



## WEALTH SERVICES ALLIANCE®

### Family Wealth Preservation

On average, people spend any inheritance that they receive. All too often, this happens rather quickly. Most people, apparently, are ill equipped to handle sudden wealth. According to the American Automobile Dealers Association, the average person pays cash for a new car purchase within nineteen days of receiving an inheritance. Smaller inheritances are typically consumed in very short order; whereas, larger estates may take decades or even a couple of generations to disappear. Yet, consumption of wealth seems almost inevitable. This phenomenon is not unique to our culture. The saying we hear used in domestic estate planning circles is, "Shirtsleeves to shirtsleeves in three generations." The Chinese hear the proverb, "Rice paddy to rice paddy in three generations." They both mean the same thing.

One extraordinary family visionary may have the courage, fortitude, character, work ethic and stewardship to build up a comfortable fortune, usually through taking an entrepreneurial business risk, and making it work. We'll call this person, for the purposes of this discussion, the patriarch; although, many a family fortune has been built by a matriarch. In my experience, this remarkable person is a superhero, dodging bullets and trolls that would defeat most enterprises, leveraging him/herself to the hilt to get past tough times, and suffering great personal deprivation just to see the family enterprise succeed. Often, this patriarch's deep desire is for a loved one - usually a child or children, grandchild or grandchildren - to step in at some point as succes-

sor and perpetuate the family enterprise. Our patriarch in his heart of hearts wants life to be easier for the next generation, well knowing that some of the strength of his character's mettle was refined and burnished in the fire of challenge, toil and struggle.

Some family leaders, Warren Buffet and Bill Gates for example, eschew the whole notion of inherited wealth for the very reason they believe that toil, struggle and deprivation builds character. Whether a financially successful parent wishes to make life easier for his children, or is more concerned that inherited wealth will become a detriment to character, he will pray that whatever he does will not inhibit his children's health, happiness and progress.

I've come to the conviction through the past thirty-eight years of helping families manage their wealth that there is a perfectly real possibility inherited wealth may be passed along to multiple future generations without harm. Indeed, I believe that most wealthy families can maintain and even propagate their family's wealth for generations to come, if the patriarch will exercise the same discipline, the same stewardship, courage, fortitude, character and work ethic in planning his family's wealth preservation that enabled him to build wealth in the first place. You see, building wealth, whether it be from a created family business, a lucrative profession, or just scrimping and saving, comes with no better instruction book than raising a

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### Investing in a Bear Market

The year 2008 will go down as one of the most difficult investment environments in years. The S&P 500 ended the year down 39% as the financial crisis took its toll on the equity markets. Many investors have seen their portfolios ravaged by the bear market. Still, with falling stock prices and weak economic news even the hardest of investors have started to question their resolve to staying invested in the markets as the value of their portfolios continue to slide. Since the start of the bear market the S&P 500 has fallen 46% from its peak, more than the average 30% bear market decline. Exiting the market now could cause you to miss out on the market's recovery. In the spirit of keeping investors on track to meeting their investment objectives we have compiled several tips to follow for investing in a turbulent market.

#### Develop an investment strategy.

For investors who have avoided looking at their portfolios for fear of knowing how much they have lost, now is the time to review your holdings with your investment advisor to determine your proper asset allocation and position your portfolio for the eventual recovery. If your portfolio's performance has tracked the S&P 500 throughout the bear market, it has fallen roughly 46% from the market peak. This means your portfolio's

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## Federal Estate Tax Changes

As of January 1, 2009 the federal estate tax exemption increases to \$3.5 million from \$2 million in 2008. The higher tax exemption level means more estates will be exempt from the estate tax, and more savings for those estates still affected. This change may affect how your estate plan should be structured. If you have questions about your estate plan and any changes that may need to be made to provide your estate the most amount of protection, please give one of our estate planners a call.

## Retirement Plan Changes

This year there are several changes to contribution limits and distribution requirements for retirement plans. The maximum contribution for 401(k), 403(b), and most 457 plans has increased from \$15,500 to \$16,500. For those 50 or older you may contribute an additional \$5,500 for a total of \$22,000.

IRA contribution limits have remained the same this year with a maximum of \$5,000 and a \$1,000 catch up for individuals over 50. However there has been one significant change regarding IRA's, this year there will be no required minimum distribution for those over 70½. If you have any questions about how this change affects your income plan for the coming year please give one of our financial planners a call and we will be happy to discuss your options with you.

