



Condor Capital

Investment Management

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Condor Capital

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US stocks began the year with the best start since 1998.

Due to European sovereign debt issues the US dollar continued its rally.

As strong corporate earnings continue to drive up stock prices, we anticipate a profitable year ahead for investors.

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Condor Capital Reviews 1st Quarter 2010

After the market roller coaster of 2008 and 2009, the first quarter of 2010 was uneventful by comparison. The US stock market gained about 5% during the first three months of the year, the best start since 1998. Stocks are now up about 60% from their low of a year ago. Strong corporate earnings and improving investor optimism fueled the financial markets to climb back up towards pre-2008 levels.

The domestic equity indexes celebrated the one-year anniversary of last year's March lows by roaring back from a slight downturn in late January and early February. As often happens after an economic downturn, small cap names continued to see the greatest rebounds. The Russell 2000 Index, up 8.9% last quarter, has now almost doubled from its March 9, 2009 low. Mid caps performed nearly as well as small caps, with the Russell Mid Cap Index climbing 8.7% in the quarter. Large cap stocks also showed nice gains, with the S&P 500 Index rising 5.4%. Additionally, value-leaning investments managed to outperform their growth-oriented counterparts, as the Russell 1000 Value Index jumped by 6.8% for the quarter compared to the Russell 1000 Growth Index, which still rose 4.7%.

Meanwhile, yields on US Treasury bonds remained flat to slightly lower in the quarter while municipal and corporate bonds continued their 2009 rebound. Investors were willing to accept the increased risk of higher yielding alternatives to the exceptionally low yielding Treasury bonds. The Lipper Municipal Fund Index was up 1.5%, while the Citi Corporate Bond Index increased by 2.3% and the Credit Suisse High Yield Index rose an impressive 4.5% last quarter.

The Federal Open Market Committee, headed by Federal Reserve Chairman Ben Bernanke, met in January and March this quarter. The body resolved once again to leave the federal funds target rate at 0 to ¼ percent with the mindset that a combination of high unemployment and nonexistent inflation should warrant such low rates for some period of time.

However, the Fed did make good on a promise to wind down some of the measures adopted to combat the financial crisis. Purchases of mortgage-backed bonds came to an end and the rate charged to banks for short-term emergency loans was increased by 0.25%.

Internationally, last year's robust gains in both developed and emerging markets seemed to stall in the first quarter of 2010, with a less than 1% gain in the MSCI EAFE Index and a 2.4% gain in the MSCI Emerging Markets Index. These muted results are partially due to the US dollar rally that began late last year. Anxiety over European sovereign debt, particularly that of Greece, rattled bond markets, though eurozone leaders promised support. The response of European leaders to their sovereign debt issues will warrant a close watch on the foreign financial markets.

Outlook - While many investors remain wary, overall investor sentiment and confidence seems to be on the rise. Although unemployment is still high at 9.7%, March was the fifth straight month of either stabilization or improvement in the labor market. Additionally, the 162,000 jobs created last quarter represents the greatest quarterly increase in the last three years. An important factor driving stock prices higher is stronger-than-expected corporate earnings, which we feel is likely to continue. We also think investors will keep buying various types of debt (perhaps with the exception of low yielding US Treasury bonds), so the fixed income markets should remain steady. The greatest issue facing the credit markets in the coming months is uncertainty over when the Federal Reserve will begin to raise interest rates. In our view, rate increases are not imminent and will likely be phased in gradually so as not to disrupt the recovery. Overall, we remain optimistic that the economy and financial markets will continue to improve over the coming quarters. As always, if you would like to further discuss your accounts or the status of the economy, please do not hesitate to contact us.

Back to Basics: Reviewing Your Budget

Do you ever wonder where your money goes each month? Does it seem like you've gotten sidetracked when it comes to reaching your financial goals? If so, you may want to review and perhaps revise your budget. Doing so can help you determine how you're spending your money, and that might show you what you need to do to get back on track.

"Oh, we don't need a budget," you might be saying. "We have plenty of money." If that's true, great! But if you aren't reaching your financial goals, there's a reason for that. Reviewing (or simply creating) your budget might help you find out what that reason is.

Examine your financial goals

The first part of reviewing your budget should be an examination of your financial goals. After all, planning any trip's itinerary depends in part on knowing where you want to go! Make a list of both your short-term and your long-term goals, and prioritize them. How much will you need to save for each one, and how long will you have to reach them? Should you forestall some of lower priority to reach others of higher priority?

Keeping track

Budgeting is largely about tracking your income and expenses. You can do this with a pen and paper, or you can use one of the many software programs or web-based applications designed for this purpose. The most important element of this process is to do it consistently.

