



IRA amounts to Charities

At a recent meeting of the Rocky Mountain Estate Planning Council, I heard a presentation on the Pension Protection Act of 2006. Buried in the various arcane and esoteric provisions of this bill is a provision that allows the exclusion of up to \$100,000 of income for contribution of IRA assets to charity for contributions made in 2006 and 2007, provided the donor has reached age 70½ (and other requirements are met). No charitable income tax deduction is allowed for such a contribution.

Under the prior rules, when a donor wanted to give IRA assets to a charity, the donor had to recognize income on the withdrawal of the assets and then could make the contribution, claiming the deduction. But since the deduction is limited to 50% of Adjusted Gross Income, some donors began to pile up charitable contribution carryovers that, if unused, would expire at their death. This provision solves that problem.

The new rule can also benefit those who are subject to the 2% rule for miscellaneous itemized deductions, those who live in states where charitable deductions are not allowable, those who do not itemize, and those whose major assets reside in their IRA.

Charity vs Philanthropy

At the same meeting, we listened to Douglas Mellinger, the founder of Foundation Source, an organization that provides outsourced support services for private foundations; primarily those which function as supporting (grantmaking) organizations rather than operating (doing the work) organizations. Mellinger talked about several trends in the area of charitable giving and philanthropy. These trends include:

- Donors are starting their gifting younger and are more engaged. Traditionally, charitable giving began when the donor passed on. Now many people with philanthropic intentions give money while they are younger; establish a personal “mission” with respect to their giving; are more hands on, technology savvy, and finally more demanding of accountability and results based on their giving.
- Charity vs Philanthropy. Mellinger drew the following contrast:

- Charity is often devoid of mission, often year end weighted, and based on the “spray and pray” principle of planting many seeds and hoping something sprouts.
- Philanthropy is strategically focused, mission driven, frequently based on family engagement and seeking to make a difference (looking for a “social return on investment”).
- Other trends Mellinger identified were:
 - Collaborative giving and knowledge sharing such as Giving Circles, Association of Small Foundations, etc.
 - Technology for private foundations (he demonstrated the Foundation Source website and its features), and,
 - The development of internal mission related to philanthropy. That is, using the practice of philanthropy as an educational life experience and family building tool.

Mellinger is a dynamic spokesman for philanthropy with a mission. He aims to revolutionize the world of charitable giving (philanthropy) by making the operation of private foundations economical for a much broader range of folks.

Mutual Fund Articles

I enjoy receiving clippings and emails of articles on popular financial issues from clients and other well-wishers. Sometimes the articles contain valuable bits of wisdom, and sometimes the articles illustrate how hard the author is scraping to find something to write. Recently, a favorite client emailed an article to me written by Thomas Kostigen on Market Watch in a column called Sophisticated Investor. The column states that while index funds perform best in up markets, actively managed funds perform best in down markets. We know this to be true based on our own experience in the 2000 – 2003 bear market.

The article goes on to declare that the reason for this anomaly is that managers can pick stocks better in down markets than they can in up markets. I think this is silly. It seems more likely to me that the primary reason for the differential in performance is the fact that passively managed funds hold little or no cash, while actively managed funds tend to hold some cash. The cash in the actively managed funds acts as a drag (in addition to the drag of higher expense ratios,

trading costs from turnover, etc.) in up markets and acts as a cushion in down markets. I really don't think there is much more to it. It doesn't make sense to me to believe that active managers who are unable to outperform when markets are going up are suddenly vested with prescience when markets turn bearish.

The column wraps up with the following bit of investment advice:

If investors want to get the best return on their money, [there is] a simple solution: buy actively managed funds in a bear market and index funds in a bull market.

Then the kicker:

You just have to know when you're in one or another.

All I can say is that if I knew in advance whether the markets were going to be going up or down I would

come up with a strategy more compelling than switching between actively managed and index funds.

