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INVESTING ADVICE FROM TWO WISE MEN RUSS MANNERS, OMAHA OFFICE



Like it or not we humans love to extrapolate. We just can't help ourselves. When oil went from \$60 to \$120 per barrel, the pundits started extrapolating that it would soon be trading at \$200 and that we would be paying \$5 per gallon at the pump by year end. Those who forecast for a living give us their opinion, whether right or wrong, yet we still can't help listening. I suppose we aren't much different than Charlie Brown making yet another run at Lucy holding that football.

Around the globe, equity prices have lost approximately half of their value and we are certainly feeling this pain. Once again, the tendency is to extrapolate that these difficult economic times will persist for some time and that markets will continue to fall further. Many will try to give us their best guess as to what the future holds, but ultimately each of us needs to determine who we choose to believe and which investment course might best fit our unique needs and temperament. For me, I've decided to heed the advice of two wise men: Warren Buffett and Dr. Seuss. I'm sure many of you have seen the article Buffett wrote for the *NY Times* (October 17, 2008) where he explained why he has started buying solid American companies. He said, that he "hadn't the faintest idea as to whether stocks will be higher or lower a month or year from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over." Although not even Warren Buffett can confirm what will happen, and "waiting" seems the most comforting approach during such difficult periods, I suspect it's not the most productive. As for Dr. Seuss, he had some interesting thoughts about this tendency in his book, *"Oh The Places You'll Go"* (Random House 1990). He warns of "a most useless place, the waiting place...for people just waiting. Waiting for a train to go or a bus to come, or a place to go... or the phone to ring or the snow to snow or waiting around for a yes or no."

It would be nice if there were definite signs alerting us of market bottoms. Investors rarely get the luxury of such precision. We must deal in probabilities and with uncertainty. But I like to think the odds are in our favor when choosing to follow the advice of those like Dr. Seuss and Mr. Buffett.

A WORD FROM TOM SMITH CEO, SMITH HAYES

Dear valued client,



Thank you for taking the time to read the first edition of the SMITH HAYES quarterly newsletter. This newsletter is part of a renewed strategy aimed at providing you with timely information about our company and the financial services industry in a format we hope you will find both informative and fun. Please note that we are establishing a quarterly distribution cycle for each publication which will seek to:

1. Highlight the personal and professional achievements of our employees
2. Provide you with timely insights from some of our most experienced financial professionals
3. Provide fun information about the community and local events we are supporting

We are a firm of roughly 100 individuals located in Lincoln, Omaha and Columbus, Nebraska. We are customer and community focused and we want to highlight and share our commitments in that regard with you. We have been locally owned and operated since 1985. As such, we enjoy a great duty to provide our customers, employees and communities with the best products and service available. Thank you for being part of our growing legacy – you are the reason we exist!

MAKING LEMONADE OUT OF LEMONS

MAX CALLEN, LINCOLN OFFICE



Investment Consultants at SMITH HAYES are asked to do many things on behalf of our clients. Asset allocation recommendations, security selection, and general planning strategies are just a few examples. For detailed tax and legal advice we always recommend that you consult with other skilled professionals in the legal and accounting professions for guidance specific to your circumstances.

The markets of 2008 will go down in history as some of the most challenging on record. Finding opportunities in either security selection or tax strategies amidst the rubble could prove to be very rewarding in the years to come. One such opportunity that may be worth considering in 2009 is what is known as a "Roth IRA Conversion".

Under current law, individuals that make \$100,000 or less (married or single), may convert Traditional IRA accounts into Roth IRAs. In 2010, this income limit is due to be eliminated; hence all taxpayers will be eligible to do a Roth Conversion regardless of income, unless the new Obama Administration changes the rules. Traditional IRA accounts are tax deferred retirement accounts in which a tax deduction was taken for the contribution made and the earnings grow tax deferred until withdrawn. Upon withdrawal, all amounts withdrawn are taxed as ordinary income.