(“Bear Market” Continued)

asset allocation has significantly strayed from its initial target. Wealth Services Alliance affiliated financial planners can help you utilize the current bear market to bring your asset allocation in line with your risk profile best positioning you for the markets recovery.

### Take advantage of high-yield investments.

Our research analysts have been closely following the developments in the fixed-income market over the last quarter, identifying several buying opportunities in the investment-grade corporate and municipal



“ONCE A BEAR MARKET BOTTOM DOES SET IN, THE MARKET ON AVERAGE REBOUNDS 32% WITHIN THE FIRST YEAR.”

bond markets. These securities fell out of favor with investors as the financial crisis intensified during the past year, forcing many financial institutions to sell off assets to raise capital. Sellers struggled to unload these securities as buyers became increasingly risk averse. In order to bring buyers to the table sellers were forced to sell at discounted prices, pushing up yields to above average levels. Investors can now have their pick of municipal and corporate bonds with 5% and 7% yields, respectively.

### Avoid market-timing.

The stock market has been in

its current bear market rut for 15 months, longer than the average bear market of 10 months. Selling now to avoid further losses may seem to be the right move to make, but could prove costly as the bear market bottoms. Keep in mind market bottoms are often established during times of maximum market pessimism when most investors have given up on the markets. This is usually a blink and you'll miss it in a moment. Once a bear market bottom does set in, the market on average rebounds 32% within the first year. Few investors are able to perfectly time the market's peak and lows, often buying at the top

and selling at the bottom. For instance, if investors had sold at the November 20, 2008 low, then they would have missed the subsequent 20% rally in the market through the end of the year.

We know it is difficult to remain invested in a bear market, especially when the market experiences rallies then subsequently falters. Just like all bear markets before, this bear market will also come to an end. In the meantime, make a proper assessment of your investment goals to ensure your portfolio is on the right track. That way you will be ready when the bull market returns.

## Tax Loss Harvesting

Investors found little refuge from the bear market in 2008 with most asset classes, excluding treasuries, experiencing double-digit declines. For investors with taxable accounts at Probity Advisors, we took advantage of this decline in 2008 to carry out tax loss harvesting

in our clients' portfolios. With tax loss harvesting, securities sold at a loss (realized capital losses) can

be used to offset capital gains from an investment portfolio. The IRS permits investors to deduct up to \$3,000 in capital losses from ordinary income. Any losses above that amount can be carried forward indefinitely to offset future gains in your investment portfolio. Capital losses from one asset, stocks or mutual funds, do not have to be used only to offset capital gains in stocks or mutual funds. Capital losses can also be used to offset capital gains from other assets, such as a home or business.

Keep in mind the IRS wash sale rule if you want to preserve your

tax benefit. The wash sale rule disallows a realized loss if you purchase the same investment 30 days before or 30 days after taking a loss. If you want to preserve your asset allocation during this time, you can invest in a different stock, mutual fund or ETF that follows a similar investing style.



Although capital losses can only be taken in taxable accounts, investors with IRAs need

to make sure they have not run afoul of the wash sale rule when claiming the loss on their return. Last year, the IRS ruled that replacing a security sold in their taxable account with an identical or substantially identical security in their IRA would violate the wash sale rule. The precedent used by the IRS in issuing this guidance has potentially far reaching implications with respect to both the taxation and management of your portfolio. Consult with your McKinnon, Wootton & Associates tax professional to maximize the tax savings from your harvested capital losses.

## Tax Tips

As tax season approaches taxpayers should be aware of several tax law changes and renewed tax breaks that can help minimize their 2008 tax bill. Some of the new tax breaks stem from the federal government's 2008 Economic Stimulus plan. We have selected some of the most important tax breaks and changes below that may help you in your tax planning.

### Standard Deduction Increase.

Taxpayers taking the standard deduction instead of itemizing will see their deduction rise for the 2008 tax year: \$10,900 for married couples filing a joint return and qualifying widows and widowers, \$8,000 for heads of household, and \$5,450 for singles and married individuals filing separate returns.

### AMT Exemption Rises.

More taxpayers will benefit from Congress's passage of higher AMT (alternative minimum tax) exemption levels for 2008: \$69,950 for a married couple filing a joint return and qualifying widows and widowers, \$46,250 for singles and heads of household, and \$34,975 for a married person filing separately.

