

The Bank of Missouri

Investments & Retirement Planning

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The Bank of Missouri
Investments & Retirement
Planning
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Greetings from The Bank of Missouri's Investments & Retirement Planning Group. We hope that you are all enjoying the wonderful spring weather. With the tax season upon us, now is a great time to rebalance your portfolio to ensure that your financial plan is aligned with your life plans. Please contact us at your convenience to arrange a personal consultation.

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The Sandwich Generation: The Pickle in the Middle

If you're helping your parents and trying to meet your own children's needs while looking ahead to your own retirement, you're part of what's called "the sandwich generation." Here's a recipe to help you cope with being jammed in the middle.



Chart the terrain

First, conduct an assessment of your current financial situation and financial goals. Make improvements where you can, and develop a budget you can stick to. Be sure to monitor your finances so you can adjust to changing circumstances.

Then conduct a similar assessment of your parents' finances as well, so that you fully understand their current situation.

Keep your retirement savings plan on track

First and foremost, resist dipping into your current retirement savings, and try to keep your retirement savings plan on track. Make investing in your financial future a priority by maxing out your 401(k) and/or other retirement savings plan; at the least, contribute as much as your employer will match.

Put your child's college education on the front burner

Start saving, and with college tuition soaring, the sooner, the better. There are several college saving options--consider tax-advantaged strategies such as college savings plans, Coverdell education savings accounts, and U.S. savings bonds.

If necessary, look into the wide variety of financial aid programs available during college, such as scholarships, grants, work-study employment, and student and parent loans. Financial aid is based on two things: the cost of a college education and your ability to pay. You'll find an increasing number of families with significant incomes now qualify for aid.

Help your parents manage

If you need to help your parents manage their affairs, you'll need legal authority to do so. Make sure your parents have a durable power of attorney authorizing you to sign checks, pay bills, and make financial decisions.

Also make sure your parents have health-care directives allowing you to make medical care decisions according to their wishes. And be sure your parents have a will that's been updated recently.

If your parents have limited income, talk to them about their options. For example, can your parents sell their home or access the equity they have in it to increase their income? Will they need to move in with you or another family member? If they're not willing to discuss this with you, you may want to suggest they talk with a trusted professional.

Long-term care insurance

Since government programs such as Medicare and Medicaid, traditional health insurance, and disability insurance may not adequately cover the cost of long-term care, look into long-term care insurance. The cost of a long-term care policy will depend primarily on the ages of your parents (in general, the younger they are when the policy is purchased, the lower the premium will be), but it also depends on the benefits you choose.

Get support and advice

If you're feeling the squeeze, you're not alone. There's plenty of help out there, from local programs to national organizations, from books to websites. And consider discussing the specifics of your situation with your financial professional.



INVESTMENTS & RETIREMENT PLANNING

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Plan well. Live well.

Understanding Mutual Fund Expense Ratios

Every mutual fund must disclose certain costs associated with running the fund. Those costs represent a fund's expense ratio, which is expressed as a percentage of a fund's assets. For example, a fund that has \$100 million in assets and annual expenses of \$1 million would report a 1% expense ratio (1% of \$100 million = \$1 million).

Why is a fund's expense ratio important? First, it can help you gauge how efficiently the fund operates. A high expense ratio reduces the amount that is paid to you as a shareholder. Second, a fund's expenses affect your net returns, particularly over the long term. For example, let's look at a hypothetical illustration (which doesn't reflect the performance of any actual security). Assume you have \$10,000 in one stock fund that earns a 5.5% return and \$10,000 in another stock fund that earns exactly the same return but that costs you an extra half-percent in expenses. The difference between 5.5% and 5% over 20 years means a \$2,645 reduction in your bottom line.

That's not to say that you should automatically reject a fund just because it has a high expense ratio if the fund's performance is worth the higher cost. However, you do need to take expenses into account, especially if you're investing for the long term.

Some general categories of funds tend to have higher expense ratios than others. For example, a stock fund that specializes in emerging markets may have to spend more on research than a fund that invests only in large-cap U.S. stocks for which a great deal of information is readily available. A fund that is actively managed may have higher expenses than a fund that mirrors an index.

Each mutual fund's prospectus must include a table in the front that you can use to compare the expenses of various funds. The table lists the fund's expense ratio as well as a breakdown of the costs included in it, which fall into three general areas: management fees, marketing costs, and administrative fees.

