CYPRESS FINANCIAL REVIEW

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Cypress Financial Planning, LLC

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Editor's Note
Welcome to the first issue of the *Cypress Financial Review*. In an effort to reach out to clients and partners, Cypress Financial Planning is happy to provide news and insights on the financial landscape as well as useful personal financial strategies.

The Devastating Global Economic Impact of the Collapse of Lehman Brothers

On the one year anniversary of the historic collapse of Lehman Brothers, one of the most well-respected and powerful investment banks in the world, it is important to look back on the cause of the collapse, the effect it has had on the global economy, what has been done to repair the damages, and the lessons that investors can learn.

Leading to the Collapse

"Lehman Brothers has filed for Chapter 11 bankruptcy protection." This statement is still shocking to read one year after the event took place. Even the brightest investors and money managers did not see it coming, and wondered how it had happened.

Lehman's collapse can be traced back to the United States housing bubble which peaked in 2005-06. A long-term trend of rising housing prices encouraged lenders to issue mortgages to less than qualified borrowers. Non-traditional, riskier mortgages with low introductory rates and "no income documentation required" exploded in popularity.

The mortgages were then widely held by financial institutions around the globe.

For the first time in 16 years, housing prices started to drop moderately in 2006-07. Many homeowners who put little or no money down realized they owed more than their homes were worth and were facing monthly payments that they could no longer afford. Some families in this situation simply walked away from this burden, straddling the banks with significant losses.

The Collapse

The firm held very significant positions in these mortgage-backed securities. As investors digested this information, Lehman's stock price began a steady decline in the summer of 2007.

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The market had priced these securities at close to nothing, causing Lehman to file for bankruptcy on September 15, 2008. On that day, The Dow Jones Industrial average closed down over 500 points, at the time the largest single-day point drop since the days following the attacks on September 11, 2001. With over $600 billion in assets, the bankruptcy was the largest in US history.

The Aftermath

Lehman's collapse led to a panic. There was such distrust among banks that they were reluctant to lend to individuals, businesses, and even each other, undoubtedly harming a global economy dependent upon credit to function.

The US government moved frantically to repair the problems that had been exposed, and in part caused, by the collapse of Lehman. The Emergency Economic Stabilization Act of 2008, enacted October 3, 2008, authorized the US government to spend up to $700 billion to purchase distressed assets, especially mortgage-backed securities, and make capital injections into banks. This very controversial act is viewed by some as putting a floor on the falling US economy, and viewed by others as the death of American capitalism.

Lessons Learned

As we look back on this historic event, it is important to focus on what can be learned. Outlined are key actions that can be made by individuals, businesses, and investors to prevent such losses that occurred during this economic collapse.

- Diversify

Don't put all your eggs in one basket. Lehman Brothers had too much of their assets riding on the housing and securitized mortgage market. Had they properly diversified, they would have reduced their exposure to these securities, reducing their risk, and preventing their collapse. As an investor, it is important allocate your portfolio among a variety of asset classes.

- Know What You Own

Dedicate time to studying your personal finances and investments. Many borrowers did not fully understand how these non-traditional mortgages worked. Make sure you understand how your IRA, mortgage, and other personal investments work. Investors should also keep a close eye on global economies, financial markets, and even the individual stocks or mutual funds they own. If you are unable or unwilling to dedicate this time, it is very important to hire an educated and skilled professional to manage your finances and investments for you.

Individual Retirement Accounts (IRA's): What You Need To Know

IRA's are an effective and easy way to save for retirement. Outlined below is what you need to know about IRA's: how they work, what you should consider when deciding whether or not to invest through an IRA, and a comparison between traditional and Roth IRA's.

Anyone can open an IRA, so long as you or your spouse receive taxable compensation and you are not 70 ½ years old by the end of the year you begin contributing. If you want your golden years to be filled with tropical vacations, golf outings, and fine Italian dinners, and IRA might be right for you.

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Contributions

Investments are made in an IRA by depositing what is called a "contribution." Your money is managed by an IRA "custodian," typically a bank or brokerage institution. An IRA can be funded with cash only. With a traditional IRA, the money you deposit into your account is not currently taxed (unless certain factors apply). In a Roth IRA, an individual must pay taxes on any amounts contributed, but will not have to pay tax on any future distributions. The amount that one can contribute to an IRA each year is limited by the Federal government [see chart]. The general rule of thumb is to contribute enough in an employer-sponsored retirement plan to qualify for any matching program in full, and then consider making an additional contribution to an IRA due to their investment flexibility.

