

Now's A Time To Recall Financial Planning Basics

Just a few years ago, almost everyone knew at least one person who had made a fortune in the stock market. Today, many of us have lost a fortune. For those who are wondering what went wrong, here's a refresher course in financial planning basics.

Diversification.

In the late 1990's, many investors thought diversification meant buying three computer stocks and two Internet stocks. Others assumed they were being prudent

because they owned a dozen mutual funds. But true diversification means buying a range of investments in markets that do not move in lockstep with each other. Through most of the 1990s, growth stocks were the spectacular performers; in recent years value stocks have been successful. A balanced portfolio will have both. It will also include bonds. But just starting out with the right mix isn't enough; you also need to rebalance your portfolio regularly, trimming positions that have done well and adding to others that may be poised to rebound.

Planning. Establishing clear life goals and a long-term strategy is the essence of sound financial planning. A solid plan lays out the amount you must save annually, assuming an expected average rate of return, to reach your financial targets. It prepares you for future expenses, such as a child's college education, and unexpected

setbacks, such as premature death or disability.

Saving. Money doesn't grow on trees, but it does grow provided you invest it. The more you put aside and the longer you allow it to compound, the better off you'll be. The rule of 72

is the easiest way to see how this works*. Simply divide 72 by your rate of return to get the number of years it will take for your money to double. For example, with an 8% return, your investment will

double in nine years and quadruple in 18. A steady, automatic withdrawal from your paycheck is probably the most effective way to save. That way, you don't miss the money, because you never see it, and you're able to load up on assets when they're doing poorly and reap the benefits when they go up.

Retirement contributions. The government rewards savers by offering tax benefits to retirement accounts such as 401(k)s, 403(b)s, and IRAs. In most cases, you contribute pre-tax dollars and the money grows tax-deferred, meaning you don't owe taxes on gains until you withdraw the money. With Roth IRAs, you contribute money that has already been taxed but your withdrawals are tax-free. Either way, the boost from Uncle Sam is so generous that it's worth stuffing as much as possible into retirement accounts before allocating to regular savings and taxable accounts.

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Good Works And Good People

I recently had the privilege of serving as the House Captain on a project organized by Rebuilding Together (formerly Christmas in April) to renovate a home in Sunnyvale owned by a 79-year-old woman and her seriously disabled son.

Some 35 volunteers from Siemens Medical Devices showed up on a Saturday and cleaned, repaired, painted, built, planted, and transformed the home. It was amazing to see so many good people come out for a perfect stranger.

And this was duplicated at thousands of locations across the country that day. Why do we do this, or step up to volunteer our time, attention, and hard work for other causes? I suspect that for many, it is an active form of gratitude, of "paying back" for our good fortune. For others, it is simply for the pleasure of the company, the joy of being with good people in a good cause.

We have a number of good articles for you in this issue - please read the item about "GRATs" as we think this tool may be legislated away in the near future.

You are receiving this newsletter because of your relationship with us; we'd very much appreciate your mentioning us to your friends and associates, as that has always been our best source of new clients - those who know us best.

Regards from your team at
LWWAG,

Curt

Not Having A Plan Is A Costly Mistake

Your deadlines at work are impossibly tight. Your to-do list gets longer every time you turn around. And with constantly shuttling the kids to Little League and piano lessons, it's no wonder your financial life gets short shrift. Yet, however good your excuse, failing to plan your financial future is a costly mistake.

Most Americans lack a formal financial plan, according to a recent survey by the Certified Financial Planner Board of Standards. Yet the same survey finds those with a written financial plan are more satisfied with how their finances are managed, more confident about their financial decisions, and less worried about being financially secure at retirement.

Financial planning doesn't start with deciding where to invest your money, and those who arrive at the door of a financial planner asking "Where should I invest?" are likely to be greeted with two words: "Slow down." You need to step back, assess your current financial situation, identify short- and long-term goals and your risk tolerance, and figure out your timetable—what will you need, and when will you need it?

You also need to consider asset protection—though again, don't rush to buy insurance until your financial plan is in place. It can help you decide what coverage you really need, and which options and riders make sense. Beyond pointing to the obvious homeowners and automobile coverage, your plan will guide you to the right life, health, umbrella liability, and disability policies and look at any unique liabilities associated with your work or your participation in community activities or corporate boards.

By presenting a broad view, your financial plan helps you understand how each financial decision affects other areas of your finances. For example, suppose you receive an inheritance and use it to pay off your mortgage. That frees up more of your earnings to put into your retirement plan. But your taxes rise because you've lost your

mortgage interest deduction, and your expanding net worth means estate taxes could become a problem. Like a compass, your financial plan keeps you pointed in the right direction even as your life inevitably changes. What's more, the comprehensive nature of financial planning should help you avoid major mistakes—from choosing a high-flying mutual fund with no regard for its risk to overestimating how much you can safely withdraw from your nest egg.

