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BATES Briefings

Winter 2007

from George's Desk

In this issue of Bates Briefings there are so many subjects to write about that I hardly know where to begin.

The volatility of the stock market brought on by a number of issues this year has caused concern among investors. Oil prices, subprime mortgages, declining value of the dollar, raising and lowering of interest rates by the Federal Reserve, plus continued positive indicators in the economy such as a low inflation rate, a low unemployment rate, increasing productivity of American workers, and a continued healthy rate of growth of the economy have caused most of this volatility. Obviously, I cannot predict the future with any certainty, but I think the economy will continue to perform reasonably through most of 2008. A recent speech by a Federal Reserve Governor suggested that the Feds expect a slowdown in the fourth quarter and then resumption of reasonable growth in 2008.

Another very important subject is the increasing number of people retiring and having to make the most important financial decisions of their lives. I cannot emphasize enough the need for most people to seek professional advice before they retire, regarding their company retirement plan and their retirement income. I recently attended a two-day conference sponsored by Ed Slott & Company regarding IRAs and estate planning. Mr. Slott is one of the leading authorities on the subject of IRAs and it was an extraordinary learning experience. You will hear and read much more from me about this subject in the near future.

Though I have tried to be very objective in the past on the subject of politics it seems to me that in the 2008 election the country is faced with dramatically conflicting views on the future of government in our lives.

It seems to me (I certainly welcome comments from all of you) that the Iraq war has overshadowed a number of very important issues facing our country in the future. I am in no way attempting to diminish the subject of the war. It has and continues to be a heart-wrenching experience for the families whose family members have had to go to war. Many of you have shared your angst with me about a child, a grandchild, a spouse or other family member that has served, is serving or will be serving in Iraq or Afghanistan and my heart goes out to you.

Unfortunately, terrorism and the threat to the security of our lifestyle and freedoms have become subjects we have to face whether we like it or not. Thus, it behooves all of us to pray that our national leaders be given wisdom on how best to deal with these alarming threats.

Other subjects however, such as Social Security, Medicare, the education of our children, and the moral fiber of our country are huge issues that we are facing, and I believe this next election will have a huge impact on our future.

One example is national healthcare. As desirable as it is that everyone be

(continued on page 3)

BENEFICIARY DESIGNATIONS

by George E. Bates, CFP®

I mentioned in my column that I recently attended a two day conference on the subject of IRAs and estate planning. Though there are numerous components of these two subjects, I came away from that meeting realizing how enormously important it is that people have the beneficiary designations on IRAs, 401Ks, 403Bs, 457s and any other retirement plan filled out correctly to most benefit their heirs and charitable interests.

For example, having the correct beneficiary designations could literally make millions of dollars of difference for your children or grandchildren. Consequently, we want to review the beneficiary designations on all of your retirement plans to ensure that the assets will be distributed according to your wishes. If you do not have something that shows your latest beneficiary designations I would strongly encourage you to obtain that information.

In addition, I was reminded of the importance of IRA "custodial agreements" because a number of institutions' provisions are more restrictive (often detrimentally so) than the laws require. Custodial agreements are the legal provisions under which the custodian or trustee agree to act in that capacity for your IRA.

We can help you so do not worry about not knowing what to do. We will be asking you to provide us with copies of those documents so now you know why!

Anatomy of a Conservative Portfolio

by George D. Bates, J.D., CFP®

For the past 12 months, I have written about volatility in the markets. The past several weeks and months have demonstrated this. Were you aware it happened? Have you been bothered by this? If you answered NO to both questions, stop reading my article... otherwise read on. Although each investor has different investment objectives I am writing this for that investor who seeks protection of his portfolio while attempting to gain income and long-term conservative growth of capital. I believe most investment portfolios which are consistent with this definition are generally described as BALANCED portfolios. Presently, the balanced portfolio I strive for is composed of approximately 65% conservative stocks and 35% bonds and cash. As of the market's close November 23, 2007, the Dow Jones Industrial Average was up year-to-date 4.2%, the S&P 500 up 1.6%, the NASDAQ Composite up 7.5% and the Russell 2000 was down 4.1%. By way of contrast, many balanced approaches and specifically, my approach have experienced year-to-date annualized performance of greater than 4.75% and 1, 5 and 10 year performance for period ending 10-31-2007 of 11.50%, 10.90% and 8.05% respectively. Of course, with additional risk or stock selection that is not as conservative as this BALANCED approach, you could have increased your return BUT do not fail to gauge the increased investment risk.

New "Kiddie Tax" Law

by George E. Bates, CFP®

Our "FRIENDS" in Washington are at it again. They give a lot of lip service to "helping the middle class," but continue to pass laws to raise their taxes.