Should you count every penny? Not necessarily, although to some extent you can't control the dollars if you don't track the cents. But focus primarily on meeting the basic expenses of life and then allocating what it will take to meet your goals.

Income and expenses

Much of your income may come from your regular paycheck or (if you're retired) from government benefits such as Social Security, a pension, or retirement account distributions. But don't forget to include all forms of income, such as child support and/or alimony, and even irregular or seasonal income, such as tax refunds, dividends, or interest.

Expenses generally fall into two categories. Fixed expenses are the "have-to" basics: housing, utilities, food, clothing, and transportation. Discretionary expenses are "want-to" items: eating out, entertainment, vacations, and hobbies.

Irregular expenses can't be predicted, but they always occur: car repairs and home maintenance are good examples. Remember to include these types of expenses in your accounting. For example, if you buy tires for your car every 3 years, one-third of the total is your annual expense.

Caution: *While you may find it easy to use your credit card for irregular expenses, do so only as a convenience. Be prepared to pay off the credit card charge with funds you have set aside in your budget for these expenses.*

Finally, prioritize the funds you'll need to meet both your short- and long-term goals as regular expenses in your budget.

And the answer is...

Once you've added up your income and expenses, you'll need to compare the totals. Are you spending exactly what you're making? Congratulations, your budget is perfectly balanced! Even better, if you're spending less than you're making, you have a surplus. If that's the case, you can allocate that surplus to either reaching your goals faster or funding new investment opportunities.

But if you're spending more than you're making, you're running a deficit. You might not feel the pinch if you're very good at juggling or funding it with increasing credit card debt or a home equity line of credit. But even the best of jugglers drop the balls sometimes, and increasing your debt can be dangerous. If that's what you're doing, you're sidetracking your budget into a dead-end spur.

So, to balance your budget and get back on track toward meeting your goals, you'll have to either increase your income or reduce your expenses--or both. As you may have seen while tracking your expenses, it's often your discretionary spending that leads to a derailment when it comes to meeting your goals. Rather than shortchange your goals (you'll only be shortchanging yourself if you do), work on reducing discretionary expenses.

Staying on track

You'll need to monitor your budget to keep it on track. Remember that, like life itself, you'll need to keep your budget as flexible as your changing circumstances may demand.



"The first part of reviewing your budget should be an examination of your financial goals. After all, planning any trip's itinerary depends in part on knowing where you want to go!"



10 Financial Terms Everyone Should Know

Understanding financial matters can be difficult because of the jargon used. Becoming familiar with these ten financial terms may help make your financial picture clearer.

1. Time value of money

The time value of money is the concept that money on hand today is worth more than the same amount of money in the future because the money today can be invested to earn interest. *Why is it important?* Understanding that money today is worth more than the same amount in the future can help you evaluate and compare investments that offer returns at different times.

2. Market volatility

Market volatility measures the rate at which the price of a security moves up and down. If the price of a security historically changes rapidly over a short period of time, its volatility is high. Conversely, if the price of a security rarely changes, its volatility is low. *Why is it important?* Understanding volatility can help you evaluate whether a particular investment is suited to your investing style and risk tolerance.

3. Inflation

Inflation reflects any overall upward movement in the price of goods and services in the economy. *Why is it important?* Because inflation generally pushes the cost of goods and services higher, any estimate of how much you'll need in the future--for example, how much you'll need to save for retirement-- should take into account the potential impact of inflation.

4. Asset allocation

This strategy means spreading investments over a variety of asset categories, such as equities, cash, bonds, etc. *Why is it important?* How you allocate your assets depends on a number of factors, including your risk tolerance and your desired return. Diversifying your investments over asset classes can potentially help you manage risk and volatility.

5. Net worth

Net worth is what your total holdings are worth after subtracting all of your financial obligations. *Why is it important?* Your net worth will probably fund most of your retirement years. Therefore, the faster and bigger your net worth grows, the earlier and more comfortably you will be able to retire. Once retired, preserving your net worth to last through your retirement years is your goal.

6. Five C's of credit

These are character, capacity, capital, collateral, and conditions. They're the primary elements lenders evaluate to determine whether to make you a loan. *Why is it important?* With a better understanding of how your banker is going to view and assess your creditworthiness, you will be better prepared to deliver appropriate information to obtain the loan you want or get a better interest rate.

7. Sustainable withdrawal rate

Sustainable withdrawal rate is the maximum percentage that you can withdraw from an investment portfolio each year to provide income that will last, with reasonable certainty, as long as you need it. *Why is it important?* Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio.

