BURKETT FINANCIAL SERVICES, LLC

Registered Investment Advisor

2009 3rd Quarter Report

As we grow ever more dependent on technology, simply having your home phone number and address is just not enough. For many of you we have your other contact information such cell phone numbers and email addresses. For many of you we do not. If you have not gotten email from us in the past few months and you have an email address, we don't have it. Email is a great way to provide timely and interesting data and comments to you and to help us better serve you and we use it a lot. If we don't have your email address(es), please provide it or them to us as well as any new or updated cell numbers. This gives us the ability to serve you better and more efficiently. You can email this data to Neil at neilb@burkettfs.com or call Carolyn in Rock Hill at (803) 980-3232 or call the Columbia office at (803) 980-3232 and ask to be transferred to Carolyn.

Wow, what a year it has been. The stock market ended the third quarter with the best back-to-back quarters of gains since 1975 and is up 56% in a 6 1 /2-month window. The Dow Jones Industrial Average jumped 15% in the latest three months for its biggest quarterly gain since the fourth quarter of 1998 and its best third quarter since 1939. The Standard & Poor's 500-stock index gained 15% in the quarter leaving it up 17% for the year and up 56% from March. It was also the S&P's best quarter since 1998. Imagine had you fallen asleep in late December and woke up today, you would think "this has been a great year in the markets" and it has. What you would have missed would be the harrowing ride down in February and March when we touched levels not seen in 12 years. What you would have missed as well is one of the top 3 rebounds in a 6 month period in 80 years.

You have seen some minor and not so minor changes in your portfolios lately with new funds, reallocations and locking in some profits from the big run up and shifting this money to more conservative areas. We have sent emails of our thoughts regarding this over the last 6-8 weeks so please make sure we have your email addresses. While we are making some changes given our expectations, an investor does not invest with certainty. Benjamin Franklin stated only two things are certain – death and taxes. Given the tax environment we have taken many steps in 2008 and 2009 to better position our clients for future tax hikes and we have another great opportunity in 2010 regarding the conversion of IRAs to Roth IRAs.

On January 1, 2010, thanks to a tax law from 2005, anyone with a tax-deferred retirement account that can be rolled over will be eligible to convert those assets to a Roth IRA. Now, higher income taxpayers will be able to take advantage of a conversion opportunity that was once limited to those with an AGI of less than $100,000.

The factors to consider when converting to Roth include, but are not limited to, the taxpayer's timeframe, source for payment of taxes and current vs. future tax rates. There is not set of circumstances where one should convert or not convert but it will depend upon a client's specific set of circumstances, desires and assumptions. There is no one answer for financial planning.

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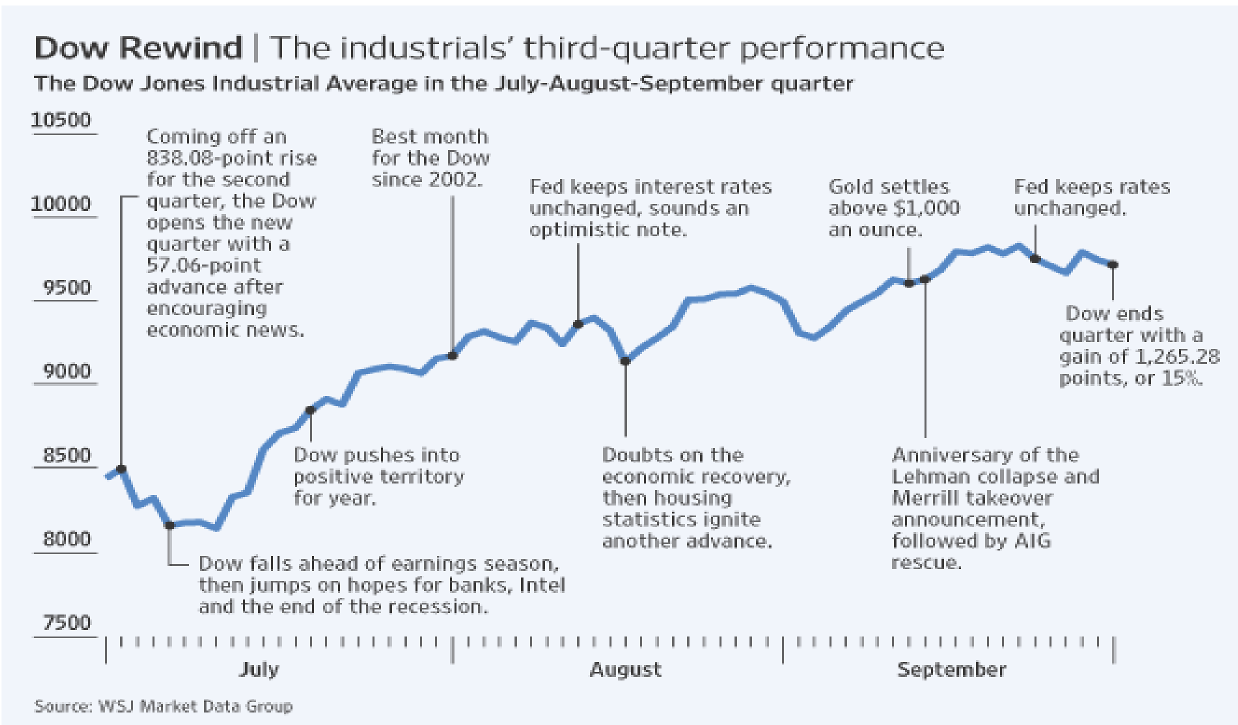
The current market environment may provide some sophisticated taxpayers a unique opportunity to pay taxes at today's low rates on a depressed account value and capture tax free growth. An IRA worth \$100,000 in 2007 may now be worth \$60,000. By converting the \$60,000 retirement account to a Roth IRA, the taxpayer is locking in his tax liability at the lower amount. Should the \$60,000 Roth IRA eventually recover its losses and grow back to \$100,000, he taxpayer will avoid paying taxes on the \$40,000 difference.

