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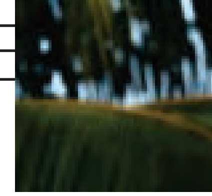

WEALTH MANAGEMENT ADVISOR

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Talking finances with your aging parents

As your parents get older, you could find yourself in an uncomfortable role reversal as you care for those who once cared for you. Even if your parents are mentally and physically healthy now, the time could come when they aren't and you must assume control over their financial affairs. Planning now can save your entire family significant time, anguish and money.

A question of control

Why is discussing finances with parents so potentially difficult? One reason is generational. If your parents lived through the Great Depression, they may have deep-rooted fears involving money and find it uncomfortable to talk about their assets. Another reason is that money often means independence and control, and your parents may feel reluctant to surrender them.

Of course, some parents will recognize the need for a discussion about their financial future. It may be you who finds the prospect of responsibility for your parents too traumatic to think about. Nevertheless, you must resist the temptation to put off that challenging conversation.

Making the transition

A variety of options are at your disposal when and if you and your parents decide you need to help with or assume their financial obligations. It's also a good idea to involve an attorney and a financial professional when discussing your options:

Joint checking accounts. With this approach, your parent simply adds you to an existing bank account, enabling you to pay his or her bills from that account. This provides a parent with significant control because he or she can maintain full ownership over the assets held in other accounts. It's best suited to individuals with moderate amounts of wealth; affluent individuals may require a more comprehensive solution.

Power of attorney for property. With such a power of attorney, you receive the legal authority to manage your parents' money if they are unable to do so themselves.

One benefit of 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. Most experts agree that everyone, regardless of age, should designate a power of attorney.

Can you find these?

Would you be ready to take over your parents' financial affairs should it become necessary? Make sure you can locate all important records and documents, including:

- Social Security numbers,
- Insurance policies,
- Health records,
- Sources and amount of income,
- Bank and investment account numbers,
- Copies of prior tax returns,
- Locations of safe deposit boxes, and
- Contact information for financial and legal advisors.

Revocable living trust. These relatively complicated structures can provide extensive financial protections. As long as they are capable, your parents can serve as trustee. You or an advisor can be named trustee should your parent become incompetent. Living trusts are highly customizable and can be an excellent way to accommodate estate plans and enable your parents to avoid probate and other expenses at their death. Because the trustee will have control only over assets that have been transferred to the trust, it's critical that all appropriate assets be indeed retitled in the trust's name.

Limited partnership/limited liability company. These options are particularly suited to individuals with substantial assets. In both cases, the parent puts assets into

the entity, and the child manages those assets — similarly to how a portfolio manager oversees a mutual fund. These structures provide significant estate planning tax advantages but are highly complex. They therefore require professional legal and tax assistance.

Difficult but necessary

Although you likely hope the day never comes when your parents are unable to manage their own affairs, you owe it to them — and yourself — to discuss their financial future. The sooner you do, the more likely you will be able to carry out their wishes when they can't do it themselves. ■

Don't be an easy target

Strategies for protecting your assets

Asset protection is the process of arranging your affairs to shield assets from potential creditors, litigation and other legal hazards. Choosing and executing an asset protection plan, however, can be complicated.

Risks are all around

If you own a business, it's essential to set it up in a form that insulates your assets from attack — generally a corporation or limited liability company. It's also a good idea to remove assets such as investments and real estate from that business entity whenever possible by paying yourself a reasonable salary, repaying loans or making periodic distributions to owners.

Also ensure you have adequate insurance that includes not only business-related insurance, but also property, health, automobile and personal umbrella coverage. Threats to your assets don't come just from business interests, but also from lawsuits related to real estate you own, auto accidents or even personal acts such as making what someone considers a slanderous statement.

Popular protection strategies

A wide variety of strategies are available to help individuals guard against these risks. In many cases, they may also tie in with tax and financial planning vehicles.

Tenancy by the entireties. This type of ownership 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.

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Unfortunately, persistent creditors can succeed to ownership of the property when you sell or upon death.