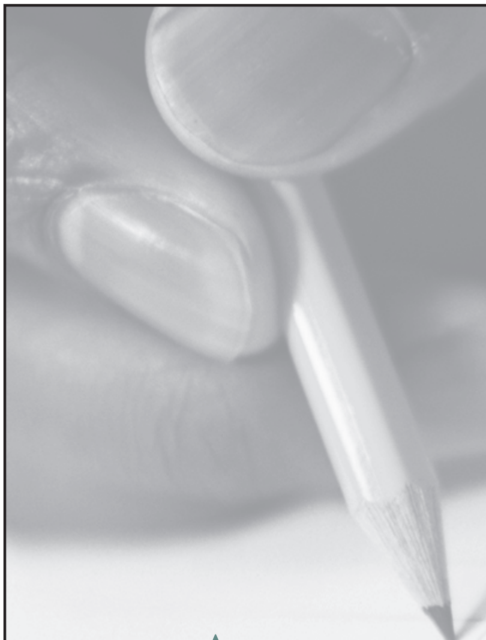
Some of you may know the term "kiddie tax." What it means is that if children have too much income they pay their parents' highest tax rate above a certain level. Until last year the kiddie tax only applied to children under 14. Last year Congress raised the age up to 18. Now Congress has raised the age to 24 for full-time students whose earned income does not exceed one-half their support.

As a consequence there are some things that parents and grandparents can do to help reduce the taxes for money to pay for college expenses. Until December 31, 2007 we have a window of opportunity to give children over 18 appreciated stock or mutual funds and have them sell those assets this year. Most likely, they will pay less tax than if you wait until next year. You can do this for children from age 14 to 18 as long as the total investment income (dividends, interest and capital gains) does not exceed $1700.

One good thing Congress did last year is make the tax advantages of 529 plans permanent. Therefore, I encourage people to establish 529 plans for younger children the sooner the better.

If you do not know what 529 plans are or have questions, please contact us and we will be happy to help.

Included with this mailing is a financial privacy notice which we are required to send annually. Also, as required after the terrible events of 9/11, you will find a disclosure statement about our Business Continuity Plan which addresses our planned response if a significant business disruption occurs. Rest assured knowing that we have plans in place!



A CLOSER LOOK AT TAXES

TAXPAYER BEWARE *by George E. Bates, CFP®*

Congress enacted a bill this year that appears to put at odds tax preparers' interests with taxpayers (you and me). The law entitled Small Business and Work Opportunity Act of 2007 has a requirement under section 6694 that requires that a tax preparer must believe that any tax deduction he or she includes in a tax return must have a more than 50 percent likelihood of being allowed by the IRS or the preparer could be penalized both financially and reputationally by taking the deduction.

Under this law tax preparers will have to counsel their clients to include disclosures about specific tax deductions to protect the preparer. Obviously, this would serve as a "yellow flag" to the IRS that the preparer is uncertain whether the deduction is allowable and bring the tax return's legitimacy into question.

In the past, the preparer only had to believe the allowability of a deduction had a one-third chance of surviving IRS scrutiny to avoid any penalty.

Though this issue will not affect most taxpayers, many small business owners and entrepreneurs will likely be affected. Thus you need to raise this subject with your tax preparer.

MY TAX PREPARER COMMENTS

by George D. Bates, J.D., CFP®

Many of our clients know that I have prepared income tax returns since I have worked here for more than 13 years. With tax legislation passed in 2007, I believe this is the most adversarial position I could be in concerning the preparation of my client's tax returns. As mentioned above by my father, professional tax preparers now have a higher standard concerning the deductibility of certain items than the taxpayer. Many commentators have argued that tax preparers, in many cases, seemingly now sit on the IRS's side of the table or have substantially greater exposure to personal liability via tax preparer penalties. Further, several other areas including charitable gifts and other noncash gifts are to receive greater scrutiny. Accordingly, I expect that my rates and the rates of other tax preparers will go up to take into account the greater personal risk and liability. As always, feel free to call if you have any questions.

From George's Desk

(continued from page 1)

assured a high standard of medical care, our present Medicare system does not present a very convincing example that we can afford to do this. Let me explain briefly. Though I have been unable to uncover any exact figures (I don't think anyone knows how to calculate it), everything I read suggests that Medicare is even a much larger problem for the financial security of our country than is Social Security. And let me remind you that Medicare only covers about 25 percent of our citizens. Life expectancy, unknown costs of future medical advances, and a citizenry that eats too much and exercises too little (like myself) are just some of the problems creating uncertainty in the price of national healthcare. Another is Social Security; one of the leading candidates has proposed solving the looming Social Security deficits by removing the caps on earnings. This would be an enormous tax increase on many higher income people.

I do not pretend to have the answers, but I beseech you to attempt to learn as much as you can by reading and listening to media programs where contrasting views are discussed on these serious topics, so that we can be the most informed voters in history for the sake of our children and grandchildren.