

THE SHERIDAN ROAD MAP

The Best Route to Financial Success



January 2009

Volume 3 • Issue 1



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FINANCIAL RESCUE PACKAGE RESTORES FAVORABLE TAX PROVISIONS

In crafting the financial rescue legislation* that was enacted last October, Congress extended several tax law provisions helpful to taxpayers.

Sales-tax deduction. The option of deducting state and local general sales taxes instead of state and local income taxes will again be available to taxpayers who itemize their deductions for the 2008 and 2009 tax years. The sales tax deduction is calculated using standard IRS tables or by tallying actual sales taxes paid during the year.

College tuition deductions. Extended for 2008 and 2009, this deduction is for the payment of qualifying higher education expenses. The applicable deduction limit (\$2,000 or \$4,000) is based on the taxpayer's income. No deduction is available if adjusted gross income (AGI) is more than \$80,000 (\$160,000 on a joint return) or if any taxpayer claims an education credit for the student's expenses.

Classroom expense deduction. For several years, eligible educators who buy K-12 classroom supplies have been able to deduct up to \$250 of their out-of-pocket expenses. Thanks to the new law, this deduction will continue to be available for 2008 and 2009.

Property-tax deduction. The Housing Assistance Tax Act of 2008 introduced an additional standard deduction for the

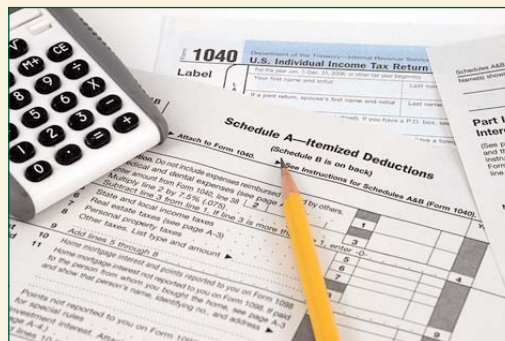
2008 payment of state and local real property taxes. The deduction is limited to \$500 (\$1,000 on a joint return) or the actual amount of taxes paid, if less. The rescue legislation extends the new deduction through 2009.

IRS charitable rollover. Taxpayers age 70½ or older who are interested in contributing money held in an individual retirement account (IRA) to charity may find it worthwhile to take advantage of this provision, which has been extended through 2009. If accomplished via a direct

trustee-to-trustee transfer of funds, the rollover is tax free. While no deduction for the rollover contribution would be available, the rollover option may still be preferable to taking a taxable IRA distribution and claiming a deduction, since deductions for charitable contributions are subject to percentage-of-AGI limitations.

R&D credit. The research and development credit has been extended through 2009 with certain modifications.

Depreciation. Qualified leasehold, restaurant, and retail improvements are eligible for 15-year straight line cost recovery if placed in service before 2010. A much longer depreciation period normally applies to most commercial real estate.



* P.L. 110-343, October 3, 2008

AFTER THE COLLAPSE, GUARDED HOPE FOR '09

The Dow's 33.8% record decline makes investors view bullish calls skeptically



After the U.S. stock market's third-worst year in more than a century, many investors are angry and confused. They are hoping for a turnaround in 2009, but considering the pain that has continued for more than a year, they are reluctant to bet on it.

At a time when some stock prognosticators are telling people that stocks are cheap and it is time to buy, many investors have developed a "show me" attitude. Their most basic beliefs about stocks have been shaken, notably the idea that buying and holding is smart and that stocks will outgain other assets over time.

Over the past 10 years, stocks as a broad group are down, and their performance trails that of almost every other asset class, including government bonds, gold and even real estate, according to data from Morningstar Inc.

So while people hear the advice that it is time to buy stocks, they have trouble following it. That helps explain the current demand for the investment perceived as the world's safest, U.S. Treasury bonds, and the steady withdrawal of money from stock-focused mutual funds.

The problem isn't just that major institutions including Bear Stearns, American International Group and Fannie Mae collapsed and had to be rescued. It isn't just that the Dow Jones Industrial Average finished the year at 8776.39, down 4,488.43 points or 33.8% in 2008 and 38% below its October 2007 record.

It was the Dow's worst year since 1931. The broad Standard & Poor's 500-stock index did even worse, down 38.5% for 2008, its worst year since 1937.

A big part of the problem is that each government effort to plug the market's holes has seemed inadequate, and both stock rallies and investor hopes have repeatedly run out of steam. Given that the economy could be weak for months to come, that financial institutions and ordinary people alike are borrowing less and holding fewer risky securities, and that the banking system and housing market show little sign of returning to normal, it is little wonder that stocks are struggling.

At some point, experts agree, the stock market will hit bottom and move higher. Some people believe it happened in November, when stocks hit multiyear lows and then began an upswing. Others think stocks will sag again and won't bottom out until later, perhaps some time in 2009.

No matter what they believe, few people want to make big bets right now.

The past year saw more painful milestones than most investors could digest. The Nasdaq Composite Index fell 40.5%, the worst percentage decline in its 38-year history, surpassing even its 39.3% plunge in 2000 after the tech-stock bubble burst.