Shifting ownership to a spouse. If one spouse is more likely to be the object of a lawsuit than the other, shifting assets to the "safer" partner can protect them.

Understand, though, that shifting too much property to one spouse can interfere with the estate planning goals of balancing assets to take advantage of each person's estate tax exemption.

Qualified retirement plans. Contributions to a variety of employer-sponsored retirement plans, such as 401(k)s, are protected from creditors. Recent law changes also solidify protection for IRAs.

Family limited partnerships (FLPs). FLPs are typically created to make gifts to family members while maintaining some control and enjoying the benefits of valuation discounts. But they also provide asset protection. While the creditor of an FLP partner — including a general partner — can obtain a partnership interest, it can't liquidate the interest or compel the distribution of partnership profits. An FLP isn't a perfect form of asset protection, but the existence of one often encourages creditors to negotiate rather than try to acquire ownership of a partnership interest.

Irrevocable life insurance trusts (ILITs). If you purchase life insurance in, or transfer it to, an irrevocable trust, the policy's value is protected because you are no longer considered the legal owner. At the same time, the trust also protects it — until funds are distributed — from creditors of your beneficiaries.

Other trusts. Gifts made to a trust — whether by you for your beneficiaries or for you by another grantor — are protected from potential creditors. But a typical living (grantor) trust you create for yourself in most states doesn't enjoy this protection. In recent years, several states have passed laws to provide protection to "self-settled" trusts. These trusts are available to residents of any state, but the costs of setting up and maintaining them are typically higher than with normal living trusts and should be weighed against their asset protection benefits. Offshore trusts might be another option.

Evaluate your options

These are only some of the many strategies available to protect your assets, some of which also offer financial and estate planning benefits. Your particular situation, the business risks you face, and your risk tolerance, as well as the types and amount of assets you own, will help determine which are appropriate for you. ■

Greatest gift

The best methods of gifting assets to minor children

Making gifts to minor children or grandchildren can be a good idea from both an income tax and an estate planning perspective. In 2006, the annual gift tax exclusion is $12,000 per year per donee, so a married couple can give as much as $24,000 to each child, grandchild or other individual.

Because there are so many vehicles available for college funding and making gifts beyond projected college needs, it can be difficult to decide how to put aside funds for the younger generation. Let's look at some of the best options.

529 plans and ESAs

All earnings inside Section 529 plans are tax-free, as are distributions for qualified educational purposes. A special exception under the gift tax rules applying only to 529 plans allows you to use up to five years of annual exclusions at once and jumpstart your funding of a plan or make up for lost time.

You may choose a plan sponsored by any state — a prepaid tuition plan that can be used only at certain schools and covers just tuition or a college savings plan that builds up funds that can be used anywhere and for certain expenses beyond tuition. But choose carefully: Some plans charge higher fees than you might pay investing on your own and, because of their managers' investment choices, may feature less than stellar performance. Understand also that investing in a 529 plan involves risks. Before investing in one of these plans, you should further consider whether your or your designated beneficiary's home state offers any state tax or other benefits that are only available for investments in that state's qualified tuition plan.

By contrast, Coverdell Education Savings Accounts (ESAs) give you complete investment flexibility but are limited to contributions of only $2,000 a year. Like 529 plans, fund earnings and qualified distributions are tax-free. But unlike 529 plans, ESAs can be used to fund certain elementary and secondary school expenses.*

Direct gifts

While these plans offer tax breaks, investment dividend income currently isn't taxed very onerously, so it may be almost as beneficial to make gifts directly to children or grandchildren. Long-term capital gains and qualified dividends are taxed at a maximum 15% federal tax rate, with these low rates now extended through 2010. If your children or grandchildren are in the lower (10% or 15%) brackets, their dividend and long-term capital gains income is taxed at only 5%.

In the past, the lower rates have applied only to those age 14 or older, but the age is now changed to 18 and older beginning for the entire year 2006. Younger children are taxed at their parents' rate. Note, however, that even these youngsters can receive $850 income-tax free and the next $850 at their own low rate before higher rates kick in.

