105 S. York St, Suite 450
Elmhurst, IL 60126
Voice: (630) 530-1191
Fax: (630) 530-1442

MENTOR CAPITAL

June 2011

Wealth Management Team: John Davis, CFP - Dan Carey, CFP **Administrative Staff:** Tammy Prim

Mentor Monthly Missive

In this issue:

Do you really know the facts of early withdrawal?

It seems as if the rules of IRAs and 401ks have been chiseled into the brains of Americans in the workforce. What has been dearly put away for years cannot be touched without penalty, right?? Wrong.

"But I thought I would pay a 10% penalty fee if I withdrew before age 59.5.!" This is normally true; however, the IRS has a rule called 72T, "substantially equally distribution". This, along with other exceptions such as disability or first time home purchases etc., eliminates the pesky withdrawal penalty of 10%. There are a number of reasons that people would want to withdraw from their IRA account before maturity. These reasons may range from early retirement to layoffs or maybe that rainy day just finally arrived. It's nice to know that the IRS anticipates these little curve balls that life throws at us once in a while.

For example, let's say you wanted to retire at age 55. You work for a number of years and stop. Then you roll your 401k into an IRA. Once the rollover has been completed, you can apply for a 72T exception. From here, the IRS will offer you three optional payout amounts. These payout methods dictate how much the equally substantial distribution will be. This will be determined by the ages of you and your beneficiary, the amount of money you have, your percentage used for the calculation, and the IRS's friendly mortality table calculation (when you are going to die!).

Individual age 55 who has $250,000
Beneficiary age 55
using rate of 2.98%
29.6 years until demise

1. $8,445.95 ($703.83 per month) – Minimum Distribution
2. $12, 829.12 ($1,069.09 per month) – Amortization Method
3. $12, 776.61 ($1, 064.72.11 per month) – Annuitization Method

*for first year

BEWARE! Once a rollover has been completed and a 72T has been put in place. IT MUST CONTINUE UNTIL AGE 59.5 OR A MINIMUM OF 5YEARS, whichever is later. For someone age 55, payouts must continue until age 60. Then they stop. For someone 50 years old, payouts must continue until age 59.5.

Be sure to speak with a professional first. It is always in your best interest to leave your retirement money in your account until maturity. If you withdraw too much, you could end up broke. To make matters worse, the IRS may assess the 10% penalty on all amounts withdrawn if the IRA runs out of money before the 72T schedule is finished.

Once the 72T has run its course, it is business as usual and you can start to take out of your IRA any amount your heart desires. This is why 72T is one of the best-kept secrets around and not all planners even know about this little rule. A 72T is like fire...if used correctly, it can be your best friend; however, if misused, you end up being the one burnt.

If you feel like this may be of some interest to you, your family, or your friends, feel free to consult John or Dan anytime. If you are just curious, check out some free 72T calculators at **www.72t.net**.

Advisor attends NAPFA conference

John Davis was in Salt Lake City May 17-22 to attend the annual conference of the National Association of Personal Financial Advisors (NAPFA).

John spent the first day of the conference consulting with members of the Blue Sky Group, a peer organization of eight professionals from around the country whose goal is to learn to become better financial planners and business owners by sharing best practices. “It was really educational to see how these experienced, highly skilled advisors deliver comprehensive financial planning and investment advice to their clients,” John said upon his return home. “Although we all have the same goal – helping people reach their own financial objectives – we go about delivering services differently. I came back with at least five ideas that I can implement right away.”

During the conference, John attended sessions on life insurance, business succession planning, trusts as beneficiaries of IRAs, how derivatives increase risk in bond funds, fiduciary duties, health-care reform and financial issues in divorce, among others.

A highlight of the event was an address by Kenneth French, the Dartmouth University professor who along with Eugene Fama developed the Three Factor Model to describe market behavior. French is one of the best-known theorists in the investment management field.

“I also heard an address by David Gergen, one of my all-time heroes of journalism,” John said. Gergen was an advisor for Presidents Nixon, Ford, Reagan and Clinton and is editor-at-large of U.S. News and World Report and senior political correspondent of CNN. “Gergen exudes the cynicism that we as reporters were taught in journalism school, a quality that serves me well today,” John said. Gergen said that although he is worried about the current state of the U.S. economy and its political culture, he is hopeful that once the wars in the Middle East wind up, the U.S. will experience an economic surge like the one following World War II. The return of highly skilled, driven soldiers to peacetime activities will result in an increase in business and productivity here, he said.

About Mentor Capital

Mentor Capital Management Inc. was founded in response to the belief that a consumer’s best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to clients based on their personal goals and objectives.

Meet our Certified Financial Planners

John S. Davis is Mentor's founder, president and chief investment officer. He has been helping individuals accumulate and manage wealth since 1991. He is a former journalist.

Daniel B. Carey is vice president of Mentor Capital and a member of its board of directors. He joined Mentor in August 2007. For seven years prior to joining Mentor's team, he worked at Clune & Associates, a financial advisory firm in Chicago.