Management

An IRA, much like a regular brokerage account, is free to be managed by the individual. Unlike most employer-sponsored retirement plans, there is no set list of funds from which to choose. Almost all investments are technically eligible for inclusion in an IRA account, but some are more appropriate than others from a tax perspective. For instance, you would not want to hold tax-free municipal bonds in a tax-advantaged account because you would be wasting their tax favorable status.

Distributions

Funds can be distributed from an IRA whenever desired, however certain circumstances are subject to penalty. In most cases, money can be withdrawn without tax penalty once the account owner reaches 59 ½ years of age. These restrictions are in place because the main purpose of an IRA is to assist you in providing for your retirement. The government also has rules setting a maximum age to begin taking money out of your IRA. Non-Roth account owners must begin taking money from their IRA after they have attained 70 ½ years of age. When you withdraw from a traditional IRA, it is taxed at the full tax rate.

Which IRA is Right for Me?

The chart below gives a brief summary of the major differences between a traditional IRA and a Roth IRA. What is best for you depends mostly on your taxable income, age, and family status. It is recommended that you meet with your financial advisor to help determine which type of strategy is most optimal.

	Traditional IRA	**Roth IRA**
Tax Deductions	Upon contribution	Upon distribution
Maximum 2009 Contribution	$5,000 ($6,000 if over 50 yrs old)	$5,000 ($6,000 if over 50 yrs old)
Income Eligibility	Everyone is eligible to contribute, but not everyone will receive the benefit of tax deduction	Singles cannot earn over 95,000; married couples cannot earn over $150,000 combined
Age to Distribute	age 59 1/2; significant penalties for early distribution	Tax-free distributions after age 59 1/2; principal can be distributed at any time
Required Distribution	At age 70 1/2, minimum distribution required each year	No minimum distributions

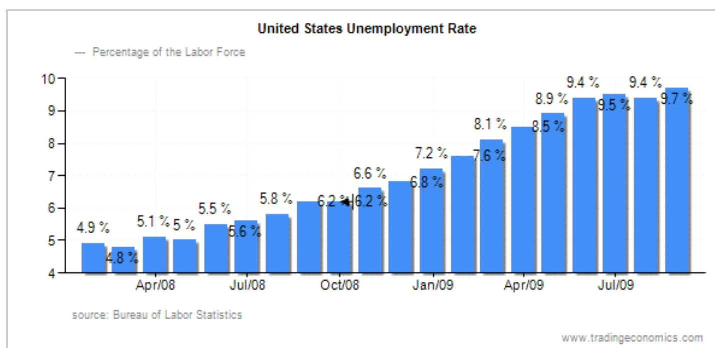
United States Economy and Financial Markets

After a punishing 50% decline of the Standard and Poor's 500 index from the late 2007 highs to the March 2009 lows, the United States stock market has rallied over 50%. There appears to be stabilization in the market as investors see a bright future for the US economy. The market has been led by the technology sector whose stellar balance sheets provide room for growth, and the financial sector that had been so greatly oversold.

Some bearish investors have questioned this rally, asking how corporations will continue to generate profits when many economies are burdened with high government debt levels, how business can generate revenue when consumers are faced with 10% and rising unemployment, and wondering if government stimulus will generate hyper-inflation.

As a result of these concerns, investors have taken positions in commodities as a safe haven store of value. We have seen gold (viewed as protection against inflation) rally to record highs and the United States Dollar plummet to 52-week lows as the US government continues to push capital into the market. In addition, the price of crude oil has increased from its lows around $30 per barrel in early 2009 to almost $75 per barrel this month.

Despite concerns over the economy and US equity markets, the rally has been undeniable. Many believe a rally this extreme is unsustainable, and that a correction is necessary. In addition, markets have seen a consistent decline in volume as the rally has continued, indicating there may not be as much broad-based conviction in the recent run-up.



The market appears to be overbought to some investors; however bulls still see room on the upside. The trend is higher, and investors have been using dips in the market as buying opportunities.

Investors should look for the release of crucial economic data in coming weeks for indication on the direction of the economy and US equity markets. Specifically, in the near-term, the Institute of Supply Management's survey of Augusts' manufacturing data on October 1st, and Unemployment Rate on October 2nd. The reports usually have a major impact on the market's trading direction and give great insight into the state of the economy. To solidify this recovery, investors will be paying close attention to third quarter earnings releases from major US companies across all industries beginning early October.

Upcoming Tax Dates

- October 15: 2008 income tax return and any tax payment is due if you had filed for an automatic six-month extension.
- December 31: Last day for charitable contributions to be eligible on your 2009 tax return.

Source: IRS.gov