Management fees

Every fund has an investment management or advisor firm that manages the fund and makes investment decisions. Even an index fund, which does relatively little trading and whose investments basically duplicate those of an index, will have a firm or an individual who

handles any transactions. Management fees often represent the single largest portion of a typical fund's expense ratio.

Marketing costs

These costs also are known as 12b-1 fees, after the legal provision that permits them. They were originally designed to let funds recoup costs associated with distribution and advertising, on the theory that attracting new investors and additional assets would help make a fund more cost-effective for each investor. In recent years, there has been discussion of whether 12b-1 fees should be eliminated--especially for funds that are closed to new investors and therefore should have little need to market themselves--but they are still very common.

Administrative fees

This category of fees includes the cost of recordkeeping, custodianship, taxes, and legal, accounting, and auditing services.

What's not included in an expense ratio

Trading expenses represent the cost of buying or selling securities, and also can have a substantial impact on your net return over time. Trading costs, which include commissions paid by the fund when it buys or sells a security, aren't included in a fund's expense ratio. However, funds are required to report the per-share cost of their annual commissions; this can be found in a fund's annual report or Statement of Additional Information.

Also not included in the expense ratio is any redemption fee a fund might charge if you sell your shares before a specified time, or any sales charge the fund might impose at the time of purchase or sale.

Before investing in a mutual fund, carefully consider its investment objectives and risks as well as its charges and expenses. This information is available in the prospectus, which can be obtained from the fund. Read it carefully before investing.

Comparison shopping

The "Tools and Calculators" section of the Financial Industry Regulatory Authority (FINRA) website includes an online Fund Analyzer that lets you compare the impact over time of the fees and expenses of as many as three funds.

Running the numbers

To get a true picture of a fund's performance, you do not need to deduct a fund's expense ratio from the returns quoted in its prospectus. The figures that measure average annual and cumulative return have already taken both operating and trading costs into account.



"Some general categories of funds tend to have higher expense ratios than others."

Tax Benefits of Conservation Easements

A conservation easement (also called a conservation covenant or restriction) is an encumbrance on privately held real estate that prohibits the development of that property in perpetuity. The landowner enters into an agreement with the easement holder--either a qualified charitable organization (referred to as a land trust) or a government agency (federal, state, or local). The agreement imposes specific restrictions on the use of the property, and it remains legally binding even when the property is subsequently passed on to heirs or sold to another private owner.

Property owners who grant conservation easements not only conserve their land for future generations, but they may also conserve their wealth for their heirs due to the many tax benefits that are available.

Federal income tax deduction

A gift of a conservation easement is considered a charitable donation that can be deducted on the donor's federal income tax return, if the easement meets all of the following IRS requirements:

- The easement is permanent
- It is donated to a qualified conservation organization
- It serves a valid conservation purpose (which can only be for outdoor recreation or education, habitat protection, historic preservation, or open space protection)

Generally, the value of the easement is the difference between the land's fair market value with and without the easement. For example, if land is valued at \$1 million without restrictions and \$750,000 with the easement, then the value of the easement is \$250,000. The value must be substantiated by a qualified appraisal.

For individual taxpayers, the deduction is generally limited to 30% of adjusted gross income in the year of the gift. Any excess can be carried forward over the next 5 years. Any deduction that is not used up in that 6-year period is lost.

Note: For donations made in 2006 through 2009, the limitations were 50% (100% for qualified farms and ranches) and 15 years, respectively. There is legislation in Congress that extends this provision, retroactive to January 1, 2010.

Federal gift or estate tax deduction

A landowner can claim a federal charitable gift tax deduction (if the easement is made during his/her life) or an estate tax deduction (if made after death) for the *full* fair market value of the easement. The easement must satisfy the same requirements as the federal income tax deduction, *except for the conservation purpose requirement.*

Federal estate tax exclusion

In addition to the federal deductions, up to 40% of the *after-easement value of the land* can be excluded from the landowner's estate for federal estate tax purposes, up to a maximum of \$500,000, if all of the following requirements are met:

- The donation is eligible for the federal income tax deduction
- The easement must prohibit more than a de minimis use of the property for a "commercial recreational activity"
- The easement must be donated by the decedent, his/her family member, the executor of his/her estate, or the trustee of the trust in which the land is held
- The land must have been owned by the decedent or his/her family member for the entire 3-year period preceding the decedent's date of death

To be eligible for the full 40% exclusion, the easement must reduce the value of the land by at least 30%. For every percentage that falls short of the 30% threshold, the exclusion is reduced by 2%.

