WEALTH SERVICES ALLIANCE®

Family Wealth Preservation
The Family Mission Statement

In our newsletter last quarter, we began a series of articles discussing the issues facing families as they begin to decide how to distribute and preserve their wealth. We discussed the human tendency to consume inheritances rather quickly and the fact that even large estates, including family owned businesses, rarely survive past the third generation. We talked about the need to expand the normal thinking about "wealth preservation" from just preserving financial capital to the inclusion of human capital and intellectual capital, as well. And, finally, I discovered that the topic, "Family Wealth Preservation" demands far more space than one newsletter would allow.

So, here's the second installment in the series, Family Wealth Preservation. Oddly enough, even though the main goal of wealth preservation may be to keep financial capital in the family, the main focus of planning needs to be on preserving intellectual capital. "Why," might you ask, "is that, seeing as how all I really want to do is pass my assets…my cash, business, stocks, real estate, etc. to my heirs in such a way that they will be able to keep it together? Can't I devise a trust that will do this for me?" My answer is, yes. You do need the proper trusts as part of a comprehensive estate plan to do what you want with your assets, when you want, in the manner that you want, and at the same time avoid as much cost as possible. You can also go a long way in extending the life of your financial capital by carefully choosing a succession of trustees that will do an excellent job of financial management. In the end, however, the longevity of your plan will depend upon the diligence given to the preservation of your family's intellectual capital.

The accumulation of wealth in your family wasn't due to luck. I'm certain of that. None of my friends or clients struck it rich by winning the lottery. In the early 1960s, Baron Guy de Rothschild, heir and member of the French branch of the great Rothschild banking family, was in New York to help start a U.S. branch of the Rothschild banking empire. He was interviewed by a reporter from The New York Times, who asked how he had amassed his huge estate. The taciturn Baron Rothschild is said to have replied with a very straight face:

> Well, when I was a boy, growing up in rural France, we did not live ostentatiously. I walked to school. One day while I was still in elementary school, I passed a fruit stand, where some nice, sweet lovely apples were being sold for about a nickel apiece. I bought one. When I arrived at school, one of my classmates saw my apple and envied it, so I sold it to him for a dime. The next day, I used the dime to buy two apples for a nickel each, and sold them for a dime each. This went on for a number of years. I continued, day after day to double my inventory from my previous profits until one day, I learned that my grandfather had died, leaving me a little over one hundred million in US dollars.

Baron Rothschild was a direct descendant of a poor German Jew, Mayer Amschel Rothschild (1744-1812). Mayer started out poor; he grew up in a ghetto in Frankfurt.

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Market Commentary

The market began the year with a rough start as a flood of bad news roiled investor sentiment. Early reports showed economic indicators hitting fresh lows with corporations continuing to shed jobs amidst weak economic conditions. The new administration's lack of a detailed plan to manage the financial crisis merely added to negative investor sentiment, sending the markets plunging to a new bear market low of 676 on the S&P 500.

Despite all the gloom and doom filling the airwaves, the market staged a comeback of sorts in March with the S&P 500 rallying 8.5%, cutting the market's losses for the quarter to -12%. Driving the market higher was a host of positive developments which lightened investors' spirits and boosted the ailing markets. The Federal Reserve's interest rate cuts reduced borrowing costs, spurring lending and giving a much needed shot in the arm to the financial sector. Economic data began to show some signs of improvement as the decline in retail spending and manufacturing orders eased. Consumer confidence bounced off its recent lows and lower interest rates coaxed bargain hunters back to the housing market. By late April these positive developments had pushed the market higher, rewarding patient investors with an additional 7% rally.

The question on many investors' minds is, "Where do we go from here"? In our opinion, three primary factors have fueled the market's March rally. The first factor is what we will call the "better than expected data" effect. While the economic results continue to reflect weakness, there are some signs that the negative trend is stabilizing. This change in trend has been interpreted posi-

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Is Refinancing Right for You?

The economic downturn has encouraged consumers to become more cost conscious. One way consumers can save is through a mortgage refinance. Thanks to a series of interest rate cuts by the Federal Reserve, mortgage rates have hit historic lows. The rate on a 30-year conforming mortgage has fallen to 4.80%, down from 6.00% a year ago. Consider these tips before you decide to refinance.

