

WEALTH MANAGEMENT ADVISOR

HEART TO HEART

Discussing care and finances with your aging parents

DIVIDENDS CAN HELP YOU MANAGE MARKET VOLATILITY

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PROTECTING WHAT'S YOURS

Asset protection should be a vital part of your wealth management plan



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Heart to heart

Discussing care and finances with your aging parents

Even if your parents are mentally and physically healthy, as they grow older they may face illness, disability or diminished mental capacity, requiring you to step in to manage their care and finances. It may be difficult to discuss these issues with your parents now, but gaining an understanding of their financial affairs while they're still healthy can help you protect their assets from mismanagement or fraud and carry out their wishes when they're not able.



Address legal matters

The most critical items to discuss while your parents are of sound mind are powers of attorney for health care and property. If your parents should become incompetent without such documents in place, court proceedings — which can be lengthy, expensive and even contentious — will be required to determine who will make health care and financial decisions for them.

With powers of attorney, your parents can appoint you (or another trusted person) to make such decisions — they can even name one person for health care and another for property.

Another benefit of a power of attorney is that the power can be applied flexibly, with your parents choosing under what circumstances control should be granted. The primary drawback

is that the power of attorney agreement must be drafted carefully to avoid undesired consequences, such as having power granted prematurely.

Set up more financial protections

There are several additional ways you can help manage your parents' finances, and it's important to discuss them with your parents so they can select the options that best meet their needs. Some options include:

Joint checking accounts. With this approach, your parents simply add you to an existing bank account, enabling you to pay their bills from that account. This provides them with significant control because they can maintain full ownership over the assets held in other accounts. It can be especially useful if there's a period of time before a power of attorney is granted when your parents need some help managing their finances. It's best suited to couples with moderate amounts of wealth; high net worth couples may require a more comprehensive solution.

Revocable living trusts. This type of trust can provide extensive financial protections. So long as he or she is capable, each of your parents can serve as trustee of his or her own trust. A spouse or child (or another trusted person) can be named as successor trustees should your parent become incompetent. Living trusts also enable your parents' estates to avoid probate on their deaths. Because the trustee will have control only over assets that have been transferred to the trust, it's critical that all appropriate assets be retitled in the trust's name.

Limited partnership/limited liability company. These options are particularly suited to those with substantial assets. Your parents put assets into the entity and can appoint themselves initially or you to manage those assets. (If necessary, the manager can hire a professional

investment manager.) These structures can also provide significant estate tax planning advantages but are highly complex and require professional legal and tax assistance.

Establish long term care

Elder care is another important issue to discuss with your parents. First, ask them about their wishes — and encourage them to be candid. Family members also need to be open about what kind of help they feel they can and can't provide.



Of course, the financial aspects also need to be considered. Elder care can be expensive, whether your parents remain in their own home, move in with family, or enter an assisted living or nursing home facility.

The most critical items to discuss while your parents are of sound mind are powers of attorney for health care and property.

Plan for comfort

By talking to your aging parents today about the importance of getting their affairs in order, you can save your family precious time and money and preserve everyone's peace of mind. Because handling their care and finances can be overwhelming, consult with your financial advisor. ■

Dividends can help you manage market volatility

Dividend-paying stocks have a reputation, deserved or not, of being relatively conservative, maybe even slightly stodgy. Even though it's true that dividends won't make you rich quick, don't underestimate their value, especially during volatile markets. When conditions are challenging, the income stream these stocks provide can make a welcome addition to your portfolio.

Steady income plus capital gains

Why are dividend-paying stocks valuable when markets are choppy? In addition to providing the prospect of capital gains, their regular income payments can give investors a built-in performance cushion. In contrast, nondividend stocks depend entirely on capital appreciation to generate favorable total returns for investors, making their performance potentially more volatile.

Historically, dividends have been a big driver of stock performance. They've provided more than 40% of large-cap stocks' total return between 1926 and 2003, and more than half of their total return in real terms, according to Ibbotson Associates.

Dividend yield and its limits

To evaluate a dividend-paying stock, look at its yield — the annual dividend divided by the current share price. This measure shows you how large a percentage of the company's per-share value comes from dividends.

