Bonnett Wealth Management
Wealth Management Personally Delivered

Weekly Market Notes

For the Week of November 1, 2010

THE MARKETS

Wall Street held its breath last week, keeping trading volumes low in anticipation of a Federal Reserve meeting and mid-term elections this week. The Fed is expected to inject more cash into the economy and Republicans have a chance to take over the House of Representatives in the coming election, according to Reuters. Last week, the Commerce Department reported that the U.S. economy grew at a 2 percent annualized rate in the third quarter, a faster pace than the 1.7 percent in the second quarter. For the month of October, the Dow increased by 3.1 percent – its best October since 2006 – while the S&P grew 3.7 percent and the NASDAQ gained 5.9 percent. For the week, the Dow lost 0.13 percent to close at 11,118.49. The S&P rose 0.04 percent to finish at 1,183.26, and the NASDAQ increased 1.13 percent to end the week at 2,507.41.

Returns Through 10/28/10	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials	-0.13	8.96	17.62	-4.50	4.01
NASDAQ Composite	1.13	10.50	22.61	-4.28	3.41
S&P 500	0.04	7.84	16.52	-6.49	1.73
BarCap US Agg Bond (TR)	-0.03	8.33	8.01	7.23	6.45
MSCI EAFE	-0.43	4.72	8.36	-9.60	3.31

Source: Morningstar.com. *Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The S&P, excluding "1 Week" returns, is a reflection of return to an investor, by reinvesting dividends after the deduction of withholding tax.

Impact of Inflation on Fixed Income – In 1980, an adjusted gross income level of $35,070 would rank a taxpayer in the top 10 percent of all U.S. wage earners. In 2008, an adjusted gross income level of $33,048 would rank a taxpayer only in the top 50 percent of all U.S. wage earners (source: Internal Revenue Service, BTN Research).

Old and Gray – Ten percent of the U.S. population was age 65 or older in 1970, but that group represents 13 percent of our nation today. By 2025, an estimated 18 percent of our population will be age 65 or older (source: United Nations, BTN Research).

Shopping – Retail sales were up $25 billion in September 2010 vs. September 2009 (i.e., $368 billion vs. $343 billion). Ten billion dollars of the $25 billion increase were motor vehicle sales (source: Commerce Department, BTN Research).

WEEKLY FOCUS – How to Receive an Inheritance

A 2007 survey by Putnam Investments found that most people who inherit money or property had no previous indication they would receive anything from a relative or friend's estate, and less than 20 percent knew what to do with it when they did receive it.

The World War II generation, parents of the baby boomers, saw saving as a way of life, and many accumulated assets that lasted beyond their lifetime. Estate planning has become a bigger issue as that generation attempts to transfer that accumulated wealth to their heirs as tax efficiently as possible with the goal of making life easier for their children and grandchildren.

With more people bequeathing wealth, more people are receiving it – often without the benefit of the education and planning that helped build and distribute it. They fall squarely in what Ann Perry, author of *The Wise Inheritor: A Guide to Managing, Investing and Enjoying Your Inheritance*, calls the triple taboo of money, death and close family relationships. Parents, especially those with more than one child, may feel uncomfortable discussing who gets what for fear of causing rifts. Children feel guilty asking questions about what they will inherit for fear of looking greedy.

That leaves heirs ill-prepared to receive their inheritance. Some respond with a spending spree, while others become paralyzed by fear they will make a mistake and disappoint or dishonor the parent who worked so hard to leave them a cushion. Even if the heir manages to find a middle ground, an unexpected inheritance can push him/her into a higher tax bracket or trigger the alternative minimum tax.

Communication may be key, but that doesn't make it easier for parents and children to talk about how wealth will be transferred at the parent's death. An intergenerational estate plan that looks at the parent's need to mitigate taxes and distribute wealth *and* at the impact that wealth will have on the recipient can help families work through the taboo issues. Whether you are the parent or the child, we can help initiate those conversations that will help ensure that both generations are ready for the inevitable.

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* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment-grade, fixed-rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and 10 years. Written by Securities America.