Leigh Baldwin & Co.
Investment Brokerage

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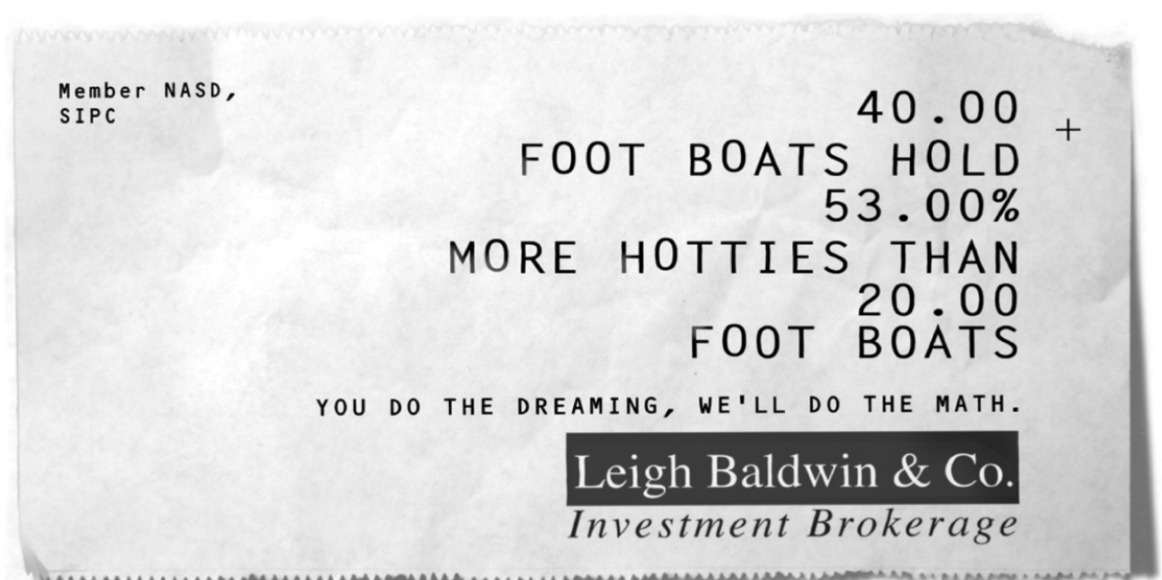
LEARN HOW TO AVOID COSTLY MISTAKES WITH IRA DISTRIBUTIONS



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Leigh Baldwin & Co. Investment Brokerage Newsletter

Third Quarter, 2006

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Tiny Bubbles

Just about forty years ago, in the fall of 1966, a song was released that managed to stay on the top-twenty list for the rest of that year. The song, performed by a former air force pilot from Hawaii, Don Ho, was titled "Tiny Bubbles", and for Mr. Ho, the song became a forty-year career. Don Ho success hinged on a bubble. For investors, our success may hinge on the opposite… avoiding the bubbles. Bubbles, whether they are formed by soap-suds or by chewing gum, all eventually burst. The wealth that deflates with these bubbles can be daunting.

Bubbles are not sustainable because they are not created on any recognizable fundamental strength to support themselves. Mania is another name for bubble. Manias are emotional and ultimately evolve into irrationality. Fortunately for investors, large-scale bubbles are usually a once-in-a-lifetime phenomenon. Classic market bubbles are similar with excesses that led to the crash of 1929 or the technology dot com craze of 1998-2000. Smaller bubbles may be likened to the brief market crash of 1987 or the crash of the nifty-fifty growth stocks during the late sixties into the early 1970's. These events have been historically rare. Based on hindsight they now appear quite obvious for what they were…periods of time when something new and exciting combined with greed to create unsustainable market prices. An optimist would say that we have already lived through our bubble for this generation.

Our biggest concern now, besides the possible current real estate mania, should be the "tiny bubbles" that will consistently hit individual stocks over time. These "tiny bubbles" can draw investors in with the promise of exciting new concepts, world-changing technology or products, and the ultimate prize of huge, oversized gains. Our projections have to be based on economic facts and realities while leaving emotions aside. We have to continue to ask the basic question of any stock, "Do the long-term business plan and fundamentals support the current market cap or stock price"? By following the advice of your advisor's investment discipline, we can avoid the "tiny bubbles" that can deflate your investment returns.

