

## Looks like another good year for stocks

It appears that 2006 will be the fourth consecutive year of positive returns for the major stock market indices, and that their returns will exceed historical averages. The year-to-date total returns as of December 8 for four major indices are shown in the chart to the right.

A few significant facts stand out. After several lackluster years, foreign stock returns have soared over the past four years, significantly outperforming U.S. stocks during that time period. In addition, the returns of U.S. large-company stocks have lagged behind the returns of U.S. small-company and foreign stocks over the same time period.

Index	Return
S&P 500 (U.S. large companies)	12.9%
Russell 2000 (U.S. small companies)	19.0%
MSCI EAFE (foreign developed markets)	21.4%
MSCI EM (foreign emerging markets)	25.3%

Investors tend to amplify these types of short-term trends, believing that they will continue for the foreseeable future. History has shown, however, that making investment decisions on such assumptions is usually a bad move. While nobody can consistently predict how stock markets will perform, you would be prudent to assume that the longer

these trends go on, the less likely they will continue.

This means that after four consecutive years of stock market gains, you should not be surprised if any or all of these asset classes experience a losing year *or years* in the future. Despite this, including stocks in your portfolio *at all times* is a wise **long-term** strategy. Over the course of many years, stocks outperform less-risky investments such as bonds and cash, despite periodic shorter-term blips. As always, the most prudent

*Please see **Good year for stocks** on Page 2*

## For some, 'AGI' means 'AGH!'

There's a little number at the bottom of Page 1 of the federal 1040 tax form that we're obsessed with this time of year. It's AGI (adjusted gross income), and it seems innocuous, just sitting there – it doesn't really even determine tax liability. But it can be as dangerous as a cobra waiting to strike.

AGI is a figure that can turn taxpayers' gladness into grief. It is the number that the federal tax system uses to administer penalties – and to dole out favors. Too high AGI, and you lose. It's also the number that the Illinois tax system uses to determine taxable income.

*Please see **AGI** on Page 2*

## Get your free credit report

The Fair Credit Reporting Act was amended late in 2004 to require the three major credit reporting agencies to provide you with a free credit report upon request. It's a good idea to take advantage of this opportunity, so you can verify the accuracy of the information being kept about you and to correct any mistakes.



You can order the report by mail or by phone (877-322-8228), but the

easiest way for most people is via the AnnualCreditReport web site, [www.annualcreditreport.com](http://www.annualcreditreport.com). (Do not be fooled by similar sounding sites that try to charge a fee for this). In any case you will need to provide personal information, including your Social Security number.

### What's included?

The report summarizes the information in your file, including:

- Name, address, social security number
- Summary of all of your accounts (mortgage, loans, credit cards)

## 2006 Telephone Tax Refund

A one-time "telephone tax refund" is available to eligible taxpayers on their 2006 federal income tax returns. This refund, a result of recent federal court decisions, is designed to allow taxpayers to recoup federal excise taxes that were previously paid on long-distance phone calls.

Individuals, businesses, and non-profit entities are eligible for this refund, and taxpayers may choose between a standard or actual amount. For individuals, the standard refund amount is from \$30 to \$60, depending on the number of exemptions claimed.

For more about this refund, go to the IRS web site at [www.irs.gov](http://www.irs.gov) and enter "telephone tax refund" in the search bar at the top right of the web page.

- Detail on the status of each account (when opened, credit limit, delinquency, payment history, etc.)

### Why bother?

You want to make sure that the

*Please see **Free credit report** on Page 2*

## Good year for stocks

*Continued from Page 1*

investment approach is to:

- Determine your asset allocation strategy based upon your risk tolerance
- Diversify your portfolio among a variety of asset classes
- Periodically rebalance your portfolio when it strays from your desired allocation
- Stick to your asset allocation strategy through thick and thin

Remember that, whether markets are rising or falling, investing is a *long-term* process that requires patience and discipline.

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## Free credit report

*Continued from Page 1*

information is accurate because it directly affects the availability of credit and the interest rate you will pay. A low score can cost you thousands of dollars in

higher interest rates. Note that these free reports do not include your actual credit score. For that you will need to pay a fee.

If you find any errors — and this is not at all unusual — you should report them in writing and the agency must investigate and reply to you and correct any mistakes.

You can request your free reports once every 12 months from Trans-Union, Experian and Equifax. An even better approach is to request one report now, then get your report from the next agency 4 months later and so on. That way you are seeing fresh information three times a year.

*Next month: Your credit score*

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## AGI

*Continued from Page 1*

AGI puts into play what is known as the federal stealth tax. It does so by reducing deductions. It is the number that determines whether you qualify for the Earned Income Credit, rental real

estate losses, personal exemptions, itemized deductions (including mortgage interest, property taxes, state income taxes and charitable contributions), IRA contributions (including Roth, deductible and education), tuition deduction, student loan interest deduction, the child tax credit, education credits, the retirement savings credit and the AMT exemption.

Think the highest tax bracket is 35%? That's what the IRS tells us — but it's not. It is actually much higher due to "stealth taxes."

How can you reduce AGI and avoid stealth taxes? Increase your above-the-line (non-itemized) deductions like 401(k), deductible-IRA and flexible spending contributions. Defer bonuses to next year. If you own a business, accelerate expenses into this year.

Tax planning is a year-round exercise. Although there is still some time to affect 2006 before it's too late, more opportunities exist early in the year.

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