Roth IRAs in contrast allow for tax free qualified withdrawals, however, a tax deduction is not allowed for deposits to the Roth account. One other key difference is that with a Traditional IRA, the government requires that a minimum distribution be made when the account owner reaches the age of 70 ½. Roth IRA accounts do not have required minimum distributions.



No one can predict with certainty what Congress will do with tax rates in the future. However, if you believe they will be higher than they are now, a Roth Conversion would be worth discussing with your tax advisor. With asset values depressed, this strategy would allow you to pay taxes now on those depressed values (at lower tax rates) in order to move the assets to an account that will allow them to grow tax free.

This strategy may be particularly rewarding if you have the resources to pass the Roth IRA on to your children as beneficiaries.

Talk with your SMITH HAYES Investment Consultant as to the benefits of this strategy for your portfolio.

Tax and penalties may apply to early withdrawals from IRA accounts. Investors should consider their personal investment horizon and tax brackets, both current and anticipated, when making an investment decision.

WHAT'S HAPPENING AT SMITH HAYES?

John Dwyer has joined SMITH HAYES on November 20, 2008, as the Assistant Branch Administrator for the Lincoln branch. John has a BA from Iona College, New Rochelle, NY. He was employed at Fidelity Investments, National Financial Services for eight years as the Manager of Equity and Option Order Room (2002-2006) and Manager of the Client Trade Support (2006-2008). Prior to NFS he was employed at Sanford C. Bernstein as a P & S Senior Representative. John holds his Series 7, 63, and 24. He also serves as an expert witness for FINRA Arbitrations. John and his wife, Jennifer moved to Omaha because she is studying for her PhD in immunology at Nebraska Medical Center. They have a new Boston terrier named Taz. Welcome John!

John Decker (Lincoln office) graduated from the state wide Chamber of Commerce Program of Leadership NE. He was in the 2nd graduating class! Congratulations John!

Matt Kleager (Lincoln office) and his wife Angela welcomed their first child on December 1st. They had a beautiful baby girl, named Emme Marie. Congrats Matt and Angela!

Eric Hines (Omaha office) married Megan Bolmeier on November 8, 2008.

Congratulations to **Bob Schaefer** in our Lincoln office, who passed his Series 27 exam on December 9.

Sharon Shelley will be retiring from SMITH HAYES after 23 years of service. Sharon was instrumental in getting SMITH HAYES started in 1985 and we are sorry to see her leave. Congratulations and Good Luck Sharon!