With still relatively low interest rates and the ability to defer capital gains until assets are sold, substantial assets can build up without generating much income tax. Then, the child may be able to pay for his or her own education, selling securities that might generate a capital gain. Plus, the child may then be able to take advantage of the Hope or Lifetime Learning credit. Beware, though, that funds transferred to a child will be under the child's full control once he or she reaches age 21.

Trusts and partnerships

Those transferring larger amounts or concerned about the child's ability to manage money may prefer to set up a trust or family partnership. Both vehicles can protect gifts from the spending habits of the beneficiary and be used for longer-term wealth sharing plans. Either the annual gift tax exclusion of $12,000 per donee or the lifetime exemption of up to $1 million may be used.

Trusts can protect assets from creditors or the spouse of a beneficiary, and can safely maintain and build wealth for as long as its terms provide. Over the years, funds can be distributed to the beneficiary.

Similarly, a family limited partnership or limited liability company controlled by a general partner or managing member provides some level of asset protection (see "Don't be an easy target" on page 3), and may allow valuation discounts for gift tax purposes. Like a trust, the partnership is suitable for longer terms and larger amounts of funds that justify the increased cost and complication. Each partner will be subject to tax on his or her share of partnership income.

Best way to give

You have a number of options for making gifts to minors. Your own situation and that of your beneficiaries will help dictate which one or combination of strategies best meets your tax and financial goals — in a way that's comfortable to you. ■

** Please contact your financial professional for more information on 529 plans and/or to obtain the appropriate disclosure statements and applicable prospectuses for the underlying investments of the 529 plans. Investors should consider the investment objectives, risks, charges and expenses of a portfolio carefully before investing or sending money. The disclosure statements and prospectuses contain this and other information about the investment options and their underlying investments and investors should read this material before investing or sending money.*

Term or perm: Which type of life insurance do you need?

Life insurance provides peace of mind that your loved ones will be provided for, even if the unthinkable happens to you. But if the decision *whether* to get life insurance is relatively easy, choosing *what type* isn't. The two main categories of life insurance, term and permanent, both have important uses.

Coverage for today

With term insurance, you make regular premium payments in exchange for a set sum that will be paid to your designated beneficiaries if you die during the policy's term. You select the term, which can range from one to 30 years, depending on when you buy the policy.

Term policies often allow you to renew coverage at the end of the term without having to take a new physical to determine eligibility. Premiums, however, generally rise with each new term to reflect your older age. But many term policies can be converted into permanent policies.

Coverage for life

Permanent insurance, by contrast, doesn't expire as long as you continue to pay premiums on time. In most cases, the premium remains constant. Accordingly, premiums are usually more expensive than term insurance for younger policyholders. On the other hand, older individuals who have owned permanent insurance policies for a long time will generally find permanent insurance to be more cost-effective than equivalent term coverage.

Generally, permanent insurance policies include two parts. An insurance part provides a minimum death benefit to your loved ones. An investment part has a cash value, which grows at a predetermined fixed rate, tax-deferred. This cash can be withdrawn or borrowed in certain situations.

How to choose?

Life insurance has important uses beyond just income replacement that you should consider in your term-perm decision. For example, if you expect to leave your heirs with a significant estate — and assuming the estate tax reappears in 2011 after the scheduled one-year hiatus in 2010 — your policy's death benefit, which is generally income-tax free, can be used to pay off any taxes on your estate or other liabilities.

A permanent policy ensures that your loved ones will receive a death benefit regardless of when you die, sparing you from having to pay ever higher premiums to keep a term policy active.

Term insurance provides this capability as well. But a permanent policy ensures that your loved ones will receive a death benefit regardless of when you die, sparing you from having to pay ever higher premiums to keep a term policy active.

Permanent insurance might also benefit older individuals because they can tap the policy's cash value to pay the premiums. And it can be a good choice for those who want the comfort of insurance that remains with them for the rest of their lives; they won't have to worry about losing their coverage due to health problems. (Payment is dependent upon the claims-paying ability of the issuer.)