Dividend yield is a useful tool for comparing the income provided by two stocks. All factors being equal, a higher-yielding stock will provide you with more dividend income.

In effect, there's a built-in floor propping up the share price of high-quality dividend payers. If enough investors have confidence in a company whose stock is falling, they'll be eager to invest when the price is low enough (and the dividend yield is high enough). This mechanism, in fact, is a big reason why dividend-oriented stocks tend to be less volatile.

On the other hand, a high yield doesn't necessarily equate to a good investment. A troubled

Tax benefits (for now)

Before 2003, dividends were taxed as ordinary income, with the top rate approaching 40%.

Now, however, qualified dividends are taxed at a maximum rate of 15%. That's identical to most long-term capital gains. And it's generally much lower than short-term gains as well as most other types of investment income (such as interest income generated by taxable bonds), which are taxed at your individual income tax rate (which may currently be as high as 35%).

As a result, there are no longer any relative tax disadvantages to receiving dividend income. But be aware that the current 15% dividend tax rate is set to expire at the end of 2010, unless Congress votes to extend this tax break.



business may see its stock price fall and its yield therefore rise. This may mean that the financial markets have lost confidence in the company's ability to continue paying that dividend in the future.

What to look for


How can you be confident in a potential investment's financial strength? Here's what to look for:

Long-term earnings growth. A company with consistently growing earnings is better positioned to sustain or even raise its dividends. If, however, a company's earnings are consistently declining, it may have a tough time sustaining its current dividend rate.

Dividend growth. When possible, look for a history of steady dividend growth. Be cautious about companies with a relatively unstable dividend history — it's often a sign of weaker financial management.

Sufficient cash flows. A company needs enough cash to afford its dividend payments. Examine its dividend coverage ratio — earnings per share divided by dividends per share. The higher the ratio, the better. A ratio below 1.0 means that the company isn't generating enough cash flow to meet its current dividend obligations.

Relatively low payout ratio. A company that pays out too big a portion of its profits may have to rethink its future dividend strategy, and one that distributes a relatively small percentage of its profits will have more resources to reinvest in its business while simultaneously paying dividends.



Limited debt. Debt isn't inherently problematic, but too much definitely is. Overly leveraged companies may have more difficulty keeping up their dividend payments.

Part of a well-balanced portfolio

One of the best reasons to own dividend-paying stocks is that, once the check is in the mail, you can take it to the bank. Having that measure of certainty is a valuable quality, especially in a volatile market.

But just because a stock offers a dividend doesn't make it a sure thing. Nor does it make nondividend paying stock a less valuable part of a well-diversified portfolio. Good companies in this mold tend to offer faster growth prospects, albeit with more risk. Many investors are well served by owning a combination of both types of stocks, as this represents one of the many facets of diversification. Your financial advisor can help you determine the mix that makes the most sense for your situation. ■

Give and take

Donate to charity with a CRT or CLT and enjoy multiple benefits

You take pride in knowing that your charitable gifts will help further the work of your favorite charitable organizations and enjoy a feeling of goodwill. When you make donations through a charitable remainder trust (CRT) or a charitable lead trust (CLT), you can enjoy many other benefits too. In fact, using these trust types can allow you to achieve some combination of the following objectives while you give to charity: minimize capital gains tax, diversify your portfolio, receive an income stream, and make gifts to loved ones at a reduced gift and estate tax cost.

Double giving power

Both a CRT and a CLT — which you can fund with assets such as stock or real estate — have split interests, meaning they have charitable and noncharitable beneficiaries.

With a CRT, the income beneficiaries — you and your spouse, for example — receive payouts under a formula from the trust for a set period or for the rest of your lives. At the end of the trust term, the “remainder” interest (what's left



in the trust) passes to one or more charities. The CRT assets won't be included in your taxable estate. (But there will be gift tax consequences if you name someone other than you and your spouse as income beneficiary.) Additionally, you'll enjoy an immediate, though only partial, income tax deduction when you create the trust, calculated based on the present value of the charity's remainder interest.

