

From the President's Desk

Book this date now!

Sunday June 5, 2011



Our popular **ANNUAL CLIENT EVENT** at Williamsburg National Golf Course will be held on Sunday June 5, 2011. **The BBQ, 5:00 to 7:00 p.m.**, will be catered by Golf Club staff in a covered Pavilion that is well-weatherproofed in the event of rain. For those of you who are enticed by chasing a small white ball, there will be **9 holes of golf @ \$10.00 per player + free Golf Cart, Range Balls and Putting. T-Time: 2:30 p.m.**

As so many of our clients, old and new have found, this regular Spring Client Event is a great opportunity to get together, meet new people, make more friends and relax over an enjoyable meal. As the Golf Club is catering we need to know 48 hours in advance if you will be attending.

**RSVP to Trish 757.564.3333 by
Thursday June 2, 5:00 p.m. at the latest.
We look forward to seeing you there!**

TEACHING COURSES ON RETIREMENT PLANNING

This year we are continuing teaching courses on Retirement Planning at Thomas Nelson Community College (TNCC) in Hampton. In addition, for the first time we are teaching the same course at Tidewater Community College (TCC) on the Southside. In both instances these are offered as part of the College Workforce Development Program. The courses give us an excellent opportunity to meet with a number of people who have had their retirement portfolios badly damaged by the economic recession that hit the US economy late in 2008. Since the beginning of 2011 we have taught Retirement Planning courses at two of Tidewater Community College's four campuses, Suffolk and Virginia Beach, in addition to our well established TNCC Hampton venue. The courses taught provide six hours of intensive teaching, offered twice on each campus over a two week period.

How Long Will It Take to Double My Money?

Before making any investment decision, one of the key elements you face is working out the real rate of return on your investment.

Compound interest is critical to investment growth. Whether your financial portfolio consists solely of a deposit account at your local bank or a series of highly leveraged investments, your rate of return is dramatically



With simple interest, interest is paid just on the principal. With compound interest, the return that you receive on your initial investment is automatically reinvested. In other words, you receive interest on the interest.

But just how quickly does your money grow? The easiest way to work that out is by using what's known as the "Rule of 72."¹ Quite simply, the "Rule of 72" enables you to determine how long it will take for the money you've invested on a compound interest basis to double. You divide 72 by the interest rate to get the answer.

For example, if you invest \$10,000 at 10 percent compound interest, then the "Rule of 72" states that in 7.2 years you will have \$20,000. You divide 72 by 10 percent to get the time it takes for your money to double. The "Rule of 72" is a rule of thumb that gives approximate results. It is most accurate for hypothetical rates between 5 and 20 percent.

While compound interest is a great ally to an investor, inflation is one of the greatest enemies. The "Rule of 72" can also highlight the damage

How Long Will It Take to Double My Money? cont.

Let's say you decide not to invest your \$10,000 but hide it under your mattress instead. Assuming an inflation rate of 4.5 percent, in 16 years your \$10,000 will have lost half of its value. The real rate of return is the key to how quickly the value of your investment will grow. If you are receiving 10 percent interest on an investment but inflation is running at 4 percent, then your real rate of return is 6 percent. In such a scenario, it will take your money 12 years to double in value. The "Rule of 72" is a quick and easy way to determine the value of compound interest over time. By taking the real rate of return into consideration (nominal interest less inflation), you can see how soon a particular investment will double the value of your money. The Rule of 72 is a mathematical concept, and the hypothetical return illustrated is not representative of a specific investment. Also note that the principal and yield of securities will fluctuate with changes in market conditions so that the shares, when sold, may be worth more or less than their original cost. The Rule of 72 does not include adjustments for income or taxation. It assumes that interest is compounded annually. Actual results will vary.

This material was written and prepared by Emerald.

What is the Capital Gains Tax?

Capital gains are the profits realized from the sale of capital assets, such as stocks, bonds, and property. The capital gains tax is triggered only when an asset is sold, not while the asset is held by an investor. However, mutual fund investors could be charged capital gains on investments in the fund that are sold by the fund during the year.

There are two types of capital gains: long term and short term; each has different tax rates. **Long-term gains** are profits on assets held longer than 12 months before they are sold. As a result of the 2003 tax law, the long-term capital gains tax was reduced from 20% to 15% (0% for individuals in the 10% and 15% tax brackets) through 2010; the 2010 Tax Relief Act extends the reduced tax rate through 2012. **Short-term gains** (on assets held for 12 months or less), on the other hand, are taxed as



The taxable amount of each gain is determined by a "cost basis"—

in other words, the original purchase price adjusted for additional improvements or investments, taxes paid on dividends, certain fees, and any depreciation of the assets. In addition, any capital losses incurred in the current tax year or previous years can be used to offset taxes on current-year capital gains. Losses of up to \$3,000 a year may be claimed as a tax deduction.

If you have been purchasing shares in a mutual fund over several years and want to sell some holdings, instruct your financial professional to sell shares that you purchased for the highest amount of money, because this will reduce your capital gains. Also, be sure to specify which shares you are selling so that you can take advantage of the lower rate on long-term gains. The IRS may assume that you are selling shares you have held for a shorter time and tax you using short-term rates.

Capital gains distributions for the prior year are reported to you by January 31, and any taxes that must be paid on gains are due on the date of your tax return. The reduced rates on long-term capital gains taxes may not be around much longer if Congress doesn't extend the 15% reduced rate beyond 2012, so it may be wise to take advantage of the lower rates before they are scheduled to expire.

The information in this article is not intended to be tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor.

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