REASONS FOR OPTIMISM IN 2009

CLINT RUSHING, CFA

- The year was 1933, and President Franklin D. Roosevelt was set to deliver his first inaugural address to the country. Economic conditions were unfathomably depressed in many aspects. Unemployment levels were painfully high, banks were closing their doors, and equity values were at extremely depressed valuations.
- During the first few minutes of his speech, President Franklin D. Roosevelt uttered a phrase that continues to be one of the most widely remembered phrases from a Presidential inauguration address throughout history. In particular, President Roosevelt noted that “the only thing we have to fear is fear itself-nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.”
- While these words were first uttered nearly 76 years ago, in some respects, they still ring true today, and are highly relevant as our nation gets set to begin the journey through 2009. There will certainly be many challenges that our economy, and the citizens of the United States will have to face during the coming year. While we are all cognizant of the challenges facing our economy at the present time, there are actually several reasons to be optimistic in regard to a recovery in the U.S. equity market during the coming year.
- Firstly, equity market valuations are at levels that could provide meaningful upside during the coming years, both in terms of dividend income, and capital appreciation prospects. For example, several major U.S. equity indexes, including the Dow Jones Industrial Average, S&P 500, and Russell 2000 have dividend yields that are higher than the yield of the 10-year U.S. Government Treasury security. This is an extremely notable event. In fact, Strategas Research Partners, LLC noted that the dividend yield on the S&P 500 hasn't been larger than the risk-free rate since the early 1960s. During the past several months, investors have fled the equity market in favor of the Government Treasury market. However, if we begin to get confirming evidence of improving economic activity during 2009, this trend will likely reverse.
- The second potential catalyst for more favorable equity market performance during 2009 relates to the amount of cash and liquidity sitting on the sidelines at the moment. For instance, according to Bloomberg and data collected by IMoneyNet of Westborough, Massachusetts, taxable money-market mutual fund assets surged to a record \$3.657 trillion in the week ended December 2, 2008. For comparison purposes, the market capitalization of the S&P 500 Index was \$7.91 trillion. Accordingly, taxable money-market mutual fund assets as a percentage of the S&P 500 market capitalization recently stood at just over 46%.
- Thirdly, while corporations have been announcing job layoffs during the past several months, arguably, the layoffs could have been even worse if inflation readings and commodity prices hadn't declined by the magnitude witnessed during the past few months. Instead, corporate America looks to receive a boost to margins during 2009 from lower raw material input costs. In addition, consumers are also receiving a welcome reprieve every time they fill up their gas tanks compared to the extremely elevated gasoline and energy prices witnessed during the past several years.
- Finally, Central Banks and other Government entities around the world have been working to provide a tremendous amount of liquidity and assistance to the global economic system during the past few months. The United States has been leading the effort to a large extent, but the impact of the financial assistance programs, as well as lower interest rates, should begin to gain greater traction during 2009. So in summary, as 2009 begins, keep committed to your long-term financial goals, redouble your efforts to improve yourself and your country, and as Franklin D. Roosevelt noted in 1933, “this great nation will endure as it has endured, will revive and will prosper.”

Past performance is not an indication of future performance.

**December
“Action Team”
Participants**

- Teresa O’Grady
- Colleen Davis
- Di Loptin
- Rhonda Kilday
- Janae McKeel
- Marc Ward
- Maria Sinley
- Denise Shirley
- George Morgan
- Rose Davis
- Gary King
- Clint Rushing
- TJ Thull
- Kathy Dewhurst
- Jeanne Brown

SMITH HAYES “ACTION TEAM”

Several months ago, SMITH HAYES formed an “Action Team”. The goal of the action team is to become more involved in our communities through activities such as disease awareness walks, food drives, and any other causes that are important to our clients and our employees. In December, the Omaha office volunteered to ring bells for the Salvation Army. Two employees share their experiences below.

I watched a man struggle from his car to go into Hy-Vee. He was extremely crippled and it was an effort to walk. A little while later he walked out of the store with fresh flowers in his arm. He walked over to the kettle and dropped in a few coins. I said to him “Your fresh flowers are going to make someone very happy.” He replied, “I get her flowers every Friday night.” I said “Wow, that is wonderful and you must have a very special person in your life.” He said “yes” and walked off. I am not sure who he bought the flowers for, but it made such an impression on me that he had to struggle to even walk, but you could tell that buying these flowers was so important to him. What a meaningful experience! - Kathy Dewhurst

I had only been ringing the bell for approximately 10 minutes when a grandpa and his 2 grandsons came out of Hy-Vee. The boys were about 3 years old and 1 ½ years old. The grandpa stopped to get change out of his pocket for the boys to put into the kettle. While he was doing this I asked him if the boys would like to ring the bell a few times. I gave the bell to the 3 year old and he started ringing the bell – he was so excited! I told him that ringing the bell would be helping people. The customers coming into Hy-Vee and leaving Hy-Vee thought he was very cute, so they were all digging into their pockets for change. We then let the 1 ½ year old ring the bell for a little bit – people just loved this! The 3 year old was chatting away about helping people! When grandpa said it was time to go, the 3 year old asked if the bell was his prize. Grandpa said he couldn’t take it because the bell helped people. He was satisfied with that answer and off they went – waving and smiling!! - Di Loptin



Jeanne Brown and Teresa O’Grady ring bells for the Salvation Army

In the coming months, SMITH HAYES employees will be participating in the Walk for Warmth in Omaha in February. Volunteers from the Lincoln office will be participating in the Junior Achievement Bowl-a-thon. If you’d like SMITH HAYES to consider donating time to your favorite charity, we’d love to hear from you! Please send requests to Jennifer Dierking at jdierking@smithhayes.com or reach her at 402-476-3000.