Further, the tax basis of the land must be carried over from the decedent to the heirs, to the extent the value of the land is excluded from the decedent's estate.

State tax and property tax benefits

Some states offer an income tax deduction and/or tax credit, and many states offer property tax incentives to conservation easement donors.

Note: A conservation easement can also be sold, but a sale will not confer the same tax benefits as a donation.

For more information, see your financial professional.

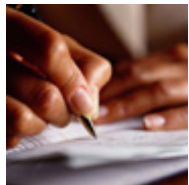
"Property owners who grant conservation easements not only conserve their land for future generations, but they may also conserve their wealth for their heirs due to the many tax benefits that are available."



How popular are conservation easements?

According to the 2005 National Land Trust Census, the total acres conserved by local, state, and national land trusts doubled to 37 million acres in just the past five years. This is an area 16½ times the size of Yellowstone National Park.

Ask the Experts



What's an exchange-traded fund?

Like a mutual fund, an exchange-traded fund (ETF) pools money from investors to buy a group of securities. Though diversification alone

can't guarantee a profit or protect against potential loss, such an investment helps you spread your risk over many individual securities.

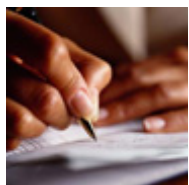
Most ETFs are passively managed. Instead of having a portfolio manager who uses his or her judgment to select specific stocks, bonds, or other securities to buy and sell, ETFs try to approximate the performance of a specific index, which can be either broad-based or narrowly focused. In this, they are somewhat similar to an index mutual fund.

However, there are some substantial differences between mutual funds and ETFs. Perhaps the biggest is the ability to trade ETFs throughout the day. Mutual funds are priced once a day after the market closes. If you buy or sell after that, you'll receive the next day's closing price. By contrast, ETFs are priced throughout the day.

Also, they can be bought on margin or sold short; in other words, they can be traded just like stocks. As a result, investors may use ETFs to actively trade a particular sector or industry.

ETFs typically have no minimum investment requirements or redemption fees for brief holding periods. And because most ETFs are based on an index, the administrative costs can be relatively low. However, ETFs must be purchased through a broker. Since you'll pay a brokerage commission with every transaction, ETFs may not be well-suited to a systematic investing program such as dollar cost averaging--transaction costs could quickly eat up any cost efficiencies.

Because the differences between one ETF and another can be dramatic, you should carefully consider a fund's investment objectives, risks, charges, and expenses, which are included in the prospectus available from the fund. Read it carefully before investing.



How can I use exchange-traded funds?

There are many ways an exchange-traded fund (ETF) can be used to help round out or supplement an existing investment portfolio.

Investing in a sector rather than an individual stock. An ETF allows you to invest in an industry or sector without relying on the fate of an individual company. If you have broad-based stock funds, you can give more weight to a particular sector by also investing in an ETF that focuses on a relevant index.

Minimizing taxes. ETFs can be relatively tax-efficient. Because a passively managed ETF trades relatively infrequently, it typically distributes few capital gains during the year. That means you won't incur the same tax liability as if you received significant capital gains. However, make sure you consider just how an ETF's returns will be taxed. Depending on how the fund is organized and what it invests in, returns could be taxed as short-term capital gains, ordinary income, or even as collectibles, all of which are generally taxed at higher rates than long-term capital gains.

Staying invested after selling stock for a tax loss. If you have sold a large stock position to realize a capital loss for tax purposes, but still believe that industry as a whole will soon experience a big short-term move, you can use an ETF to try to take advantage of that volatility. If you buy the same stock within 30 days, the tax-loss deduction will be disallowed. However, buying an ETF based on a relevant index as a proxy for that investment until you are able to buy the stock again allows you to preserve the tax deduction on the stock loss while staying invested in that industry.

Limiting losses. With an ETF, you can set a stop-loss limit on your shares. A stop-loss order instructs your broker to sell your position if the shares fall to a certain price. If the ETF's price falls, you've minimized your losses. If its price rises over time, you can increase the stop-loss figure accordingly. This strategy lets you pursue potential gains while setting a limit on the amount you can lose.

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