Do you have a high mortgage rate?

If your home mortgage carries a high interest rate, then a mortgage refinance could save you hundreds. For example, a homebuyer who took out a 30-year $417,000 mortgage at 6.80% in the summer of 2006 and refinanced at today's rates could save $600 a month, helping to boost their monthly cash flow.

How long will you stay in your home?

Keep in mind, a home mortgage carries refinancing costs including title, appraisal, and other lender fees. Refinancing only makes financial sense if you plan to stay in your home for at least 3 to 5 years, allowing you time to recoup your closing costs.

What if I have a Jumbo Mortgage?

Jumbo mortgage holders, those with mortgage balances above $417,000, have been unable to refinance at today's low rates. These loans are too large to be purchased or guaranteed by Fannie Mae or Freddie Mac, leaving them to be priced in the private market where investors are demanding higher interest rates. There is still a way you can take advantage of lower mortgage rates. You can choose to pay your mortgage down to the conforming loan limit, qualifying you for a lower rate.

If you decide a mortgage refinance is right for you, talk to a trusted financial professional who can help you with the mortgage refinance process. If you need help deciding what impact paying down a mortgage has on your financial plan, give us a call. We're always here to help.

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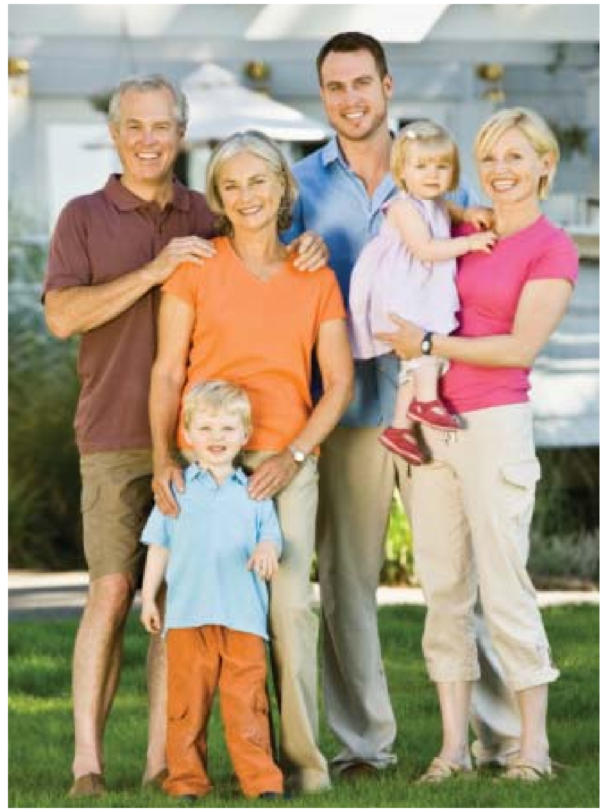

He developed a finance house and spread his empire by installing each of his five sons in European cities to conduct business. An essential part of Mayer Rothschild's strategy for future success was to keep the control of businesses in family hands, allowing them to maintain full discretion about the size of their wealth and their business achievements. You see, Baron Guy de Rothschild wasn't just a member of the "lucky gene club", as he led the reporter to believe. Indeed, there was little or no luck involved at all. The family's success was carefully planned centuries before by Mayer. He knew that the preservation of the Rothschild family's intellectual capital was a prerequisite to the preservation of its financial capital. A hint as to the care and thought that went into Mayer Rothschild's plan to preserve the family's intellectual capital is found in the family motto, Concordia, Integritas, Industria or "Harmony, Integrity, Industry". So, what is a family's intellectual capital, and how is it preserved? The real capital a family possesses is the capital that enabled it to generate wealth in the first place. It's the family's values and traditions. It's family lore, ethics, relationships…its mission. In some respects, passing on this intellectual wealth is easier than creating and bequeathing financial wealth, and in some respects, more difficult. While we can use hindsight to view what qualities were needed to build a family's wealth, we still have to be able to discern what those qualities are…and we need to get our findings written down if we hope to pass those to future generations.