SMITH HAYES is proud of our client base and their accomplishments. We would like to share information about your recent milestones in our client newsletter. Please provide information regarding your recent life events that you are interested in sharing with the readers of our newsletter. The newsletter is distributed to clients and prospective clients on a quarterly basis.

*Please return to:
SMITH HAYES, 1225 “L” Street #200, Lincoln, NE 68508. Attn: Jen Dierking*

Client Name (Please Print): _____

Event Type: Birthday, Anniversary, Retirement, Wedding, Other: _____

Date of Event: Month: _____ Day: _____ Year: _____

Miscellaneous Information about the event:

Broker Name (if applicable): _____

Client Signature: _____

Client Signature: _____

CHANGES IN REQUIRED MINIMUM DISTRIBUTIONS FOR 2009

Under the provision, no minimum distribution is required for calendar year 2009 from individual retirement plans and employer-provided qualified retirement plans that are defined contribution plans (within the meaning of section 414(i)). Thus any annual minimum distribution for 2009 from these plans required under current law, otherwise determined by dividing the account balance by a distribution period, is not required to be made. The next required minimum distribution would be for calendar year 2010. This relief applies to life-time distributions to employees and IRA owners and after-death distributions to beneficiaries.

In the case of an individual whose required beginning date is April 1, 2010 (e.g., the individual attained age 70 1/2 in 2009), the first year for which a minimum distribution is required under current law is 2009. Under the provision, no distribution is required for 2009 and, thus, no distribution will be required to be made by April 1, 2010. However, the provision does not change the individual's required beginning date for purposes of determining the required minimum distribution for calendar years after 2009. Thus, for an individual whose required beginning date is April 1, 2010, the required minimum distribution for 2010 will be required to be made no later than the last day of calendar year 2010. If the individual dies on or after April 1, 2010, the required minimum distribution for the individual's beneficiary will be determined using the rule for death on or after the individual's required beginning date. If the five year rule applies to an account with respect to any decedent, under the provision, the five year period is determined without regard to calendar year 2009. Thus, for example, for an account with respect to an individual who died in 2007, under the provision, the five year period ends in 2013 instead of 2012.

If all or a portion of a distribution during 2009 is an eligible rollover distribution because it is no longer a required minimum distribution under this provision, the distribution shall not be treated as an eligible rollover distribution for purposes of the direct rollover requirement and notice and written explanation of the direct rollover requirement, as well as the mandatory 20-percent income tax withholding for eligible rollover distributions, to the extent the distribution would have been a required minimum distribution for 2009 absent this provision. Thus, for example, if an employer-provided qualified retirement plan distributes an amount to an individual during 2009 that is an eligible rollover distribution but would have been a required minimum distribution for 2009, the plan is permitted but not required to offer the employee a direct rollover of that amount and provide the employee with a written explanation of the requirement. If the employee receives the distribution, the distribution is not subject to mandatory 20-percent income tax withholding, and the employee can roll over the distribution by contributing it to an eligible retirement plan within 60 days of the distribution.

Effective Date

The provision is effective for calendar years beginning after December 31, 2008. However, the provision does not apply to any required minimum distribution for 2008 that is permitted to be made in 2009 by reason of an individual's required beginning date being April 1, 2009.

For complete information visit <http://www.jct.gov/x-85-08.pdf>

SMITH HAYES does not provide tax advice. Please consult your tax advisor for information related to your specific situation.

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Please send any comments or inquiries regarding this newsletter to Jen Dierking in the Lincoln office.

*jdierking@smithhayes.com
402-476-3000*

If you prefer not to receive this newsletter, please call or e-mail Jen Dierking at the above address.