On top of this, you can actually request a "mulligan" or a "do over" by performing a recharacterization thereby reversing the original conversion back into a traditional IRA with no tax consequences. A Roth IRA can be recharacterized back into a traditional IRA up to the tax filing deadline including extensions, whether extended or not. For example, if an investor converts a traditional IRA to a Roth IRA in February of 2009, they will have until October 15, 2010 to decide whether to take the "do-over."



For instance, let's assume that an individual converted an IRA that was once worth \$200,000, but now worth \$100,000. The taxpayer would pay income taxes, but never a 10% penalty regardless of age, on the conversion when the return is filed. They also have until October 15th of the year following the conversion to decide whether to recharacterize the Roth IRA back to a traditional IRA. They may choose to recharacterize because the account has lost

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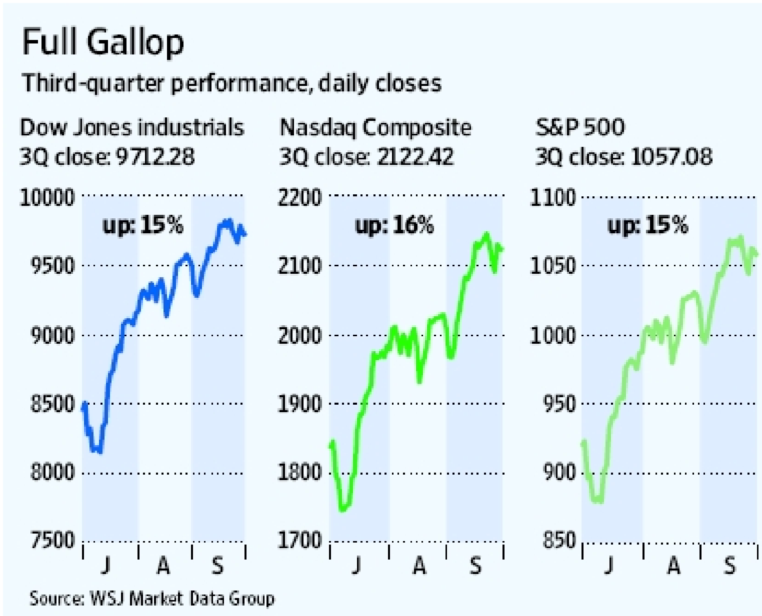
value or simply to avoid paying the taxes on the conversion.



A conversion could also help with the future taxation of Social Security benefits. Up to 85% of Social Security benefits are taxable if MAGI exceeds certain amounts. When calculating MAGI for Social Security purposes, all taxable and tax-exempt income and 50% of their Social Security benefits are included. However, Roth IRA distributions are not. Therefore, a Roth IRA can prove to be a tax friendly asset for managing the taxation of Social Security benefits.

When paying the taxes for the conversion, one could use assets from the IRA or outside of the IRA. In using IRA assets to pay the tax liability, you have a smaller Roth IRA balance and any money not kept in the Roth conversion upon the rollover will be subject to an additional 10% penalty if under age 59 ½. If a taxpayer uses outside assets to pay the conversion tax they are essentially allowing more assets to remain in the Roth IRA and effectively making a contribution to their retirement account.

For 2010 only, a taxpayer who converts can include ½ of the conversion on the 2011 taxes and the balance on the 2012 taxes thus slowing the tax payments. However, with the expected increase in tax rates in the coming years, most scenarios point to 100% inclusion in 2010 vs. using the default spread. Of course, the spread could prove beneficial if you will be in lower future tax brackets due to reduced income or retirement.

Regardless of political affiliation, most of us believe tax rates will be higher in the future. As such, now may be a great time to convert retirement assets to a Roth IRA. Many people consider our tax rate structure to be high currently, but historically we have seen top marginal tax rates as high as 50%, 70% and 90%. Actually, for the last 50 years, there have been only a handful of years where the top tax rate was lower than we have now (1988 to 1992).

Time, tax law and planning are moving quickly. We have approached those of you for whom we think this is a "no-brainer" but for many others, you may wish to do this even if we did not think it was just obvious that you do. If so, please contact us to discuss this.

As always, if you have any questions, please contact one of the BFS team members.

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