Developing a plan takes time, but often, simply articulating your values, hopes, and dreams can increase your motivation to save. Your plan also enables you to chart your progress. Review and regularly revise it as needed, and it will be a road map that can last a lifetime.

The sooner you get on the planning road, the better. As Yogi Berra once said, "If you don't know where you are going, chances are you will end up somewhere else." ●



Trust A Fiduciary To Act In Your Best Interest

You may have heard of the term "fiduciary," but do you understand what it means for your finances? Is there really a difference between a fiduciary and a non-fiduciary advisor? You betcha. And that difference is you.

A fiduciary has a legal obligation to act in your best interests, above his own and those of his firm. While many industry associations have certain fiduciary recommendations or oaths that they require of their members, all fiduciaries must adhere to these principles of the advisor-client relationship:

1. Be competent and exercise due care
2. Loyalty to the client
3. Full and adequate disclosure

Today, Registered Investment Advisors (RIAs) commit to a fiduciary responsibility and have to state it in writing. Commission-only reps, on the other hand, are merely in the business of making financial transactions—like helping you to buy mutual funds or annuities. They have no obligation to choose the investments that work best for you, and, naturally, may steer you towards suitable, but not the most ideal, investments that

give them greater commissions.

Hybrid advisors—those who work on both commissions and fees—have a more opaque situation. They can charge you rates for providing advice, but then can also receive commissions for selling you certain investments. By receiving commissions, the objectivity of their recommendations becomes uncertain.

With a fiduciary advisor, the clients' needs must come first. If there are any conflicts of interest, they must be fully disclosed. A fiduciary advisor carefully assesses

Charming And Original — Favorite Retirement Spots

So you've thought about moving when you retire...but where? It all depends on what you're looking for, says David Savageau, inveterate traveler and author of *Retirement Places Rated*.

If you're tired of damp, gray New England and long for blue skies, head west to San Diego or Carmel-Pebble Beach, California. If you prefer lakes, woods, and a beautifully preserved historic town, try Bellingham, Washington, or Charleston, South Carolina. Bellingham, on Puget Sound, has nearly a million acres of national forests at its doorstep, while Charleston has thousands of historic homes listed on the National Register. Or maybe you want to kick back and watch your bank account grow. The living is cheap and easy in McAllen, Texas. Access to good libraries and the performing arts turn you on? Consider Charlottesville, Virginia, and Gainesville, Florida.

Each of these towns ranks first or second for one of the characteristics retirees generally look for, says Savageau—climate, leisure activities, cost of living, and services. Your ideal probably combines several of these, and Savageau's book provides a handy "preference guide" to help you choose. In the 6th edition, covering 203 locations, Savageau says baby boomers these days are seeking places with

your financial situation and recommends a diversified portfolio that serves your financial goals. The fiduciary advisor will start with what you want to achieve—from paying your children's college costs or buying a second home to funding your retirement—and considers how long you have to get there. She probes your comfort level with investment risk then designs a mix of investments most likely to move you toward your objectives. She also analyzes your need for insurance and assesses the impact of taxes.

A 2007 federal court ruling helped clarify the distinction between financial planners and

character. "They're looking for ambiance and authenticity as much as low costs," he says.

Here's the author's list of personal favorites. Long on charm and great physical settings, many of these towns remain relatively unknown and still affordable.

- Alpine-Ft. Davis is a small, West Texas college town where a custom-built house with a view of the nearby Davis Mountains may cost less than \$200,000. And though there may be only three doctors, Alpine boasts the prettiest baseball park in the country, says *Sports Illustrated*.

- People who want their retirement spot shipshape have flocked to Annapolis, Maryland, the Chesapeake Bay home of the U.S. Naval Academy. The town is only an hour from Washington, D.C., and has its own historic district, ballet, symphony, and opera.

- With the spectacular San Juan Mountains as a backdrop, Durango, Colorado, is a magnet for skiers, bicyclists, and other active retirees. Durango's historic downtown is charming and there are plenty of doctors, but it is not cheap to live there and gets about six feet of snow during an average winter.

- Retirees hankering after sidewalk cafes and bookstores are gravitating

advisors and non-fiduciary fee-based advisors affiliated with broker/dealers. The court ruling ended an exemption from the Investment Advisors Act of 1940 that had allowed broker/dealer-affiliated advisors to charge fees and call themselves financial planners and investment advisors while not being held to a fiduciary standard of conduct.

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toward Iowa City, Iowa, where the population of 60,000 enjoys a well-developed public transportation system and the University of Iowa's sports teams and performing arts center. But temperatures swing to extremes.

- Midwesterners who don't mind subzero temperatures have been snapping up pieces of the Leelanau Peninsula in northern Michigan. Winters on Lake Michigan can be severe, and homes in the rolling hills of the peninsula cost plenty, but the cool summers and lake view make it all worthwhile.

- Retirees who like their towns New England quaint can't get enough of the Monadnock region in New Hampshire. Dominated by Mt. Monadnock, the world's second-most-climbed mountain, the area is full of little towns built around white-steeple churches and has excellent health services, libraries, and no state income or sales tax.

