 2011 and 2012, when one spouse dies, any unused portion of that spouse's estate tax exemption amount may be transferred to the surviving spouse.

The law extends tax-free distributions of up to \$100,000 from IRAs for charitable purposes for someone age 70½ or older. Included was a special rule allowing IRA gifts made in January 2011 to count for 2010.

Other provisions for individuals extended through 2012:

- Itemized deductions and personal and dependency exemptions will not be reduced for higher-income individuals.
- The "marriage penalty" relief in the form of an expanded 15% tax bracket and an increased standard deduction amount

for married individuals filing jointly.

- Choice between deducting state sales taxes instead of state income taxes.
- Increased earned income tax credit for families with three or more children and increased income limits for married couples filing jointly.
- Increased child tax credit amount.
- Expanded credit for child and dependent care expenses (increased limit on eligible expenses and maximum credit percentage).
- An increased adoption tax credit and employer-paid adoption assistance exclusion amount.
- Mortgage insurance premiums deductible as qualified residence interest, subject to adjusted gross income limit. This provision is only extended through 2011.

The price tag for this short-term tax relief: about \$85 billion.

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## Market Comments, continued

rean nuclear threats, and we could continue! Against this background, it was sometimes difficult to recognize the positives, but they were there, and they contributed to the gains we saw in the markets. Citigroup returned to private ownership, and the taxpayer gained a \$12B profit on its \$45B investment. GM found strong demand for its equity offering. Pick-up truck sales, which were hit hard by the recession, rebounded and pushed Ford Motor shares up 67% for the year. Private sector payrolls increased by 297,000 in December against a forecast of 100,000, and employer announced job cut plans were the lowest in 13 years. Reports also show that Americans are working more hours, which could eventually lead to increased hiring as current workers' productivity is tapped out. Business investment in capital equipment is slowly increasing. Real money supply has increased indicating private sector activity is picking up somewhat. These should all have a positive impact on the economy and on the stock market.

While many problems remain, and as a nation we will need to make some sacrifices to solve them, there have been bright spots over the past year, and we look forward to a stronger econ-

omy in 2011. Average predictions for GDP growth in 2011 have recently increased from the 2.5% range to a low 3% range. To be sure, this is not an abundance of growth but as the old fable tells us: slow and steady often wins the race.

We look forward to contin-

earnings are expected to continue to rise, any increase in investor confidence can lead to higher multiples as well and to a substantially stronger market, reinforcing our belief that equities will provide the best returns for the long run.

Happy New Year to each

### Index returns for periods ending December 31, 2010

		3 Months	1 Year	3 Years	5 Years
<b>100% Stocks</b>		10.5%	15.3%	-3.0%	3.0%
<b>100% Bonds</b>		-1.3%	6.5%	5.9%	5.8%
Stocks	Bonds				
<b>75%</b>	<b>25%</b>	7.6%	13.1%	-0.8%	3.7%
<b>60%</b>	<b>40%</b>	5.8%	11.8%	0.5%	4.1%
<b>50%</b>	<b>50%</b>	4.6%	10.9%	1.4%	4.4%
<b>40%</b>	<b>60%</b>	3.4%	10.0%	2.3%	4.7%
<b>25%</b>	<b>75%</b>	1.7%	8.7%	3.7%	5.1%

The table summarizes returns from stocks and bonds by various asset allocations. Stocks include 1/4 allocated each to large growth and value; 1/12 allocated to each small growth and value; and 1/3 allocated to foreign. Returns for 3 and 5 years are annualized. Past performance is not indicative of future results.

ued market gains in 2011. While U.S. stocks have recovered their losses since the Lehman Failure in September 2008, they have not yet returned to the highs reached in October 2007. During 2010 though, the market's price earnings multiple actually declined, meaning that the strong average gains in share prices were due entirely to higher corporate earnings. As

and every one of you! As always, we encourage you to continue in your recommended asset allocation unless something significant has changed in your life. Please don't hesitate to call us with your concerns and to continue planning for your future. You remain our number one priority, and we remain committed to helping you meet your goals.