The first and most important tool for capturing intellectual capital for future generations is a Family Mission Statement. This statement should act as a guide as to what is expected from future generations to earn the right to share in the family wealth. It should help future generations remember that the real wealth of the family includes intellectual capital and human capital, and not just financial capital. The mission statement should serve as a preamble to the estate plan, giving insight to the reason the patriarch or matriarch is leaving the estate in the manner they have chosen. It allows the family patriarch or matriarch to share, in his or her own words, how they believe the family's wealth was created. This kind of mission statement is of necessity more lengthy than that of a mere business's or charitable organization's mission statement. It's not only where a family reveals its purpose, vision, and values - the compilation and creation of a family mission statement provides a forum for a family to recount its history, both good and bad, to sort out the good and to choose a form of family governance going forward.

Think about it for a moment. What do you know about your great-grandparents on your father's side of your family? Do you know their names? Do you know how many kids they

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R_x For Your Portfolio

The Financial Adviser Is In

A bruising bear market that began in October 2007 has claimed nearly thirty percent of the average investor's portfolio. This has lead many investors to question whether they should risk their money in the stock market at all. While watching your asset value decline is certainly troubling, keep in mind, the market on average returns 32% one year following the end of a bear market. Before throwing in the towel on your investment portfolio, you should consider seeking objective advice from an experienced financial adviser. A financial adviser can help you rebuild your portfolio by providing sound, independent, and objective advice; guiding you through the repair process; and ensuring you stay on track in order to reach your financial goals. Equally important, having an independent set of eyes can help steer you away from potential landmines that can permanently derail your financial goals.

Independent and Objective Advice

Many investors' first inclination when staring down a bear market is to panic and sell as markets move lower. Unfortunately, very few investors are able to time the market perfectly. Most are left scrambling to get back in after a bull market is in full swing and most of the gains have already been achieved. We saw just such behavior play out in the first quarter of 2009 as the S&P 500 bottomed at 676 on March 9, 2009. If an investor had sold out of the market at this point they would have missed a subsequent 18% rally through the end of the month. This rally essentially cut the market's quarterly losses in half from -25% at the low point to -12% through the end of the first quarter. Investors who work with our seasoned financial advisers understand the importance of maintaining financial discipline in order to avoid making the types of rash decisions that can permanently impair their future returns. Our financial advisers can help you determine the proper asset allocation for your portfolio, recommend an investment strategy during times of market distress, and position your portfolio for the eventual economic recovery.

A Guide through the Repair Process

It may feel a bit overwhelming reviewing your brokerage statements and seeing the losses that have piled up in your investment portfolio. Don't worry, we are here to help. Our financial advisers have the knowledge and expertise to guide you through the repair process. We can help you get back on track by conducting a comprehensive review of your entire estate, assess your risk profile, and create a financial plan to help you reach your investment goals. By conducting a thorough review of all your assets we can tailor a strategy for your investment portfolio, ensuring you maximize your return for the amount of risk you are willing to assume. Whether your goal is funding a child's college tuition or your own retirement, our financial planners have the experience and resources to help you get back on track.

Stay Disciplined. Stay on Track.

Getting back on track as we emerge from a bear market is the first step, but staying on track is just as important. We use a combination of personal reviews and technological controls to closely monitor our client portfolios to ensure the proper asset mix is maintained, taking any necessary steps to correct any deviation from our investment models that can hinder performance. We keep our investment models up-to-date with the latest market and economic research, ensuring we provide our clients with the best investment opportunities. Finally, and perhaps most importantly, we manage portfolios within the con-

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("Market Commentary" continued)

tively by the markets. The second factor relates to the new administration's awareness of the news cycle and their desire to proactively control its spin. Through a process of transference, the President's popularity has, rightly or wrongly, lent optimism to the government's interventionism. Surprisingly, this too has been interpreted as a positive by the markets, which thus far appear content in bartering free markets in exchange for solvency. Finally, the combination of the first and second factor has resulted in a third factor- an emotional circuit breaker. In November of 2008 and February of this year, the market was clearly operating in panic mode. Fear begot more fear and selling begot more selling. With a pause in the negative feedback loop, more rational valuation decision-making has been allowed to return to the market. These three factors together have resulted in a sudden and upward shift in the market equilibrium.