- People who prefer their B&Bs with a French accent like Natchitoches, Louisiana. One of the state's oldest towns, it's loaded with National Register historic properties. Summers are sultry, winters brief and gray, and property taxes have historically been rock-bottom low.

- If Louisiana is sweet and low, Silver City, New Mexico, is high and dry. In the foothills of the Pinos Altos Range, the town sits on the Chihuahua desert at almost 6,000 feet—ideal for hiking and biking. Yet it also has a first-rate medical center. Physicians, like retirees, yearn for beautiful spots.

- In Florida, Savageau suggests St. Augustine—the oldest city in the lower 48 states and loaded with ambience. It attracts a diverse group of residents and doctors, and libraries are plentiful.

- Perry Como liked Tryon, North Carolina, and so do retirees from the Atlantic Seaboard. The town lies at the southern end of the Blue Ridge Mountains and has a mild year-round climate. Crime is non-existent and garden clubs keep the town spiffy. ●

The Climate Is Right To Set Up A GRAT

The stock market is roiling, the real estate market is depressed, and businesses are struggling. It may seem like an inopportune time for a dramatic estate-planning move. But this uncertain economic environment could create a “perfect storm” for passing wealth to a younger generation.

One estate-planning maneuver that may work well now is to establish a grantor retained annuity trust (GRAT). With a GRAT, you transfer property to an irrevocable trust. That property might be stock in a company you own, commercial real estate, or even publicly traded securities. The GRAT makes annuity payments to you during the term of the trust. When the term expires, whatever assets are left (the remainder) pass to the beneficiaries you’ve designated.

The IRS treats the transfer of that remainder interest as a taxable gift. But because no one can say what the value of the assets will be at the end of the trust term, the IRS makes an educated guess. It uses a prescribed interest rate (the “Section 7520” rate) to calculate the growth of the assets, which are reduced by the scheduled annuity

payments you receive.

Although interest rates crept slightly higher during the summer of 2008, they’re still on the low side. The Section 7520 rate is adjusted monthly to reflect prevailing interest rates, and the rate for February 2009, for example, was 2.0%, compared with 6.2% as recently as August 2007. The lower the Section 7520 rate, the smaller the projected GRAT remainder, and the less potential gift tax the GRAT will generate.

For you to come out ahead, the trust assets must appreciate at a rate that’s better, on average, than the IRS interest rate. That may be more likely these days, when asset values are depressed. For example, assume you transfer \$1 million in company stock to a GRAT. If you structure the annuity payments so that they cancel out the IRS-projected growth of the assets, the taxable remainder is \$1 million, equal



to the maximum lifetime gift tax exemption for an individual. So, you won’t owe any tax on the transfer to the GRAT. (Alternatively, you could “zero out” the GRAT and not use your lifetime gift exemption.) But if the company stock gains value so that the actual gift is worth, say, \$2.5 million, your beneficiaries will receive an extra \$1.5 million without any additional gift tax. That scenario is all the more likely if the value of the

assets you transfer to the GRAT is temporarily depressed and may come roaring back when the economy improves.

There are two potential drawbacks. The first occurs if the rate at which the trust assets appreciate ends up being below the IRS Section 7520 rate. Secondly, if you die before the end of the GRAT term, the trust assets revert to your estate and could be subject to estate taxes. But the potential benefit of establishing a GRAT may likely outweigh these risks. ●

Financial Planning Basics

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Tax planning. Hidden within hundreds of pages of tax laws are a broad range of special breaks for taxpayers. Shifting income from one year to another, selling assets that have lost money to balance out gains from top performers, and making contributions to educational savings accounts are just three possibilities. Review your tax situation with a financial professional at the beginning of the year and again in December.

Insurance. Planning for the unexpected is the key when determining insurance needs. You should have enough life insurance to meet heirs’ long-term needs. Your health insurance should include coverage of

catastrophic accidents or illnesses. Disability insurance is relatively inexpensive, but could make a big difference if you need it. And you should seriously consider long-term care insurance if you don’t think your retirement income will be sufficient to pay for nursing home care.

Estate planning. Having the right estate plan will ensure that your wishes are respected. If you have substantial assets, developing a well-thought-out estate plan can minimize taxes even while you are alive and maximize the amount you are able to leave to loved ones and your favorite charities. Even if you don’t have enough in your estate to be liable for federal or state estate taxes, having a valid will can save your heirs a lot of trouble and money.

In the dying days of the 20th

century, there was talk about how the old financial rules no longer applied. “It’s different this time,” everyone said. But it wasn’t all that different, and millions of investors lost ground and time on the road to their financial goals. It’s never fun to start over, but it does give you one more chance to do everything right. Taking care of these basics should prepare you well, and we are happy to help. ●

***The Rule of 72 is hypothetical and there can be no assurance that any investment will double within the specified timeframe.**