The right option

The right option for you ultimately boils down to why you need insurance, how long you need coverage and how much protection your loved ones require. Depending on your age and the type of policy you choose, life insurance isn't necessarily cheap, but the peace of mind it can provide you is priceless. ■

For a broader view of value, look at a stock's PEG ratio

The best-known measure of a stock's value is probably the price-to-earnings (P/E) ratio. But as useful a tool as P/E is, it has its limitations. By also taking into account a company's growth prospects, the price-to-earnings-growth (PEG) ratio can provide a more dynamic view of a company's valuation.

Taking P/E a step further

The trouble with the P/E ratio (a stock's price divided by earnings per share) is that, because it's based on historical earnings data, it can create a misleading impression of a stock's current value. Consider, for example, three stocks: A, B and C, which have equal P/Es of 15. The identical P/Es don't mean stocks are equally good investments — not if the stocks are expected to grow by, say, 15%, 5% and 25%, respectively.

PEG, on the other hand, measures potential value. To calculate PEG, you divide a stock's P/E ratio by its expected growth in earnings per share. So with a P/E of 15 and a projected growth rate of 15%, stock A has a PEG ratio of 1.0 — indicating a fairly valued stock. Stock B has a PEG of 3.0, suggesting the company's shares may be overvalued. With a PEG of 0.6, stock C appears to be the best value of the three. Generally, the lower the PEG, the greater the amount of potential earnings growth an investor can purchase for the same share price.

Best for small growth companies

There are limits to the PEG ratio's helpfulness. For starters, projecting future earnings is subjective, so your calculation will be only as accurate as your earnings estimates.

Also, PEG is most useful when assessing smaller companies in growth industries. It doesn't work as well when applied to cyclical stocks such as airlines and real estate companies, whose valuations depend most heavily on the value of their assets, or for large-cap companies that pay generous dividends.

Finally, a high PEG doesn't automatically make a stock a bad investment, and a stock with a low PEG isn't necessarily a bargain. The PEG ratio is a useful valuation tool, but in the end it should be just one part of your in-depth investment research process.

Tax-smart succession and wealth transfer strategies

You've worked hard to build your wealth. So don't let poor succession and estate planning keep you and your loved ones from enjoying the full benefit of your labors.

Instead, call on **Brian A. Sullivan, CPA,** a wealth management and transfer specialist with more than 20 years of experience in helping business owners, professionals and other individuals achieve their financial goals.

In addition to having extensive expertise in accounting and tax matters, Brian is credentialed as a Certified Valuation Analyst (CVA), a Certified Fraud Examiner (CFE), and an Accredited Estate Planner (AEP), and he holds a professional real estate license. Recently he became a member of the National Association of Estate and Financial Planners (NAEFP) and is certified as an estate advisor (CEA) with that organization. This specialized training and knowledge enables him to offer clients an exceptional combination of highly expert services, including:

- Succession, gift and estate planning
- Tax planning and support
- Business valuations
- Negotiation of business sales/purchases
- Financial projections and forecasts
- Employee stock ownership plan design
- Buy/sell agreements
- Life insurance review
- Charitable giving
- Litigation support
- Fraud detection and deterrence
- Troubled business consulting

A graduate from the University of California at Santa Barbara, Brian also has a master's in taxation degree from Golden Gate University. His professional memberships include the American Institute of Certified Public Accountants, California Society of Certified Public Accountants, National Association of Certified Valuation Analysts, Association of Certified Fraud Examiners, Certified Estate Advisor, and the National Association of Financial and Estate Planning. Additionally, Brian holds an insurance sales and real estate sales license.

As a CPA, Mr. Sullivan, has more than 20 years of experience working closely with clients to develop individually tailored financial plans that are designed to meet your unique objectives. He can assist you evaluate achievable investment objectives, monitor financial performance, and assist in the creation of a workable exit strategy for successful business owners.

Brian welcomes the opportunity to put his expertise to work for you. Please call or e-mail him today to discuss your needs and learn how he can help meet them.

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