Staff Changes

Barbara Porter, the "hub" of the office, has announced that she will be leaving us soon. Barbara and her husband Stephen will be moving to Texas where he can pursue academic and musical interests, and where Barbara can be near her elderly parents. Barbara has been with the firm for six years and has made many meaningful and substantive contributions to our success. We wish her the best.

Market Review

Returns were positive for nearly every asset class during the most recent quarter, with domestic small cap stocks posting the only negative returns for the quarter. The table below shows the returns through September 30, 2006 for selected basic investment asset classes. In most cases, the results below are appropriate benchmarks for the related mutual funds in your investment portfolio.

Asset Class Performance

Asset Class	Index or Proxy ¹	Last 3 Months	Last 12 Months	Peer Group Mstar Category or Average ²	Last 3 Months	Last 12 Months
Ultrashort Bonds – Corp.	Citigroup 6-Month T-Bill	1.25	4.42	Cat: Ultrashort Bond	1.47	4.08
Short Term Bonds - Municipal	LB 3-Yr Municipal	1.94	2.71	Cat: Muni Short	1.52	2.71
Short Term Bonds – Gov't.	Citigroup 1-5 Yr Treasury	2.33	3.54	Cat: Short Government	2.25	3.12
Short Term Bonds – Corp.	Citigroup 1-3 Yr Corporate	2.26	4.37	Cat: Short-Term Bond	2.03	3.40
Interm. Term Bonds – Colo Muni.	Thomson CO Municipal MF	3.02	3.80	Cat: Muni Single State Interm	3.03	3.51
Intermediate Term Muni. Bonds	LB 7-Yr Municipal	3.22	3.81	Cat: Muni National Interm	2.96	3.44
Intermediate Term Bonds – Gov't	LB U. S. IT Govt	2.92	3.53	Cat: Interm. Government	3.29	2.87
Intermediate Term Bonds – Corp.	LB IT Gvt/Credit	3.19	3.54	Cat: Interm-Term Bond	3.52	3.21
	Citigroup 3-7 Yr Corp	3.70	3.93			
Global Bonds	Citigroup World Govt Bond	1.44	2.23	Cat: World Bond	1.60	2.26
Domestic Large Cap Core	S&P 500 TR	5.67	10.78	Cat: Large Blend	4.34	9.15
Domestic Large Cap Growth	S&P 500/Citigroup Growth	6.07	6.40	Cat: Large Growth	2.55	4.59
Domestic Large Cap Value	S&P 500/Citigroup Value	5.27	15.44	Cat: Large Value	5.15	11.92
Domestic Small Cap Core	S&P 600 TR	-0.88	7.16	Cat: Small Blend	-0.76	7.62
	Russell 2000	0.44	9.89			
Domestic Small Cap Growth	S&P 600/Citigroup Growth	-2.45	2.73	Cat: Small Growth	-2.43	4.19
Domestic Small Cap Value	S&P 600/Citigroup Value	0.59	11.68	Cat: Small Value	0.22	8.04
Real Estate Investment Trusts	FTSE NAREIT-Equity	9.26	25.28	Cat: Specialty Real Estate	8.34	25.10
Int'l Large Cap Core	MSCI EAFE	3.99	19.65	Cat: Foreign Large Blend	3.75	18.12
	MSCI World ex U.S.	3.79	19.14			
Int'l Large Cap Value	MSCI EAFE Value	5.61	22.26	Cat: Foreign Large Value	4.14	18.52
Int'l Small Cap Core	MSCI EAFE Small Cap	0.46	15.50	Avg: Foreign Small Core	-0.45	14.88
Int'l Small Cap Value	DFA Int'l Small Cap Value	3.15	19.77	Avg: Foreign Small Value	2.48	18.24
Emerging Markets	MSCI Emerging Markets	5.01	20.83	Cat: Divers. Emerging Mkts	5.32	20.35

¹ In some cases, where published indices are not readily available, the performance of an appropriate passively managed mutual fund is used as a proxy.

² In cases where Morningstar does not provide meaningful category data, we extract averages from the fund database to use for performance tracking and comparison.
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