### Renewed Tax Breaks.

Eligible taxpayers can continue to take advantage of several tax breaks that were previously set to expire at the end of 2007, but renewed for the 2008 tax year: Deduction for state and local sales taxes, tuition and fees deduction, and educator expenses deduction.

("Family Wealth" Continued)

family. We tend to learn as we go.

With this series of articles, I'll give you a few ideas that will help you and your family plan to retain your family's wealth through many generations.

I'll give you a brief overview of topics such as:

- **Control is better than ownership**
- **Setting up a family government**
- **Holding family meetings**
- **How to be a good beneficiary**
- **How to be a good trustee**
- **Anticipating future challenges**
- **Teaching children how to be "good with money"**
- **The value of philanthropy**

In order to preserve family wealth, we must first define what we mean by the term, "family wealth". In the late 19<sup>th</sup> century and early 20<sup>th</sup> century, a rather unusual woman by the name of Henrietta, "Hetty" Green became extremely wealthy by investing heavily in the new technology of the time - railroads. As wealthy as she was, Hetty exhibited unusually penurious behavior. She had a habit of wearing the same tattered black outfit - including hat - because it required less cleaning. Such quirks earned her the nickname "The Witch of

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**"MOST WEALTHY FAMILIES CAN MAINTAIN AND EVEN PROPAGATE THEIR FAMILY'S WEALTH FOR GENERATIONS TO COME"**

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Wall Street”.

Although very wealthy, she commuted from her tiny tenement flat in Hoboken, N.J. to her Manhattan office, because real estate prices were “just too high” in Manhattan. Her perspective on wealth was so parsimonious that when her son’s knee became infected following an injury, she tried treating the knee herself. But, when it failed to respond, she took him to Bellevue Hospital as a charity patient. The doctors quickly discovered her identity and demanded payment for her son’s treatment. Hetty refused, took the boy home, and never sought medical assistance for him again until several years later, when his leg had to be amputated. Although Hetty died the most financially wealthy woman the world had ever known, she would hardly be considered to be “good with money”. Her story illustrates that wealth in a family sense should mean more than merely financial well being. In order to preserve something, that “something” should be worth preserving, and financial wealth alone isn’t it.

Families who are truly successful at preserving wealth across multiple generations work hard at developing three forms of capital: human capital, intellectual capital, and financial capital. So, for discussion purposes, let’s define “family wealth” as the combination of these three forms of capital. Financial capital is pretty straight forward. It is money and other financial assets. Likewise, human capital is easy to assess. We need kids and grand kids, whether natural or adopted. Or, we need nieces and neph-

ews. We could use charity(s) to substitute for family, if we are willing to train non-family members to preserve family values. In short we need heirs, human capital, in order to preserve family wealth.

Finally, we want to preserve intellectual capital. As you will see in future articles in this series, a family needs intelligent, well educated beneficiaries and trustees, who are hopefully from family ranks. Most wealthy families want to preserve, promote and celebrate family history. Even if we can’t replicate or clone the family patriarch, we at least wish to memorialize his/her accomplishments and set forth those life’s qualities, which enabled him/her to amass the family fortune. And, we wish to magnify that heritage, to which we wish future family members will aspire. The task of preserving family wealth in this broader sense is challenging, but very satisfying. I hope that you find this series helpful in planning for your family’s financial future. I also hope that you enjoy reading these articles as much as I am enjoying writing them.

Buddy Ozanne

President  
Proby Advisors, Inc.

## Tax Calendar 2009

### January 15th

- Fourth quarter estimated tax payment is due.

### February 2nd

- You should receive your W-2, 1098 and 1099 forms by now. If you are missing any you should start contacting the issuer

### February 15th

- File W-4 forms if you were exempt from income tax withholding in 2008 to continue your exemption in 2009

### April 15th

- Tax returns due.
- If you are filing for an extension, today is your last day to file Form 4868. To avoid any penalties make sure you have paid any tax that is due.
- Today is the last day to make 2008 contributions to your IRA or Roth IRA.
- First quarter estimated tax payment is due.

### June 15th

- Second quarter estimated tax payment is due.

### September 15th

- Third quarter estimated tax payment is due.

### October 15th

- Tax returns due if you filed for an extension.



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