



In brief:

As I write this newsletter, we are in the fourth quarter in what continues to be a most eventful year for the markets and the economy. It's also one year since the events that shook the foundations of Wall Street and of the global financial system – Lehman Brothers collapsed, Merrill Lynch vanished as an independent entity and several of the largest financial institutions were taken over by the U.S. government. Back in March, it seemed like the market, and investors, were overwhelmed with pessimism, there was no sign of hope.

Yet, here we are today with nine months of strong recovery in the markets and budding optimism that the economy and growth will return. What a ride. I wanted to share some thoughts from this trip;

1. We were reminded that after years of steady returns, oh yeah, stocks can be volatile.
2. And of the importance of true diversification – and tactical adjustments needed to keep it truly effective.
3. Finally, we're reminded that in today's world, we need to expect the unexpected – and be prepared!

What gets investors in trouble is an excess of either optimism or pessimism. Keeping somewhere between those two extremes can be critical to maintaining your financial health.

That's where our difference can help. **Our unique, disciplined process keeps us focused on what is actually happening today** – to help make sense of the volatility, guide us when to make tactical adjustments and most important, to keep us vigilant and prepared for the unexpected.

Some caution in the current markets makes sense....provided that prudent caution doesn't cross the line into panicked inertia or hasty decisions. There are still dark clouds to keep a watch on, yet the weight of evidence for the markets remains positive. Should that change, we're watching and ready.

Source: Dorsey Wright Updates, October, 2009, HS Dent Newsletter, October, 2009

"The highest reward for a person's toil is not what they get for it, but what they become by it"

John Ruskin

Federal Tax Issues:

Tax Reform? The main focus of the Obama tax reform seems to be on tax increases for those making more than \$250,000 (joint) or \$200,000 (single filer). For these taxpayers, Obama would reinstate the pre-2001 income tax rates of 39.6% and 36%. Also, capital gains and dividend rates for these higher earners would be raised from 15% to 20%. Some additional items look to make permanent the 2009 estate tax exemption of \$3.5 million as well as making indexing of the AMT tax permanent, fixing the "patch" problem. But remember, it's Washington and it remains to be seen what will finally emerge.

Source: FPA Capital Update - Oct, 2009

I'm still a kid at heart, and I have to admit that on Christmas Eve I find it very difficult to go to sleep in anticipation of the fun and joy of Christmas morning. Here's something to while away the wee hours of the morning while you wait for the Jolly Old Elf to make his annual appearance. As usual with word-search puzzles, the answers may go up, down, left, right, or diagonally (either way). This one's a bit harder than some because the words and phrases aren't listed, just clues to them! If you get stuck – look for the answers on the last page or give us a call! **HAPPY HOLIDAYS!!**

N S L O R A C B K J J O K N U D N V J L A R R N N
 N F W Z B L C E L Y N S L E I G H B E L L S E Z S
 E Y I Z Q X I A J I R M J Y C O W R E A T H S E I
 H I S I H W J A R E T I I A N X V O U M X C K P L
 R C D L E O E E S E M Z A L T D F H P U W K Y L E
 Y D O U W S I V S S E L E F K C H I M N E Y P A N
 Z F T G S N A J N L A R Y N M A F G T J Q Z Q O T
 C X Q A D Z D N U K K W T U S U N A F H P Y L C N
 A F S E M Y E Z T Q D N P S L A L D T V M C F F I
 N E E G S T N E M A N R O D A E M P C Y N A O O G
 D R Q B N U N B E V C F G J R M L T R O I G R P H
 Y Z D T L I Z I B Z X L H Y D A T O S A O W M M T
 C S A H X W K V Z F V Z A U J X C S G I G K O U P
 A E D F F U D C F U K O K U N A J D I J R U I L S
 N V I V B U J Z O V D F S C S K D U Y R X H S E N
 E L F D P F R A U T T M P A D S Z S K E H Q C Q S
 F E X D T V E T I U S R E K C A R C T U N C Y R K

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| 1. Traditional Christmas time ballet | 11. Eight little _____ |
| 2. "Oh Tannenbaum" | 12. They get hung by the chimney |
| 3. Snack left for Santa | 13. A warm, sweet beverage, associated with Old England |
| 4. The Jolly Old Elf | 14. We sing them at this time of year |
| 5. They jingle all the way | 15. What naughty children may get |
| 6. Traditional German Christmas carol | 16. Santa comes down it |
| 7. Dance of the _____ | 17. The only reindeer whose name starts with "B" |
| 8. These go on the tree | 18. Traditional log for the Christmas fire |
| 9. T'was the night before _____ | 19. We hang them on our doors |
| 10. Candy shaped like a shepherd's staff | 20. They work with Santa |

Retirement Talk:

Now you can "save" your vacation - - literally!