On December 6, 2005, Don Ho had stem cells, derived from his own blood, injected into his heart. He believes that this is responsible for keeping him alive and performing. "Tiny stem cells…"

Stocks to Watch for the Third Quarter 2006.

Under Armour (UARM): UARM is a relatively new entrant into the sports apparel field, having gone public during the fourth quarter of last year. With a stock market capitalization of $1.7 billion dollars, the stock is only cheap if it can maintain its huge sales and market share increases. We believe that it can, especially as they begin to broaden their footwear line and perform well in Europe and around the world.

Dreamworks Animation (DWA): Dreamworks is the product of the high profile combination of Jeffrey Katzenberg, Steven Spielberg, and David Geffen and has produced movies such as "Shrek," "Madagascar," "Shark Tales," and just recently, "Over the Hedge". We believe the release of the third Shrek movie in 2007 and the surprising success of recent releases could move this stock up from its current price of around $22 per share.

Par Technology (PTC): Par Tech is a local company based in New Hartford, New York, that is engaged in the point of sale restaurant management business. With twenty plus years as the vendor of choice for McDonalds, KFC, and Burger King, to name a few, this company could rebound off its current levels, which are about two thirds down from its all-time high.

Mutual Funds for the Third Quarter 2006

Rochester Fund (RMUNX): The leader in New York state tax-free income for almost twenty years, this fund consistently performs as advertised. With the Fed taking a breather from its 17 straight rate hikes, investors can tiptoe back into bond funds at this point.

Washington Mutual (AWSHX): This fund which formed in 1952 is the granddaddy of all of the American Funds portfolios. Although this fund has lagged over the last five years, if you believe that US large cap stocks will be in favor again, this fund presents a nice opportunity. The fund has also increased its dividend for 52 straight years. ■

Financial Planning

How to Avoid Costly Mistakes With Ira Distributions: *Careful planning can increase growth and reduce taxes*

There are certain milestone birthdays we give special importance to such as a first birthday, sweet sixteen, twenty-first or thirtieth birthday. The IRS has also decided that some ages are important for us to recognize. Turning 59½ and 70½ are birthdays that are important dates affecting our IRA accounts.

In general, age 59½ is the first opportunity for people to tap into their IRA's without an IRS penalty for doing so (there are some exceptions to this rule). Age 70½ is the trigger age that people must begin to take money from their IRA's if they have not already done so. IRA balances have grown substantially in recent years due to rollovers from 401(k) plans, pension plans and profit sharing plans. Now more than ever people should do careful planning when it comes to utilizing their IRA accounts in their retirement.

The tax rules governing IRA distributions are complicated and making mistakes can be extremely costly to both you and your heirs. Many important decisions affecting your IRA accounts need to be made around the age of 70½. Before this important birthday your IRA can grow for you tax-deferred. However, by April 1st of the year following the year in which you turn 70½ (your required beginning date) the IRS requires you to start taking money out of your IRA. Then, by December 31st every year thereafter you must continue to take distributions from your IRA.

The amount you are required to take from your account (required minimum distribution) is based upon your life expectancy or the joint life expectancies of you and your beneficiary. Using a joint life expectancy with a younger beneficiary will decrease the amount of your withdrawal leaving a larger amount in your IRA to grow tax-deferred. (However, no matter what the age of your joint beneficiary is, the IRS will not let you use more than a ten-year age difference.) The decision of whom to name as the beneficiary on your IRA is an important one. Again, the age of your beneficiary will help determine the amount of money you must take out of your IRA each year. You can change your beneficiary but, if you are calculating your required minimum distribution based upon a joint life expectancy and your new beneficiary is older than the current beneficiary, your distributions will be adjusted (increased) to reflect a shorter life expectancy. Obviously your beneficiary designation also affects who will inherit your IRA.

Many people chose their spouse as the primary beneficiary of their IRA accounts. Alternatively, if you are single, divorced or if your spouse will be adequately provided for at your death you might name other beneficiaries such as children, grandchildren, friends or relatives. You may also name a charity as beneficiary for one of your IRAs. Leaving IRA assets to charity is an especially smart estate-planning strategy. Charities are tax-exempt and avoid paying the income tax due on the IRA, and your estate receives a charitable deduction for the value of the account.