Looking at the market today, we believe that short term valuations reflect a bias towards continued optimism and better than expected results. While we are clearly of the belief that markets are undervalued compared to their long term potential, our research into the history of market recoveries suggests that rarely do recoveries occur in a linear and orderly fashion. Given this perspective and the fact that there are numerous market events on the horizon, including the bank stress tests and FOMC meeting, we are selectively rotating the portfolios into a recovery posture. Despite the current headline risks, we continue to agree with the consensus view that a sustained economic recovery will likely come in the first half of 2010. We intend to take advantage of any near term downdrafts in order to increase our equities exposure, with the goal of achieving a neutral strategic allocation by the latter part of the year. We continue to maintain our cautious positioning in bonds due to our inflationary concerns. In fact, we are holding a great

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had? How about your great-grandparents on your mother's side, do you know who they were? Since, likely you're the one who is building, or has built, an estate worth preserving; wouldn't you like your distant heirs to know something about you…particularly since your unique values would be a great benefit to them?

Wealth Services Alliance® can help you create a Family Mission Statement during the course of developing your estate plan. The steps that we will take will include interviewing your family members to get different perspectives on questions including, but not limited to, the following:

- What life values do you think your ancestors left to you that enabled your family to flourish today?
- What was the greatest challenge to getting your business/career started?
- What were/are the most important character traits that the founder needed to get your business going?
- What message(s) would you like to send about life/values to those of your great, great grandchildren who may or may not be employed in your business?
- What are some of your family's best stories?
- What are your family's best qualities?
- What are the greatest life lessons that your parents/grandparents taught you?
- Are there any other important messages that you would like to send to your great, great grandchildren?

In short, we can help you do for your family what Mayer Amschel Rothschild did for his; build a sustainable method of transferring intellectual capital across generational lines. If you wish, we can even use technology that Mr. Rothschild didn't have available in the 18th century - we can videotape the patriarch, matriarch and other family members sharing their unique vision for their family.

I, myself have gone through our process of building a Family Mission Statement. It has become a preamble for my estate plan. I believe that it serves as a guide for my future heirs as to how they are expected to preserve and flourish with what God has given me to pass on to them. I'll be happy to show you the Family Mission Statement that I've done, as soon as we've completed one for you and your family.

In the mean time, I'll look forward to writing next quarter's article in this series, Control Is Better than Ownership. I hope you're enjoying our newsletters. If you have a topic suggestion for one of our future editions, please email me at bozanne@probityadvisors.com I'd love to have some fresh ideas that would be of interest.

May you be healthy, happy and fulfilled!

Buddy Ozanne

President
Probity Advisors, Inc.®

("Rx for Your Portfolio" Continued)

text of the client's overall financial plan, ensuring that the client's goals, and assets to fund those goals, are kept in lock step with one another.

Bear markets are always difficult to navigate, but before you make a major change in strategy first consider consulting an experienced professional. Talking to a seasoned adviser who has weathered previous bear markets can help determine the right investment opportunities for you in the current market environment. Opportunities and risks are abound in all markets - whether it be a bull market or a bear market. Give us a call and let us structure a comprehensive financial plan to help put you back on the road to recovery.

("Market Commentary" Continued)

deal of cash in lieu of bonds. The areas where we are buying in the bond market either tend to have shorter durations or have pricing dynamics that are more greatly influenced by reduced credit risk than increased interest rate risk.

Speaking strictly as portfolio managers, we are cautiously optimistic in the short term and bullish over the intermediate term. While it has been encouraging to see the market recover somewhat, we cannot know whether we are seeing the beginning of the next bull or just one of a number of "sucker's rallies". The economy's underlying earnings engine will likely continue to spit and spatter as it seeks the proper blend for sustained growth. The trend clearly points to a longer term recovery as the real impact of stimulus will not be felt for yet another year. In short, we are buyers, but methodically so, adding to our positions only when value presents itself.

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