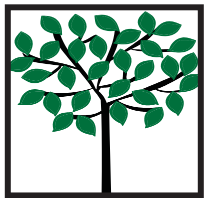
FINANCIAL PLANNING QUARTERLY

Volume 2, Issue 2

a publication of Greenspring Wealth Management, Inc.



GREENSPRING WEALTH MANAGEMENT

New Name, Same Mission

Greenspring Wealth Management

As you can see from the format of our newsletter, we have undergone a major facelift in the first quarter of 2006. Most notably, the firm officially changed its name to Greenspring Wealth Management, Inc. and launched a new website.

During this re-branding process, we had an opportunity to step back and reflect on who we are and why our firm is in existence. What we found is the name changed, but our mission did not:

"To serve others and have an impact in their lives."

This statement of purpose helps drive everything we do; from both major and minor decisions. We believe that there are four groups that we are attempting to positively impact: our clients, our employees, the financial planning profession and the local community. This purpose statement also allows us to stay focused on what is really important and to help us evaluate potential opportunities.

Someone once told me, "When all is said and done, much more is said than is actually done." Our goal is to develop a company that contradicts that statement and carries out its mission.

Please visit our new website:
www.greenspringwealth.com

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Special Points of Interest

- Newsletter published quarterly by Greenspring Wealth Management, Inc.
- Educational newsletter designed to help its readers make better financial decisions
- Articles will cover a broad range of financial topics

Is there an issue or topic you would like to see addressed in "Financial Planning Quarterly"?

Email us your ideas and opinions at:
info@greenspringwealth.com

Why Do Stocks Go Up In Value?

by J. Patrick Collins, Jr., CFP, EA

Over the last two hundred years, participating in the equity markets have been one of the best investments one could make. Just look at the statistics that represent the real return (return after inflation) of the US equity market :

Long Term
1802-2003 . . . .6.8%

Sub-periods
1802-1870 . . . .7.0%
1871-1925 . . . .6.6%
1926-2003 . . . .6.8%

What can we conclude from these numbers? The equity market, as a whole, follows a very predictable pattern, when viewed over a long period of time. Compare this perspective to what many media and financial experts would have you believe. How many times have you turned on the television only to hear news of the stock market "plummeting" or "exploding?" While this may be true from day to day, it is very evident that the market returns a very specific margin over inflation, when viewing longer periods.

So why have stocks continued to go up in value for the past two hundred years? The answer is very simple: with capitalism, there is a positive return on investment. Capital markets create wealth, by taking things like natural resources, financial assets, and intellectual capital and producing something greater than the sum of its parts. For example, it may cost a company $1 to produce a widget which they can turn around and sell for $2. That company has produced a profit of $1 for its owner(s). Investors willing to buy that company's stock will set a price that is in direct relation to both how much profit they will earn and the amount of risk associated with earning that profit. For example, let's assume I offered you the following two opportunities:

1. Invest $1,000 in Investment A. Investment A is expected to return $200 a year for its investors, with a 5% chance of losing all of your investment.

2. Invest $1,000 in Investment B. Investment B is expected to return $200 a year for its investors, with a 40% chance of losing all of your investment.

It should be obvious to everyone that Investment A is the better choice because of the lower chance of losing your money. So how could Investment B attract investors? By promising a higher expected return on investment. This simple concept is why riskier investments generally have higher expected returns and the basics on how the capital markets work. This is the precise reason why stocks have outperformed bonds over long periods of time: there is a higher degree of risk for equity investments, therefore equities must offer higher potential returns in order to attract investors. This process of rewarding investors is not arbitrary; it is extremely systematic, evidenced by the real returns (return after inflation) of equities over various time periods shown above.

Because capitalism and free markets create a positive return on investment, the best way to participate is to make sure a portion of your investment resources is allocated to the foundation of capital markets: equity ownership.

Stocks for the Long Run and Future of Investing, written by Jeremy J. Siegel

Understanding Required Minimum Distributions

by Joshua P. Itzoe

Required Minimum Distributions (RMDs) can be a source of considerable confusion for many retirement plan owners. When must they begin? How much to withdraw? When to take them each year? And where did all these acronyms come from?

Contributions to a retirement plan (whether a 401k, 403b, IRA, etc.) are typically made with pre-tax dollars. Long term tax-deferred growth is one of the primary benefits of these types of accounts. However, the IRS does not allow perpetual tax-deferral- at some point they want their money. Thus, the basic purpose of a RMD is to enable the IRS to collect taxes on previously untaxed money, generally once an individual reaches the age of 70 ½.

Normally, a RMD for any year must be taken by December 31 of that year. However, the IRS allows a one-time deferral of the first RMD if necessary. An account owner may wait until April 1 of the year following the year they turn 70 ½. This is referred to as the required beginning date (RBD). For simplicity sake, just remember the RBD is a one-time event and marks the time when yearly RMDs must begin. If you miss a required distribution, the IRS assesses a penalty of 50% of the amount you should have withdrawn.

To illustrate, assume a person turns 70 in January of 2006 and would therefore turn 70 ½ in July of 2006. Their first RMD is for the taxable year 2006 and must be withdrawn by April 1, 2007 at the latest (this is the RBD). The account owner could choose to take their first RMD by December 31, 2006 or they could wait to take it by April 1, 2007. Generally, it is best to take your first distribution in the year that it is due rather than waiting until the RBD. Waiting would require the owner to take two RMDs in one year and potentially cause adverse tax consequences. All subsequent RMDs must always be taken by December 31 of the year in question.

In order to calculate an RMD you need two pieces of information. First, you need to determine your life expectancy (or applicable divisor) by using the tables published by IRS in Publication 590. Second, you need to know the account balance from December 31 of the year prior to distribution. For instance, if your RMD is for the year 2006, you need to know the account balance on December 31, 2005. When you have this information, simply divide the account balance by your applicable divisor to determine the amount of the RMD.

There are two exceptions to the normal RBD. The first is if you are still working after age 70 ½ and the second is if you are a teacher and have contributions within your 403b that were made prior to 1987.

In the first situation, if you don't own more than 5% of the company, you can delay your RMD to April 1of the year following the year you retire. This is sometimes called the "still working" exception to your RBD, but it only applies to required distributions from employer plans. It does NOT apply to IRAs or any other employer plans if you are not currently working for that company. In the second, situation, distributions from the pre-1987 money (aka "Old Money") can be delayed until age 75. However, distributions must be taken on any money contributed after 1986 (aka "New Money") once you reach age 70 ½.

Knowing how to effectively take money out of your retirement plan is just as important as accumulating money inside it. While a starting point, it is important to note that this article is not meant to provide all the information necessary to calculate RMDs. Always consult you financial or tax professional to determine the most appropriate course of action for your individual situation.

The information in this newsletter is based on data gathered from what we believe are reliable sources. It is not guaranteed as to accuracy, and does not purport to be complete and is not intended as the primary basis for financial planning or investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor.

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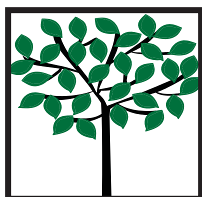

GREENSPRING
WEALTH MANAGEMENT

The Oxford Building
8600 LaSalle Road
Suite 618
Towson, MD 21286

Phone: 443-564-4600
Fax: 866-591-9306

E-mail:
info@greenspringwealth.com

Web:
www.greenspringwealth.com

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www.greenspringwealth.com