It is important, no matter what your age, to check the beneficiary designations on your IRA and other retirement accounts. Often divorced people forget to change their beneficiary from their former spouse. Sometimes people have not designated a beneficiary on their IRA. This can affect not only how your minimum required distribution is calculated but also how your IRA assets are paid out (and taxed) to your heirs.

For many people, IRA's have become a significant asset. Careful planning of beneficiaries and distribution options is critical to maximize the tax-deferred growth of these assets and minimize the income and estate taxes. ■

Financial Planning

Tailor Your Employee Benefits To Custom Fit Your Lifestyle

With employment rates at all-time highs you may have recently changed jobs, or be considering a change. A move to a new company is a terrific opportunity to review your financial plan and to make sure you take greatest advantage of the employee benefits that are offered to you. Let's look at Tom's recent job change to illustrate some of the important areas to address during such a transition.

Tom was working for Brookbridge Computers, Inc. in their corporate finance department. He was offered, and accepted, a job at Game Maker Corporation, which will increase his salary from $70,000 to $85,000 with a potential bonus. On the first day with his new company, Tom is asked to decide how many exemptions he wants for his paychecks. Over the past two years he and his wife, Chloe, have received very large Federal income tax refunds. Although it felt great to receive a big check from the IRS, Tom knows this was not smart financial planning. So he decides to increase his tax exemptions, which will give him more money in his pocket during the year.

Next Tom has the opportunity to sign up for various employee benefits. In addition to free life insurance equal to his annual salary, his new company offers the option of purchasing additional life insurance through the company plan. Although the rates are reasonable, with his history of job changes, Tom decides to purchase on his own the term insurance he needs. This way, if he moves to another company, he will not have to worry about being underinsured.

Decisions about long term disability insurance come next. He knows the importance of this type of coverage. Last winter, his friend Fred slipped and fell on the ice hurting his back so badly he was no longer able to work. Fortunately for Fred, he had disability insurance to replace his lost income. Tom not only enrolls for the standard coverage, but also opts to purchase the supplemental disability coverage offered by Game Maker Corporation.

The company also offers a flex-spending plan. This will enable Tom to set aside money from his paychecks, before taxes, to cover both out-of-pocket medical expenses and child-care costs for his son Jonah. Tom is very careful when he estimates the amount for the flex-spending plan; if he does not use all the money he sets aside, he will lose it. Having the ability to pay these costs pre-tax will be a big tax savings for Tom.

Tom must also make a decision about the money that he has in the 401(k) savings plan with his former employer. Basically he has four options. He can (1) leave the funds invested in the Brookbridge plan, or (2) rollover the money from his old plan into the plan at Game Maker Corporation, or (3) rollover the funds to an IRA, or (4) take the money out all together. Tom knows the last option is foolish, as he will not only have to pay taxes on this money, but will also owe a 10% penalty. One of the benefits to moving the money into the Game Maker plan is the ability to borrow money from the plan if he ever needs to. On the other hand, if he moves the money into an IRA he will not be restricted by the investment options in the company plans. Tom feels the old Brookbridge plan has good investment options and decides to leave the money there for now. He will readdress this issue in a few months when he has had more time to do his research.

Tom intends to contribute the maximum to the Brookbridge 401(k) plan. However, because he is not eligible to contribute to the plan for 12 months, he will set up an automatic savings plan on his own to take advantage of his increased earnings. He knows it would be easy to spend this extra income, and wants to make sure the money is going into long-term savings so he is not tempted.

If you are in the process of changing jobs, this is a great time to address your financial plan and to maximize your new situation. Utilize the human resources department at your new company, learn all of your options and get professional assistance if you need it. ■

"Breakfast on Wall Street"

Listen to Leigh Baldwin and Ken Iselmoe each week as they host "Breakfast on Wall Street" each Sunday morning at 8:00 a.m. on WKXZ 93.9 FM or at 10:00 a.m. on WHEN 620 AM. They will take a look at the week on Wall Street in their own inimitable style.

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