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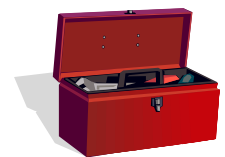


The percentage of surveyed employers who anticipate that staff levels will remain unchanged in the first quarter of 2011, differing little from the year-earlier period. Only 14% expect to expand payrolls.

Source: Manpower Inc.

*We strive to provide exceptional service. If you are pleased with the services you receive, the highest compliment you can give is a referral to your friends and family members.*

*Please contact our office directly if there is any change in your financial condition or investment objectives.*



## TOOLBOX

### What is Above the Line Deduction?

Above the line tax deductions are certain types of deductions that are subtracted from your income *before* the adjusted gross income is calculated for tax purposes. These are advantageous to taxpayers in the sense that they reduce the overall tax burden.

## New Cost Basis Rules Take Effect

Beginning this year, custodians are required to report cost basis information to the IRS on Form 1099-B for all sales and purchases of covered securities made after January 1. Prior to the law, custodians were required only to report trade date, sale price and description. The IRS is now requiring the additional cost basis information.

The regulation will be phased

in over three years. In 2011, custodians will begin to report cost basis for stock transactions. In 2012, mutual fund basis will be reported, and then, in 2013, all other investment products will have cost basis reported.

At this time, JFS will change its cost accounting method from First In – First Out

(FIFO) to Highest Cost, effective January 1.

FIFO quite literally means securities are sold in the chronological order in which they were purchased. On the other hand, Highest Cost, as the name implies, sells securities with the highest cost first. Using this method provides an extremely tax efficient ac-

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*The mission of JFS Wealth Advisors is to foster lifetime relationships with individuals, families, and organizations, assisting them with meeting life's challenges and financial goals.*

## 2011 JFS Small Group Seminars

### March - Personal Trusts

A representative of National Advisors Trust will provide information regarding personal trusts. National Advisors Trust provides first-class trust and custodial services and is one of the largest independent trust companies in the nation.

### April - Estate Tax Update

With the new tax legislation in place, Gary Dalessandro will provide attendees with an update on its effects on the estate tax.

### September - Maximizing Retirement Income

Ron Wyatt will discuss different principles on making sure your retirement savings last through your lifetime.

### October - Medicare Planning

Just in time for open enrollment, we will

provide insight into the complex world of Medicare coverage.

### November - Long-term Care Planning

Tom Lilly, president of Futurecare Associates, will present material to help you understand long-term care insurance and how it fits within your overall financial goal plan. Futurecare is an independent insurance brokerage firm with exceptional expertise in long-term care planning.

The March and September seminars will be offered at sites in both Hermitage and Pittsburgh. Advisors will extend invitations to clients that they feel will benefit most from the topic. If you have a specific interest in any of the topics, please let your advisor know so that we are sure to include you. In addition, you are welcome to bring a guest who would find the information helpful. We also welcome suggestions for future topics, so we can continue to provide meaningful seminars.

## New Cost Basis Rules Take Effect, continued

counting method for most security transactions.

During the phase-in period, custodians may reflect zero or inaccurate basis information online and on monthly account statements. While JFS will be working to clear up any cost basis discrepancies, please feel free to speak with any member of your asset management team should you have specific questions or concerns.

## JFS Wealth Advisors Is Celebrating!



2011 is the 25th anniversary of JFS, and we're hosting a celebration the evening of May 12 at Avalon Country Club at Buhl. Our featured speaker will be Greg Valliere, chief political strategist of the Potomac Research Group. He focuses on how Congress and the White House shape fiscal policies and monitors the Fed's interest rate policies. He is an exclusive contributor to CNBC, where he appears frequently on *Squawk Box*, *The Closing Bell* and *Kudlow & Company*. You will receive more details as the time draws nearer for this exciting event.

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