With a CLT, the charity receives the “lead” interest — periodic payouts throughout the trust's term. At the end of the term, the remaining principal reverts to you (what's known as a grantor trust) or goes to one or more of your noncharitable beneficiaries, such as your children. A *grantor* CLT works similarly to a CRT

Benefiting charity now, a loved one later

Tom wants to give \$50,000 per year to his favorite charity for the next 15 years. He transfers assets valued at \$1 million into a CLT. The trust provides that 5%, or \$50,000, will be payable to charity each year for the next 15 years, and at the end of the term the remaining trust assets will pass to Tom's daughter, Lily. If the trust earns 8% per year, Lily will receive \$1.8 million. If the present value of Lily's interest for gift tax purposes, based on government tables, is only \$500,000, that means \$1.3 million passes to her tax-free in this example.

in that you receive an immediate income tax deduction when you create the trust (for the present value of the charity's interest) — but you have to pay tax on the CLT's income and the CLT assets remain in your estate. With a *nongrantor* CLT, there are gift tax consequences — but you also get an income tax deduction and don't have to pay tax on the CLT's income. The CLT assets won't be included in your taxable estate.

CRT at work

A CRT can be an ideal way to dispose of an asset that doesn't produce much income and would create a large capital gain if you sold it, such as a highly appreciated stock that pays no dividend. By funding a CRT with appreciated assets and naming yourself the noncharitable beneficiary, you can not only increase your cash

flow (through the CRT payouts) but also defer (and possibly even eliminate some) capital gains taxes while diversifying your portfolio.

The CRT can sell the appreciated assets and use the proceeds to purchase diverse, income-producing assets. The trust won't incur capital gains tax because the charity is the remainder beneficiary. You'll pay capital gains tax only on payouts you receive from the trust that are attributable to the capital gain.

CLT at work

A CLT can be useful if you're charitably inclined and hold assets that you expect to appreciate substantially in the future, such as stock in an early stage company. The trust can allow you to ultimately transfer the assets to, for example, your children, at a substantially reduced gift tax cost.

Only the present value of the noncharitable interest at the time you fund the trust is subject to gift tax. So if the CLT assets' growth rate is greater than the rate from the IRS tables used to determine the gift tax value, the excess growth will pass to the noncharitable beneficiary free of gift tax. (See "Benefiting charity now, a loved one later" for an example.)

Win-win

A CRT or a CLT can help you meet your charitable goals as well as other financial goals, such as reducing estate taxes and eliminating capital gains tax. Which one you should choose depends on your particular circumstances. ■

Protecting what's yours

Asset protection should be a vital part of your wealth management plan

Thanks to a soft economy, the up and down stock market, and the loss of equity in many homes, more people than ever are considering ways to protect their assets. Threats such as a forced bankruptcy filing, a frivolous lawsuit or an IRS audit are all reasons to implement strategies to shield your property from potential

creditors, litigation and other legal hazards. Let's explore two asset protection techniques that may be right for your situation.

1. Transferring assets to a trust

Placing assets into a trust is one way to protect them from potential creditors. But not all types

Who owns that asset?

Your ability to protect a certain asset greatly depends on how you own it. One type of ownership, tenancy by the entirety, is common and easy to accomplish.

Tenancy by the entirety is a form of joint tenancy with right of survivorship that can apply to personal residences. Available in most states, it's perhaps the simplest and least intrusive form of asset protection and allows you to protect your home for as long as you and your spouse continue to use it. Unfortunately, persistent creditors can eventually succeed to ownership of the property when you sell or on your or your spouse's death, regardless of who dies first.

If one spouse is more likely to be the object of a lawsuit than the other, an alternative approach is to shift assets to the "safer" partner to protect them. Understand, though, that shifting too much property to one spouse could interfere with the estate planning goal of balancing assets to take advantage of each person's estate tax exemption. Then again, holding a home in tenancy by the entirety may not help achieve your estate planning goals either.

of trusts will provide asset protection. A common estate planning tool, the irrevocable life insurance trust (ILIT), is a trust that does. You set up and fund a trust that uses those funds to buy an insurance policy on your life — or you can transfer an existing policy to the trust. Either way, the policy's value is protected because you're no longer considered the legal owner. (This also means the policy isn't included in your taxable estate.) At the same time, the trust also protects it — until funds are distributed — from your beneficiaries' creditors.

