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Did You Know...?

News you can use for your financial well-being

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Year-End Planning Tips

As the end of the year rapidly approaches, now is the time to start thinking of moves you can make before December 31st to better your financial picture. Here are some ideas to get you started.

- Fund your retirement- maximize contributions to IRA/ROTH IRA's (\$4,000+\$1,000 catch-up if you're over 50) and 401(k)/403(b)'s (\$15,500 + \$5,000 catch-up if you're over 50)
- Start a retirement plan for your business
- If you're over 70 ½, be sure to take required minimum distributions from retirement accounts
- Make tax-free gifts—limit \$12,000 per donor to any one recipient
- Donate those odd shares of stock to charities—clean up your portfolio and get a tax deduction in the process
- Harvest losses on investments to lower your taxes

Talk to me about these issues today to make sure you end the year in the best financial health you can be.

Incapacity

By Matthew J. Duncan, Law Offices of Matthew J. Duncan

Revocable living trusts are very popular ways to pass on wealth. The trust authorizes the successor trustee to administer and distribute trust assets when the owner dies without the expenses and delay inherent in most probates. Most trusts also authorize the trustee to manage trust assets *before* the owner's death if the owner loses the ability to do so.

What about the management of *non-trust assets*, such as retirement accounts? Or signing income tax returns for you if you can't? Or selling your car? By signing a *durable power of attorney for asset management*, you can appoint an *agent* to take care of these things. The agent can be the same person you name as your successor trustee. Trustees and agents are often referred to as "fiduciaries".

Many durable powers of attorney are "springing": your agent can only act if you are incapacitated. Such powers of attorney should be clear as to how your incapacity can be established, such as by a doctor's certificate. Alternatively, you can appoint an agent with *present* authority to act on your behalf, even though you can still manage your affairs. Finally, you can appoint *more than one agent* if you wish, and require that they act *together*.

Together, the living trust and the durable power of attorney for asset management will allow the person or persons you trust to manage your financial affairs for your benefit without having to seek the authority of the court. Unfortunately, the powers granted a fiduciary can also be abused, often at a time when you cannot protect yourself. When that happens, court intervention becomes necessary. Great care should therefore be taken in choosing your fiduciary, determining the circumstances under which the fiduciary can act, and selecting the powers which the fiduciary can exercise.

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Anticipation versus Preparation

In the past, I've likened big stock market declines to earthquakes, as they often arrive without warning and can leave a lot of destruction in their wake. The Bear Market of 2000-2002 was much like the Loma Prieta earthquake of 1989—a once-in-lifetime event of historic proportions.

In fact, the comparison of market declines to earthquakes extends beyond just the event itself: how you prepare for and recover from each event has many parallels.

In the case of both earthquakes and declining markets, despite brilliant minds and modern science dedicated to the task, no one has yet to find a way to infallibly forecast these events. Thus, the only way to cope with these events is through preparation: anticipation alone is not a viable strategy. Selling stocks at the absolute highs and buying back in at the exact bottom is probably about as likely as getting earthquake insurance the day before the earthquake hits. [And I'm sure that some person coincidentally did buy earthquake insurance the day before Loma Prieta, and they probably got rich writing a book entitled "I Predicted the Earthquake, and You Can Too!", which is on the bookshelf next to the one written by the guy who sold all of his stocks in March 2000 and now wants to help you predict the future for \$19.95].

Preparation for either event is both mental and physical. Mentally, you must think through in advance how you will react: in the heat of the moment, what will you do (in the case of an earthquake, how do you ensure the safety of you and your family—in the case of a market decline, how you ensure your fiscal security)? Physically, you must make sure you are equipped to cope with the event: do you have the supplies set aside to weather the event (in the case of an earthquake, water and food—in the case of a market decline, extra cash to cover expenses for a while).

It's been eighteen years since the big earthquake, and the "earthquake kit" many people bought the day after that temblor needs to be revisited and replenished. Likewise, we've now enjoyed five years of a steady rise in stocks since that horrible bear market of 2000-2002, so financial "contingency plans" could probably use to be refreshed.

Much effort is given to anticipation, whether it's forecasting the odds of an earthquake or the odds of a bear market, but anticipation will likely never replace the need to be prepared. Give us a call and let us know how we can help you be prepared.

Timely Tidbits:

- SEI has released estimates of the taxable distributions their funds will be making in December. Expect distributions equal to 1-4% of the total fund value (i.e. if you have \$500,000 invested, expect a taxable distribution of \$5,000-\$20,000 for 2007). If you'd like more details, please contact us and we can provide you or your tax professional with a detailed estimate.
- If recent market volatility has you worried, don't hesitate to call or e-mail us. We've reached out to many of you over the recent weeks. but as conditions change or new questions arise. please let us know.

Quote of the month: "Economics is extremely useful as a form of employment for economists."

John Kenneth Galbraith, *US (Canadian-born) administrator & economist (1908 - 2006)*

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