To encourage more savings, the Dept. of Labor recently approved the option to **put any unused vacation or sick-leave days into your 401(k) or profit-sharing plan.** The new rules apply to "cash-outs" of unused vacation, sick leave or personal days that occur either annually or when an employee leaves a job. If the employer pays for such leave either in whole or in part, the worker could contribute the entire payment to their retirement account (unless they have already maxed out the annual contribution limit).

The rules are new and many companies may have to amend their benefit plans to allow it, but what a great option. Will the payments for unused leave get an employer match? That is still unclear and will likely depend on how a companies plan is written.

IRA Update: These aren't all IRA related but don't forget these 2009 tax breaks!

The IRA charitable rollover. This allows for a tax-free direct transfer (up to \$100,000) from your IRA to a charitable organization. You must be 70 ½ or older. This is scheduled to go away in 2010.

The new car sales tax deduction. You may be able to deduct state and local sales taxes if you bought a car, motorhome, motorbike or light truck. You can itemize the deduction or just add it to the amount of your standard deduction.

A major tuition break. For 2009, you can claim an above-the-line deduction for “qualified tuition and related expenses” relating to enrollment of you, your spouse or related dependent at an eligible college or university. This is subject to income phase-outs and a deduction limit of \$4,000.

The classroom credit. If you were an educator and worked more than 900 hours in 2009, you can claim an above-the-line deduction for up to \$250 for personal expenses for school books supplies. You don't need to itemize to use this!

Extra deduction for state and local property taxes. This is a big one if you usually claim the standard federal deduction and don't itemize. This year you can take an additional deduction for state and local property taxes. The cap is \$500 if single filer, \$1,000 if you are filing jointly.



The exemption from required IRA distributions. The federal mandated Required Minimum Distribution (RMD) for IRA owners age 70 ½ or older was suspended for 2009, but will be reinstated for 2010.

Be sure to check with your tax person to make sure these tax breaks are applicable to your specific situation. *Source: Ed Slott IRA Newsletter, November, 2009*

Technical Corner:

What makes us different? Fortunately, we are not at the mercy of the financial news media. The goal of those outlets is to get more eyeballs to watch or listen, not to manage a portfolio.

Recent market shocks have shown clearly that past experience is a weak indicator of future results. So, **the typical static diversification, based on historical measures of risk can completely underestimate the impact of the unexpected event and cause investors to load up on risky assets rather than reduce them.** Perhaps you know a neighbor that suffered that.

What makes us different is that we have a disciplined process to measure what is happening in the markets on a daily basis. That process guides us to when the odds are stacked in our favor and to be more offensive and when those odds are no longer in our favor and suggest being defensive in each asset class as well as the overall market as a whole.

That is why you see the activity in our CAG managed accounts. We regularly adjust based on the ever changing conditions and shift the mix of assets to keep focused on the stronger asset classes while taking the least risk possible.

Based on current Relative Strength, the general prevailing themes include;

Growth stocks	over	Value Stocks
Small / Mid	over	Large
International	over	U.S. Stocks

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Sectors exhibiting Relative Strength:

Technology
Financials
Basic Materials
Commodities
Consumer Cyclical
Emerging Markets

In the news:

A National Champion! Most of you are all familiar with John’s love of surfing. However, you may not be aware of Steve’s passion for sailboat racing. Steve has been actively racing in sailboats for several decades and his experience covers everything from small 2-person dinghy's to large ocean racing boats. Recently, Steve has been active in a class of older design called Shield’s and traveled up to Chicago for a third try, over the past five years, at the class National Championship. Well, the third time was the charm and after 3 days of intense racing the crew of five on the boat edged out a former US Olympic team member to successfully grab first place!



Save the date! Coming in January we kick off the new year with our **wine tasting and art show** event! Less discussion – more fun! Learn about and taste some great wines and enjoy some fantastic paintings by several local artists! More details to come but save the date and RSVP now.

When: **Friday, January 22nd**
What time: 6:30pm (appetizers will be served)

Please RSVP with Korili as space will be limited.

No RMD’s for 2009. Last December, congress gave a one year suspension for RMD’s from IRA’s. We will NOT be doing our usual year end processing. We have spoken with all of you on this throughout the year. However, if for some reason you need or want your 2009 RMD amount anyway please call before December 22nd so we may get it processed for you.

The views expressed are not necessarily the opinion of FSC Securities Corp., and should not be construed directly or indirectly as an offer to buy or sell any securities mentioned herein

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Word search answers

- 1. Nutcracker
- 2. Christmas Tree
- 3. Milk and Cookies
- 4. Santa Claus
- 5. Sleigh Bells
- 6. Silent Night
- 7. Sugar Plum Fairy
- 8. Ornaments
- 9. Christmas
- 10. Candy Cane
- 11. Reindeer
- 12. Stockings
- 13. Wassail
- 14. Carols
- 15. Lump of Coal
- 16. Chimney
- 17. Blitzen
- 18. Yule Log
- 19. Wreaths
- 20. Elves