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# RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

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## Mutual Funds 101

### What they are and how they make you money

The brain-child of Wall Street, mutual funds are perhaps the easiest and least stressful way to invest in the stock and bond market. In fact, more new money has been introduced into funds during the past few years than ever before.

### What is a mutual fund?

Put simply, a mutual fund is a group of individual people, companies, and other organizations that pool their money together to invest. A fund manager is hired and paid to invest the cash that the investors have raised. Generally, the goal of growth fund managers is to beat the Dow Jones Industrial Average or the S&P 500 in each fiscal year, however very few fund managers have actually achieved this.

### What are the benefits of investing through a mutual fund?

Mutual funds are actively managed by a fund manager who constantly monitors each stock and bond position in the fund's investment portfolio. Because this is his or her only job, they can devote considerably more time to this function and have more resources available to them than most individual investors. Hopefully, this will allow the individual investor the peace of mind that comes with informed investing without the stress of analyzing each investment position themselves. In other words, an individual investor does not have to worry about selecting each stock or bond. In theory, they continue to invest in the mutual fund and let the fund manager choose which companies to buy and which companies to sell.

### How do I know which fund to select?

Most funds have a particular strategy in which they focus on when investing. For instance, some invest only in Blue Chip companies that are more established and are usually relatively low risk investments. On the other hand, others focus on high-risk start up companies that have the potential for double and triple digit growth. Finding a mutual fund that fits your investment criteria and style is critical. For example, if you don't know anything about biotechnology, then you probably should not invest in a biotech fund.

Once your investment criteria has been determined, it is time you look at the fund's investment rankings. Funds are ranked based upon their investment performance as a whole and against their peers by such companies as Morningstar and Standard and Poors (S&P). A general rule of thumb is the higher the ranking, the higher the quality of the mutual fund in which you are investing.

### How do I begin investing in a fund?

In many ways, mutual funds are traded like common stock. If you already have a brokerage account, you can simply purchase them as you would any share of common stock. If, however, you do not have a brokerage account, and would like to purchase shares directly from the fund, you can open an account with an application. Most funds have a minimum initial investment which can range anywhere from \$250 to \$2,500. Once you have an account open with the fund, you can send checks directly to the fund company and they will purchase additional shares for you. Some fund companies will even lower or waive the minimum initial investment if you agree to have monthly debits taken from your checking or savings account to be invested with their funds.

When you are ready to invest in mutual funds, we can play an important role in helping you decide which fund or combination of funds is best for your individual circumstances. We will work with you to determine:

- Your investment goals.
- How much time that you have to invest.
- How much risk that you are willing to take.

Give us a call, we are here to help.

# Choosing the Right IRA

## The following are three main types of Individual Retirement Accounts (IRAs):

- **Traditional Deductible IRA**
- **Roth IRA**
- **Traditional Nondeductible IRA**

These differ primarily according to what type of tax protection they afford.

When you invest in a Traditional Deductible IRA, beginning with the 2002 tax year, you can get an immediate tax break of up to \$3,000 per year for an individual, or \$3,500 if you are over the age of 50, and for a married couple filing jointly, \$6,000 per year, or \$7,000 if both are over age 50, subject to certain restrictions. You then pay taxes when you begin IRA distributions.

When investing in a Roth IRA, you do not enjoy an immediate tax break. However, all of your withdrawals after five years and in retirement are tax-free.

A Nondeductible IRA offers just minimal tax protection. You get no tax break up-front, and you only pay taxes on the gains that you make. The taxes that you are spared are those current taxes on the capital gains and income distributions which the fund makes on an annual basis. You will still pay taxes on these gains when you begin taking IRA distributions. This clearly is not the most appealing option, but if you consider that such distributions easily can eat up one fifth or more of your returns, it is not a meaningless tax break.

While either of the other IRAs are preferable, your income might limit your options, as you will see in the following section.

The following are five questions that you need to ask:

### 1. What is Your Eligibility?

This is the easiest step in narrowing your IRA choices--the Internal Revenue Service does it for you. That is because the IRS sets certain income limits for Traditional Deductible IRA eligibility.

Along with income, your IRA eligibility depends on whether your employer offers a retirement plan and whether you are single, married filing jointly, or married filing separately. In short, it is a bit complicated.

Give us a call and we will help you determine which IRA types for which you are eligible.

### 2. At What Age Do You Plan to Begin Your IRA Distribution?

Traditional IRAs require you to begin making Required Minimum Distributions (RMDs) from the account once you reach 70 1/2 years of age. There are no such RMDs from a Roth IRA. If you think you might want to wait longer to draw on your IRA, a Roth is a better choice.