8. Tax deferral

Tax deferral refers to the opportunity to pay income taxes in the future for investment interest and appreciation earned in the current year. *Why is it important?* Tax-deferred vehicles like IRAs and annuities produce earnings that are not taxed until withdrawn. This allows those earnings to compound, further adding to potential investment growth.

9. Risk/return trade-off

This concept holds that, in order to achieve a higher personal investment return, you must be willing to accept greater risk. *Why is it important?* When considering your investments, the goal is investing to get the greatest return for the level of risk you're willing to take, or to minimize the risk involved in trying for a given return.

10. Annuity

An annuity is a contract where you pay money to an insurance company in return for the insurer's promise to pay it back, with interest, in the future. *Why is it important?* You can supplement other retirement savings with tax-deferred annuity funds, and you can add to your retirement income with payments from your annuity for a fixed period of time or for the rest of your life.



Ten more terms to look up

- [Equity](#)
- [Gross Domestic Product](#)
- [Working capital](#)
- [Recession](#)
- [Triple net lease](#)
- [Net income](#)
- [Roth IRA](#)
- [Earned income](#)
- [Debt/equity ratio](#)
- [P/E ratio](#)





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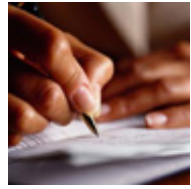
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Please remember to contact Condor Capital Management if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, or revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement as set forth on Part II of Form ADV continues to remain available for your review upon request.

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...more than just an investment manager

Ask the Experts



What is the premature distribution tax?

Taxable distributions you receive from an IRA, 403(b), 401(k), or qualified employer plan before age 59½ are generally referred to as premature distributions, or early withdrawals.

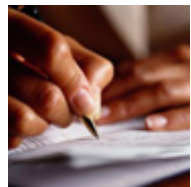
To discourage early withdrawals, they're subject to a 10% federal penalty tax (and possibly a state penalty tax) in addition to any federal and state income taxes. This 10% penalty tax is commonly referred to as the premature distribution tax. Not all distributions before age 59½ are subject to this penalty, however.

Here are the most important exceptions:

- Distributions due to a qualifying disability
- Distributions to your beneficiary after your death
- Distributions up to the amount of your tax-deductible medical expenses
- Distributions made pursuant to a qualified domestic relations order (QDRO)

- Qualified reservist distributions
- Distributions from an IRA (but not an employer plan) to pay first-time homebuyer expenses (up to \$10,000 lifetime)
- Distributions from an IRA (but not an employer plan) to pay qualified higher education expenses
- Distributions from an employer plan (but not an IRA) after separation from service at 55 or older
- Certain distributions from an IRA (but not an employer plan) while you're unemployed up to the amount you paid for health insurance premiums
- Amounts levied by the IRS
- Distributions that qualify as a series of substantially equal periodic payments (SEPPs)

If you must take a distribution from your IRA or employer plan before age 59½, be sure to determine if one of these exceptions applies to you.



What is the "SEPP" exception to the premature distribution tax?

Taxable distributions you receive from an IRA or 401(k) plan before age 59½ are subject to a 10% early withdrawal penalty unless an exception applies. One important, but sometimes overlooked, exception is for SEPPs--substantially equal periodic payments.

SEPPs are amounts you withdraw from your IRA or employer plan over your lifetime (or life expectancy) or the joint lives (or joint life expectancy) of you and your beneficiary. To avoid the 10% penalty, you must calculate your lifetime payments using one of three IRS-approved distribution methods and take at least one distribution annually.

You can take advantage of the SEPP exception at any age. But payments from an employer plan must begin *after* you separate from service.

Even though SEPPs are initially determined based on lifetime payments, you can change--or even stop--the payments after five years, or after you reach age 59½, whichever is

later. For example, you could start taking SEPPs from your IRA at age 50, without penalty, and then, if you no longer need the funds, reduce (or stop the payments altogether) once you reach age 59½.

But be careful--if you "modify" the payments before the required waiting period ends, the IRS will apply the 10% penalty tax (plus interest) to all taxable payments you received before age 59½ (unless the modification was due to death or disability).

If you have more than one IRA, you can take SEPPs from just one of your IRAs or you can aggregate two or more of your IRAs and calculate the SEPPs from the total balance. You can also use tax-free rollovers to ensure that the IRA(s) that will be the source of your periodic payments contain the exact amount necessary to generate the payment amount you want based on the IRS formulas.

SEPPs can be complicated--especially the modification rules. But taking the time to understand this important financial planning tool can be well worth the effort.