



# SHERPA INSIGHT

Detterbeck Wealth Management, Inc.



MAY 2007

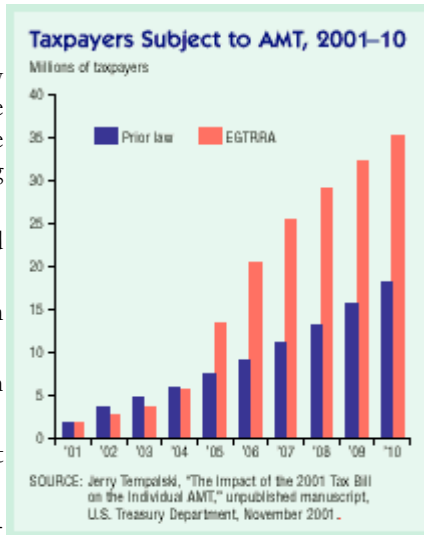
## PLANNING FOR THE AMT

by Lester G. Detterbeck, CPA, MBA, CFP®, PFS, CFA

The alternative minimum tax impacts nearly 80% of taxpayers who earn more than \$75,000 per year. It doesn't seem to be going away; rather, only adding more victims each year.

Principally, you may be particularly prone to AMT if you have any of the following symptoms:

- Large state and local tax deductions
- Interest on second mortgages
- Long-term capital gains
- Tax-exempt interest
- Large miscellaneous itemized deductions
- Large number of exemptions for dependents
- Large credits
- Incentive stock options



Unfortunately, some of the symptoms are not easily fixed. It may not be wise to stop paying your real estate and state income taxes, the interest on your second mortgages or support for your dependents. Although in the case of taxes, proper timing of the payment of those taxes, where permissible, may help.

Planning the timing of capital gains may also help. The AMT exemption is phased out or eliminated as income increases, and capital gains count as income. Hence, consider spreading a sale out over multiple years. Obviously, planning for the timing of capital gains and payment of taxes should be done with your tax advisor. The CPA community has a good saying in this regard: "You can extend April 15<sup>th</sup> but you can't extend December 31<sup>st</sup>."

Consider evaluating tax-free investments. Interest on most private activity municipal bonds counts as a preference item for AMT and those individual issues should be

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## A HARRY DENT UPDATE

by Lester G. Detterbeck, CPA, MBA, CFP®, PFS, CFA

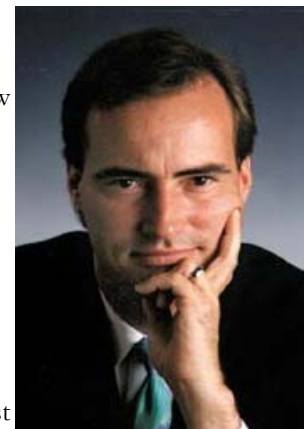
Would you embark on an expedition up to the top of 29,000-foot Mt. Everest without assessing the weather conditions? Of course not, yet many financial advisors do just that when working with their clients. Sharing a common belief that numerous variables make predicting long-term economic trends virtually impossible, these advisers use 75-80 year averages to gauge future results or simply rely upon short-term estimates because "nobody really knows".

At Detterbeck Wealth Management, we factor in long-term economic forecasting into investment plans to help our clients prepare for change. Our enthusiasm for long-term forecasting does not mean we ignore short-term analysis. Rather, we integrate both views of the economy into our SHERPA® process to help our clients make sound financial and life decisions.

We obtain the latest forecasting information from the H.S. Dent Foundation, spearheaded by Harry Dent. As one of 100 H.S. Dent Advisers nationwide, I attended the Spring Conference in March in San Diego. H.S. Dent Foundation continues to believe that the next two or three years should be good for business and the markets. However, from late 2009 or early 2010 the Foundation believes that our economy will be much different. This is primarily due to a convergence of demographic, geopolitical, and commodity impacts along with the decennial and four year Presidential cycle patterns in the stock market.

Specifically, here are some of the Foundation's current forecasts:

- Mid 2006- Late 2008: Stock boom; Dow hits 18,000
- Mid 2007-Late 2009: Last oil bubble, Oil at \$105, Dow hits 20,000
- Late 2007-Early 2008: Minor Housing Recovery
- Late 2009-2010: Stock market decline
- 2011-2012: Slight recovery in stocks
- Mid 2012-Late 2014: Second decline in stocks, interest rates decline to 2.0-2.5% (3.5-



Harry Dent Jr.

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avoided for taxpayers subject to or potentially subject to AMT. Investors in municipal bond mutual funds have an additional problem; some of the income may be the result of investments in private activity bonds and therefore subject to AMT.

Incentive stock options (“ISO”) represent an AMT preference item for the difference between an option’s exercise price and its fair market value on the date of exercise. And, this preference exists whether or not the ISO shares have been sold. This can be a huge problem if an AMT tax is paid and then value of the ISO shares declines significantly.



So, plan ahead. Work with Detterbeck Wealth Management and your trusted CPA firm on a collaborative basis to evaluate your AMT position early and often. This is part of our comprehensive SHERPA® process. We will be pleased to help.



### ***Check it out!***

**If you haven’t done so already, be sure to log in to view your account on our completely revamped webpage!**

**You can check your household and individual account balances, holdings, performance, transactions, view quarterly reports and more.**

**You can also incorporate outside financial accts such as other financial institutions, 529 plans, and frequent-flier information for a holistic view of your financial world.**

**If you’re interested, a DWM staff member is ready to give you a one-on-one tutorial. Please call for an over-the-phone appointment.**

**Log in today at [www.detterbeck.net](http://www.detterbeck.net)**

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4.0% on 10 yr. Treasuries) and 4% mortgages

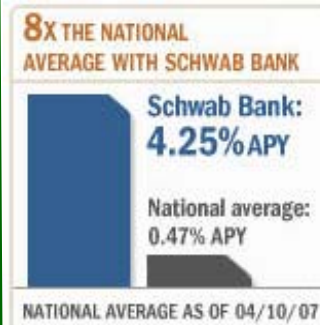
- 2020/2024- 2035/2036:  
Economy and stock market boom

Of course, we don’t expect the Dent organization to be 100% correct. However, one of their special reports (which is available) showed that their forecasts in the early 90s compared closely with actual outcomes ten years later. They have a track record that is worth noting. And, even if they are only 50% correct on these new forecasts, then we think our clients should be informed of and consider these forecasts when working with us in planning their financial future.

We are not in any way suggesting that our clients completely eliminate their exposure to equities in late 2009 or 2010. Rather, we suggest that they regularly review their overall asset allocation and unique situations with us and only take on as much risk as they need or want. As you know, our goal is to guide our clients through the peaks and valleys of a variable economy, planning a route that will bypass high risk and turn our clients’ financial vision into reality - even in rough conditions.

### *charles SCHWAB news:*

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