



***A NEW LOOK*** - Responding to several calls and suggestions regarding our quarterly statements, we have re-designed the statements to include more information. They now include sections on asset allocation, realized gains and losses, and a glossary of investment terms. There is also a summary that includes appreciation/depreciation for quarterly and year-to-date activity, as well as estimated annual income and yield for each fund. These new statements present information in a helpful way for our customers.

## THE CHARITABLE IRA

*A New Concept in Giving*

Congress recently passed the Pension Protection Act of 2006 (PPA) and, while most of the new law is about strengthening the retirement system, one significant change offers individuals new opportunities for tax-free giving. For the 2006/2007 tax years, Congress is allowing persons 70 ½ years of age with Traditional or Roth IRAs to make tax-free gifts directly to their charity of choice. They must be qualified charities such as the United Methodist Church. Donors may elect to make IRA gift transfers up to \$100,000 per year (up to \$200,000 per year for couples with separate IRA's). Be aware that donor advised funds, private foundations, and supporting organizations are disqualified from receiving these IRA gifts.

Why is this such a tremendous opportunity? Because it addresses the financial concerns of many seniors. Individuals who are 70 ½ must make *Required Mandatory Distributions* (RMD) from their IRA accounts. Failure to do so results in a 50% penalty of the RMD amount. These Traditional IRA distributions are taxable, and in some cases push the retiree into a higher tax-bracket and possibly make social security benefits taxable. Additionally, the IRA assets can be taxed twice: first for estate tax, second for income tax. Gifting these IRA assets removes them from the estate and reduces taxes.

In many cases donors wait to make both their required IRA distributions and major charitable gifts in November and December. Under the new tax law, donors can make a gift of their required distribution therefore fulfilling the requirement of the IRS and their charitable intentions. **Donors must make the transfer directly from their IRA account to the charity.** Remember, if the IRA distribution is made to an individual it will be reported as income on the 1099 form, and will be subject to tax.

For many individuals and families, the largest non-real estate asset is their IRA account. This new law presents a wonderful opportunity to be generous with IRA assets:

- ◆ Making a gift to a capital campaign
- ◆ Establishing an endowment
- ◆ Creating a matching gift to challenge others to meet a campaign goal

To be in compliance, you must complete the gift transfer prior to December 31<sup>st</sup> of the calendar year in which you are making the gift (2006 or 2007). Please contact your advisor, as everyone's situation is different. As always, your United Methodist Foundation of New England will be pleased to assist you in any way possible. For more information about gifts that provide life-time income, or the charitable IRA, please contact: Gary Melville, Director of Development 800-595-4347 ext.103, or e-mail [gary@umfne.org](mailto:gary@umfne.org).

## THIRD QUARTER 2006 INVESTMENT COMMENTARY (SUMMARY)

After a tough second quarter, in which most major indices retreated, the markets rallied in the third quarter, producing solid results. The Federal Open Markets Committee (FOMC), citing a slowing economic growth and a cooling housing market, signaled in August that they would hold off for now on further interest rate hikes, raising investor hope that interest rate increases are behind us. Receding energy prices also bolstered consumer confidence and helped fuel the rally in September.

One of the best areas of performance was in the largest US companies: the S&P 500 Index was up 5.1%, exceeding most other major market indices. Many market analysts had predicted that large capitalization equities were due for a period of strong relative performance after years of lagging behind small- and mid-cap stocks. While the UMFNE Stock Pool is heavily weighted in large cap equities (61% as of June, 30, 2006), we believe that a well diversified portfolio that includes companies of a broad range of market capitalizations, in addition to companies domiciled outside the US, is the best way to produce long term appreciation.

### UMFNE SOCIALLY RESPONSIBLE STOCK POOL\*

The UMFNE Socially Responsible Stock Pool is comprised of two portfolios designed to track the performance of both domestic and international stocks as represented by the Russell 3000 Index (80% of the Pool) and MSCI EAFE (Europe, Australia, Far East) Index (20% of the Pool).

The Stock Pool consists of 961 holdings with a current asset allocation of 61% large-cap, 15% mid-cap, 4% small-cap, and 20% international companies (as of June 30, 2006).

The returns for the second quarter and year to date are summarized below. As mentioned above, the strength of international stocks have greatly enhanced the returns of the UMFNE Stock Pool portfolio since they were added nearly one year ago. International stock returns have been helped by the weakness in the dollar and their attractive relative valuations.



	QUARTER ENDING 09/29/06	YEAR TO DATE
TIME WEIGHTED RETURN		
UMFNE Stock Pool*	4.76	9.46
Russell 3000 Index	4.65	8.02
S & P 500	5.67	8.53
Domini Social Index	6.38	6.55
MSCI EAFE Index	3.97	14.88

### UMFNE SOCIALLY RESPONSIBLE BOND POOL\*

The UMFNE Socially Responsible Bond Pool posted returns of 3.11%, slightly underperforming its benchmark in the third quarter; year to date, the Bond Pool has outperformed the benchmark by 7 basis points. The focus on shorter duration has proven to be a good strategy given continued inflation worries and rising rates.

Kimberly D. Gluck CFA  
UMFNE Investment Committee  
October 20, 2006

\* The actual performance of individual customer accounts will be impacted by deposits, withdrawals and timing of investments, and may not reflect the performance described in UMFNE's Pools.

*A more detailed "Third Quarter Market Commentary and Outlook" can be found at our website:*

[www.umfne.org/investment](http://www.umfne.org/investment).