Volatility was startling. In October, the Dow enjoyed two of the six biggest one-day percentage gains in its 113-year history, and then gave back all the gains and fell to new lows. Four of the 20 biggest daily percentage declines in Dow history happened in the last four months of 2008.

Many analysts consider stock prices cheaper than usual now, but some fear they will become cheaper still. One way to evaluate whether a stock or index is cheap is to measure its price against a 10-year average of corporate profits, which smoothes out short-term earnings fluctuations.

Measured that way, stock prices are below-average today, but they only just have fallen below average after being above-average for 18 years, according to data tracked by Yale professor Robert Shiller.

Theoretically, price-to-earnings ratios ought to spend as much time below average as they do above-average, which suggests that P/E ratios may not pop higher right away.

After the Dow's miserable year, it makes sense that stocks are due for a good year to balance things, but that hasn't always happened in the past. The Dow's worst year ever was 1931, when the blue-chip average fell 53%. In the next year, 1932, the Dow fell again, by 23%. It wasn't until 1933 that it recovered, rising 67%. The index's second-worst year was 1907, when it declined 38%. The year after that, it did rebound, by 46%.

In other words, stocks do rebound sharply after a bad fall, but the trick is figuring out when they are done falling. Whether stocks indeed turn up in 2009, as is widely expected, depends in large part on how successful policy makers are in stabilizing the economy and credit markets, and getting banks to lend again.

It is a market truism that investors buy or sell stocks based on what they expect in the future, rather than on what has happened in the immediate past. Because of that, investors typically spend a lot of time trying to predict corporate profits, interest rates, inflation and the like.

But this year isn't likely to be a normal year, and investors aren't worrying about the normal things.

They already know that corporate profits are likely to keep falling amid a recession and the Fed has indicated it will keep its target overnight interest rate near zero. They aren't worried much about inflation; the big worry is price deflation, a more insidious danger because businesses and consumers delay spending as they anticipate still lower prices. That hasn't happened in any serious way since the 1930s.

Investors are trying to anticipate something they usually take for granted: *the ability of the financial system to function normally.*

With the Fed pumping billions of dollars into credit markets, there were initial signs of thawing in things like interbank lending and demand for the highest grade of corporate bonds and other securities. But appetite for riskier debt remained far from what it was one year ago.

Until they see signs that banks are lending again more broadly, and that companies are able to take risks by borrowing and investing stock investors could remain cautious.

BUSH SIGNS RMD, PENSION RELIEF INTO LAW

President George W. Bush signed into law a broad pension relief bill that includes a one-year moratorium on required minimum distribution (RMD) rules.



An Associated Press news report quoted Bush spokesman Tony Fratto as saying that the White House had concerns with the Worker, Retiree and Employer Recovery Act (H.R. 7327), including that it might cause workers to actually lose benefits in the long term. However, Fratto told reporters, officials decided the bill's benefits outweighed its potential drawbacks given "this current economic environment" and Bush included it in a handful of bills approved.

The measure suspends for 2009 the requirement that individuals 70^{1/2} and older must withdraw a minimum amount from their 401(k) plans or IRAs and that those who do not are subject to a 50% penalty on the amount that should have been withdrawn.

A growing chorus of lawmakers and retirement industry trade groups complained that the economic downturn was

putting older Americans in the position of having to sell assets into a down market. That had the potential to seriously diminish the retirement nest egg for many who would have been affected by the long-standing RMD rules.

In addition to the RMD provisions, the bill eases defined benefit plan funding requirements, allowing them more time to meet those requirements. The bill also offers relief to multi-employer plans.

Retirement industry trade groups argued that more companies may have to freeze pension plans, lay off workers, or even go bankrupt without the bill's relief.

Congress approved the bill this month in one of its final acts of the year.

While the bill signed into law offers 2009 RMD relief, the U.S. Treasury Department resisted calls to implement necessary rules to offer similar help for 2009.

By Fred Schneyer • PlanAdvisor, December 23, 2008

IRS ISSUES UPDATES TO EMPLOYEE PLANS COMPLIANCE RESOLUTION SYSTEM

Revisions make correcting plan errors and failures easier for plan sponsors.

Earlier this year, the IRS issued Rev. Proc. 2008-50, which revises and updates its voluntary compliance program, the Employee Plans Compliance Resolution System (EPCRS). Beginning January 1, the updated provisions must be used by any plan sponsor who wants to take advantage of the EPCRS. The updated EPCRS provides for three distinct voluntary correction programs: the Self-Correction Program (SCP), the Voluntary Correction Program (VCP), and the Audit Closing Agreement Program (Audit CAP) and the structure of those programs remains the same. However, it includes a number of revisions and clarifications that make it easier for plan sponsors to utilize the EPCRS. The most notable of these relate to the VCP.