Other trusts also are available to protect your assets. In recent years, several states have followed Alaska's lead and passed laws to provide protection to "self-settled" trusts. These trusts are available to residents of any state, but the

costs of setting them up and maintaining them are typically higher than with normal living trusts and should be weighed against their asset protection benefits.

Offshore trusts are an option, but they come with their own set of costs and risks. These trusts can offer significant protection. But they not only must comply with the laws in the country in which they're established, but also must be structured in accordance with U.S. tax laws and regulations.

2. Establishing a family limited partnership

A family limited partnership (FLP) is another estate planning tool that shields assets from creditors. You establish an FLP by setting up a partnership and transferring assets to it in exchange for limited partnership interests for you and your family. You also can use a properly structured FLP to reduce gift and estate taxes.

In general, a limited partner's creditors cannot reach the FLP's assets — they can only obtain rights to receive any distributions made from the FLP to the limited partner. By retaining a small general partnership interest (1%, for example), you can retain control over the property while providing some level of protection from potential creditors.

In recent years the IRS has challenged valuation discounts on FLP interests and also attempted to have FLP assets included in the taxable estate of the person who funds the partnership. But a properly structured and operated FLP likely will survive most challenges.

Consider your options

No matter what the economic climate is, asset protection should always be part of your overall wealth management plan. Setting up trusts and FLPs are just two techniques to help ensure your assets stay with you or go where you want them to. Discuss with your financial advisor these and other asset protection measures that fit your specific situation. ■

Your source for customized investment and financial planning



Successfully managing personal and family finances means making the right decisions today while considering their implications for the future. At Ferrell Wealth Management, our sole focus is our client's best interest, and we customize portfolios and financial plans to fit each individual's set of goals and objectives.

We provide a full range of investment management and advisory services including:

- Fee Based Investment Advisement
- Comprehensive Personal Financial Planning
- Portfolio Management
- Investment Policy Formation and Review
- Banking Services through Schwab Bank and other banking relationships
- Tax and Estate Planning
- 529 Plans
- Separately Managed Accounts
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By working with our experienced team of advisors, you will benefit from the independent and objective perspective necessary to make your financial vision a reality.



James W. Ferrell, MBA, CFP®, CPA, PFS, CIMC President

A Certified Public Accountant (CPA), Certified Financial Planner (CFP), Personal Financial Specialist (PFS) and Certified Investment Management Consultant (CIMC), Jim is the founding shareholder and President of Ferrell Wealth Management, Inc.

Jim is actively involved in local organizations including: Morning Star Charities, Inc. (President), Winter Park Chamber of Commerce, the University of Central Florida Foundation (Board of Directors), Winter Park YMCA (Board of Directors), on the Center for Entrepreneurship at Rollins College (Board of Directors) and is an Inductee in the UCF College of Business Administration Hall of Fame.



Katie Miller, MBA Vice President - Senior Financial Advisor

A Certified Financial Planner (CFP) candidate with a Master of Business Administration Degree from Rollins College, Katie works as a financial advisor responsible for assisting clients set and achieve their long-term financial goals through investments, tax planning, asset allocation, risk management, retirement planning, and estate planning.

Katie is a member of the Winter Park Community Foundation Advisory Board and Investment Management Consultants Association (IMCA), and involved in such local organizations as the Central Florida YMCA, Orlando Chamber of Commerce, Winter Park Chamber of Commerce, and Camp Boggy Creek.



Alex Negron, MBA Senior Financial Advisor

A Central Floridian for 20 years, Mr. Negron is a Certified Financial Planner (CFP) candidate with a Master of Business Administration Degree from Webster University. Alex is responsible for assisting clients with their financial plan, which includes retirement, estate, and tax planning. He develops asset allocation plans using various types of investments in order to properly diversify and reduce portfolio risk.

Prior to becoming a member of Ferrell Wealth Management, Inc., Alex worked for Charles Schwab & Co., Inc. as a VP- Financial Consultant in Orlando, FL.

Mr. Negron is involved with local organizations such as the Orlando Chamber of Commerce and Leadership Orlando Alumni. He holds the Series 7, 9, 10, 63, and 65 licenses.

Please call us today at 407-629-7008 to discuss your needs, or visit www.Ferrellwm.com for more information on our services.

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