In certain circumstances, both Traditional and Roth IRAs allow you to withdraw from the accounts before you retire without suffering tax penalties. For example, you can withdraw up to \$10,000 for the purchase of your first home from either kind of account. For details of qualified distributions, check out Publication 590 on the Internal Revenue Service Web site, [www.irs.gov](http://www.irs.gov). (Use "590" as your search keyword.)

### 3. Do You Expect to Be Paying Higher or Lower Taxes in Retirement?

A Traditional Deductible IRA gives you a tax break now, but you will have to pay taxes on withdrawals. A Roth IRA offers no current tax break, but you get tax-free withdrawals when you retire. As a result, your tax status today and in retirement is a deciding factor when choosing an IRA.

### 4. Do You Expect to Add to Your IRA After Retirement?

Not only do you have to begin withdrawing from Traditional Deductible IRAs after age 70 1/2, but you are not allowed to add to your account or set up a new account after age 70 1/2.

If you work beyond age 70 1/2 and want to invest some of your earnings in an IRA, you will have to go with a Roth. One caveat: You cannot begin drawing on the Roth until five years after you set it up.

## 5. Do You Want Your IRA to Be Part of Your Estate?

The Roth IRA is the hands-down choice if you plan to leave a large portion of your IRA to your heirs. Because you decide when to withdraw from a Roth IRA, if at all, your investments can grow tax-protected for the remainder of your life. Even better, your children can take tax-free distributions from the account during their lifetimes. That makes for a pretty good legacy.

### More About IRAs

For more information about Individual Retirement Accounts (IRAs), give us a call. We will be happy to send you information about various IRA options and help you select the one which is right for you.

## Taking IRA Distributions? Cut Your Taxes Now

Some new IRA rules can be used right now to cut this year's tax bill.

Until the IRS changed the rules on January 12, 2001, people over age 70½ were forced to begin taking distributions from their IRAs on an irrevocable schedule.

Now, the withdrawals are still forced, but at a lower rate and the IRS will collect less tax during the IRA owner's lifetime. In most cases, the new rules allow IRA owners to take one-third lower distributions and reduce the taxes on those distributions. In addition, the new rules allow IRA owners to change beneficiaries after they start taking distributions, which were not allowed under the old rules. When the beneficiary inherits the IRA, he or she can spread the IRA payments over his or her lifetime, which were only allowed for spouses under the old rules. The bottom line: IRA accounts will be allowed to grow over longer periods of time, even two generations or more, and the IRS tax bill will be deferred for a longer period of time. These benefits can be used now for people who take advantage of the new rules.

IRA owners with \$100,000 or more in their IRA should call my office for advice on how to take advantage of the lower taxes on IRA distributions. The sooner that you start using the new tables, the sooner that you can start saving taxes. We can show you how.

## Money

Many a great patriot's face can be found on our national currency. Match the great American's name with the denomination:

Woodrow Wilson, Abraham Lincoln, William McKinley, Benjamin Franklin, James Madison, Salmon P. Chase, Grover Cleveland, George Washington, Alexander Hamilton, Ulysses S. Grant, Thomas Jefferson and Andrew Jackson.

### Denominations

\$1, \$2, \$5, \$10, \$20, \$50, \$100, \$500, \$1,000, \$5,000, \$10,000, \$100,000.

|           |                    |
|-----------|--------------------|
| \$1       | George Washington  |
| \$2       | Thomas Jefferson   |
| \$5       | Abraham Lincoln    |
| \$10      | Alexander Hamilton |
| \$20      | Andrew Jackson     |
| \$50      | Ulysses S. Grant   |
| \$100     | Benjamin Franklin  |
| \$500     | William McKinley   |
| \$1,000   | Grover Cleveland   |
| \$5,000   | James Madison      |
| \$10,000  | Salmon P. Chase    |
| \$100,000 | Woodrow Wilson     |

Source: US Treasury

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ON THE FOLLOWING TOPICS  
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**Please send information about these topics mentioned in your newsletter:**

- Please contact me for a *free* Comprehensive Financial Plan.**
- Please send information about the benefits of investing in a Mutual Fund.**
- Please send information about the following IRAs:**
  - Traditional Deductible IRA**
  - Roth IRA**
  - Traditional Nondeductible IRA**
- Please send information about the New Proposed IRS Regulations Regarding Required Minimum Distributions.**
- Please contact me for a review of my Retirement Plan.**
- Please contact me about how the New 2001 Tax Laws will affect my individual investment circumstances.**
- I would like to know more about these topics not covered in your newsletter:**

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- I think this person would like to receive your newsletter and invitation to your next workshop.  
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