Streamlined Application Procedures

The biggest improvement is the introduction of a streamlined VCP application procedure for certain specific failures. Rev. Proc. 2008-50 mandates the format for these applications on the "Streamlined VCP Submission" (Appendix F) which requires the applicant simply to fill in the blanks, check the appropriate boxes and attach the appropriate schedule. Once approved and signed on behalf of the IRS, the Streamlined VCP Submission also serves as the Compliance Statement for the correction. The Streamlined VCP Submission process is only available for a limited number of specific failures and the proposed correction must be one approved under the EPCRS.

Failures eligible for the Streamlined VCP Submission include:

- Failure to adopt interim amendments, amendments required to reflect the plan sponsor's implementation of optional law changes or amendments to comply with changes in the law or regulations by the applicable deadlines;
- Failure to properly administer plan loans when the failures involve employees who are neither key employees nor self-employed individuals;
- Failure to meet the criteria for sponsoring a 403(b) or a 401(k) plan;
- Failure to distribute elective deferrals in excess of the Section 402(g) dollar limit;
- Failure to make required minimum distributions;
- Failure to comply with the Section 401(a)(17) limit on compensation;
- Hardship distribution failure;
- Loans permitted in operation but not in the plan document;
- Early inclusion of otherwise eligible employees; and
- Certain SIMPLE IRA, SEP and SARSEP plan failures.

The new EPCRS also includes a new fill-in-the-blanks format for regular VCP submissions which eliminates the requirement that the submission include pages from the plan's most recent Form 5500. Instead the applicant needs only to provide the number of plan participants and total plan assets as of the most recent Form 5500 filing.

IRS AND SOCIAL SECURITY ANNUAL LIMITATIONS

Each year the U.S. government adjusts the limits for qualified plans and social security to reflect cost of living adjustments and changes in the law. Many of these limits are based on the "plan year." The elective deferral and catch-up limits are always based on the calendar year. Here are the 2009 limits as well as the three prior years for comparative purposes:

Limit	2009	2008	2007	2006
Maximum compensation limit	\$245,000	\$230,000	\$225,000	\$220,000
Defined contribution plan maximum contribution	\$49,000	\$46,000	\$45,000	\$44,000
Defined benefit plan maximum benefit	\$195,000	\$185,000	\$180,000	\$175,000
401(k), 403(b) and 457 plan maximum elective deferrals	\$16,500	\$15,500	\$15,500	\$15,000
Catch-up contributions*	\$5,500	\$5,000	\$5,000	\$5,000
SIMPLE plan maximum elective deferrals	\$11,500	\$10,500	\$10,500	\$10,000
Catch-up contributions*	\$2,500	\$2,500	\$2,500	\$2,500
IRA maximum contributions	\$5,000	\$5,000	\$4,000	\$4,000
Catch-up contributions*	\$1,000	\$1,000	\$1,000	\$1,000
Highly compensated employee threshold	\$110,000	\$105,000	\$100,000	\$100,000
Key employee (officer) threshold	\$160,000	\$150,000	\$145,000	\$140,000
Social security taxable wage base	\$106,800	\$102,000	\$97,500	\$94,200

*Available to participants who are or will be age 50 or older by the end of the calendar year.

THE REP. INDEX

Registered Rep. Readers Do It By The Numbers

Smart decisions are based on more than government statistics, agency reports, news releases, interest rates and stock quotes. We've selected a few fascinating statistics here that illuminate the markets, the world of financial services and big business.

- Percentage by which the \$750 billion bailout exceeds the cost of the entire New Deal: **33**
- Total paper losses in the portfolios of 175 chief executives from close of the company's most recent fiscal year through October 27, 2008: **\$52.3 billion**
- Amount of paper loss represented by Warren Buffett: **\$15.9 billion**
- Average total return (add dividends, subtract inflation) on S&P 500 since 1916: **6.7 percent**
- Average stock market return per year for the 25-year period ending June 20, 1957, also the best 25-year average on record: **12.7 percent**
- Average return for the subsequent 25 years, the worst on record: **2.2 percent**
- Percent of consumers who always carry, or usually carry, a credit-card balance: **54.6**
- Average U.S. state debt per capita: **\$1,053**
- Average number of new federal crimes that Congress creates each year: **56**
- Average number of hours per week that an American and a Chinese person, respectively, spend shopping: **4, 10**
- Share of U.S. banks that have tightened terms on loans to large and mid-size companies: **84**
- Change in sales rank on Barnes & Noble of *The Great Crash of 1929* by John Kenneth Galbraith for same period: **+20,000**
- Median price of a new home in the U.S. as of September 2008, the lowest since 2004: **\$218,400**
- Value of loose change recovered at U.S. airport security checkpoints since 2005: **\$1,050,371**
- Annual tuition at the Booth School at the University of Chicago, the number one business school, as ranked by *Businessweek*: **\$97,165**

Sources: 1 Franklin D. Roosevelt Presidential Library; 2-3 Steven Hall and Partners; 4-6 Fortune; 7 Bureau of Economic Analysis; 8 Standard and Poors; 9 Harpers; 10 McKinsey & Company; 11 Federal Reserve Bank of St. Louis; 12 Barnes & Noble; 13 Commerce Department; 14 Department of Homeland Security; 15 Businessweek.

Compiled by John Kador • Registered Rep., January 2009



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