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MENTOR
CAPITAL

August 2011

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Mentor Monthly Missive

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- Riding the stock market rollercoaster
- Education expenses and taxes

Market volatility

As this week continues the nerve-wracking stock market declines that started a few weeks ago, many investors are wondering if they should get out, or stay out, of investing in stocks. Should they rebalance? Should they buy? Should they start investing? The longer the stock market keeps going down, the more likely it is that investors will bail out and stay on the sidelines.

We don't know if the current down-turn has reached its bottom. It's too difficult to predict when the market will hit bottom, if it will retest the bottom, or when it will finally start to turn around. But we can look at history and see that every single market "collapse" has been followed by significant and sudden rebounds.

Take the S&P 500 Index for example. After the huge losses suffered during the Great Depression, the index gained 54% the next year and averaged a gain of 31.6% over a four-year period.

After a 35% decline in 1937, the index gained 31.1% the following year and averaged a gain of 12.6% per year over an eight-year period following that 35% drop.

After losing 14.7% and 26.5% in 1973 and 1974, the index gained 37.2% and 23.8% the following two years.

After the incredible bull market of the late 1990's the index lost over 40% from 2000 through 2002 while many investors cashed out their investments and stayed away from stocks. That turned out to be a huge mistake as the index gained 28.7% in 2003 and averaged a yearly gain of 14.7% from 2003 through 2006.

We don't need to remind you of the most recent bear market that started late in 2007. The market started its quick rebound in March of 2009.

Yes, it can be difficult to stick with your investment strategy the way things are going now. However, as the previous examples show, bailing out of the stock market during times like these can prove to be a huge mistake in hindsight.

Mentor Capital continues to monitor portfolios, and rebalances at the appropriate times. This is a year-round mentality, not just when the media and politicians try to scare the world. This is a time to take advantage of the depressed equity markets, not run away from them. Individual investors are fleeing to safety in the form of U.S. Treasuries, which only last week, the world feared the U.S. government would default on these obligations. Talk about irony.

We understand the market volatility is concerning and frustrating, but we stand by the long-term diversification to our investment portfolios.

Remember what Warren Buffett once said: "Be fearful when others are greedy, and be greedy when others are fearful."

Feel free to contact Mentor Capital Management Inc. at any time to discuss your questions.

It's the most wonderful time of the year

It's August. This is the time of year that every child and teen regrets… . Back to school. It's the same for parents who either pay a significant portion of college tuition or all of it. August is the time when those folks have to deal with FAFSA and the usual suspects that provide loans to pay tuition. Wouldn't it be nice to get a break? Even a tax break?

Uncle Sam does, in fact, have options for higher-education tax benefits. Below are three of these wonderful benefits.

There is the Student Loan Interest Deduction. This makes it possible to deduct the interest you pay on a qualified student loan. Generally, the amount you can deduct is the lesser of $2,500 or the amount of interest you actually paid. "What constitutes a *qualified student loan*?" you may ask. According to Publication 970, a qualified student loan is a loan taken out to solely pay for qualified higher education expenses.

If all of the following applies to you, you can claim the deduction:

1. You paid interest on a qualified student loan during the tax year.
2. You are legally bound to pay interest on a qualified student loan.
3. Your filing status is not "married filing separately."
4. Your modified adjusted gross income (MAGI) is less than the specified amount, which is set annually by the government.
5. You and your spouse, if filing jointly, cannot be claimed as dependents on someone else's returns.

The American Opportunity Credit is a tax credit of up to $2,500 for qualified education expenses paid for each eligible student. Keep in mind that your allowable tax credit may be limited by your income as well as the amount of your tax.

You can claim this credit if your MAGI is less than $180,000 if married filing jointly or $90,000 if single, head of household, or qualifying widow(er). This is ONLY available for the first four years of postsecondary education. The student must be pursuing an undergraduate degree or other recognized education credential. The student must also be enrolled at least half-time for at least one academic period that begins during the tax year. There can be NO felony drug convictions on the student's record.

Qualified expenses are: tuition and fees required for enrollment, and course-related books, supplies and equipment that DO NOT need to be purchased from the institution to qualify.

The Lifetime Learning Credit is similar to the American Opportunity Credit in that it can be claimed for qualified education expenses paid for all eligible students. However, the credit can be as much as $2,000, and there is no limit on the number of years it can be claimed.

You can claim this credit if your MAGI is less than $120,000 if married filing jointly and $60,000 if single, etc. It is available for all years of postsecondary education and for courses to acquire or improve job skills.

The student DOES NOT need to be pursuing a degree or other recognized education credential for the Lifetime Learning Credit, and felony drug convictions are permitted. Qualified expenses are tuition and fees required for enrollment (including amounts required to be paid to the institution for course-related books, etc.)

Keep in mind: If you are eligible to claim the American Opportunity Credit as well as the Lifetime Learning Credit for the same student in the same year, you are able to use either credit, but not both. Choose the credit that will give you the lowest tax.

If this applies to you so far, please do not hesitate to give us a call for further discussion.