

# Perspectives

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## Cash Still on the Sideline? How to Restore Your Financial Plan

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Over the last few years we, as investors, have experienced some of the most unruly market conditions in history—we saw portfolio values fall and rise like ocean tides. To further compound the market volatility, we are constantly bombarded with pessimistic news designed to play on our emotions. Candidly, it is extremely difficult to remain focused on our goals when faced with incessant bad news and extreme market fluctuations on a daily basis.

Many have abandoned their financial plans and moved their assets to cash. It is completely understandable wanting to protect those assets. However, by taking this action, investors have reduced market risk but at the same time subjected themselves to many other risks that are commonly overlooked, such as longevity risk and purchasing power risk. By doing so, what future sacrifices will have to be made: Fewer trips to see the grandchildren? Moving in with our children?

Now that we are on our way to recovery, what are the steps to mending your financial plan? The following ideas are very simple; in fact, you are likely familiar with each idea. But sometimes it is necessary to go back to basics to ensure that you have a solid foundation upon which to build your wealth.

### Assess Your Unique Risks

Our attitudes about risk change over time. As we move through life, we have a propensity to become more conservative. When we endure market corrections, we naturally become more concerned about protecting our assets and, depending on the severity of the correction, either reduce equity exposure or move to cash. We abandon our long-term view in favor of short-term circumstances. Regardless of your recent investment decisions, it's a good idea to sit down with your financial advisor and reassess how you view risk. This helps to solidify communications between you and your financial advisor and better align your investment strategy with your risk tolerance.

### Select the Proper Strategies

Once you have a better understanding of your risk tolerance and time horizon, there are a number of investment options available to discuss with your financial advisor. The main goal is to adopt a well-diversified, properly allocated portfolio. The portfolio may have a mixture of non-correlated asset classes such as fixed income, equities, real estate and commodities. The allocation to each asset class should be commensurate with your risk tolerance. Risk tolerances can range from a conservative allocation to an aggressive allocation. These portfolios range from mostly fixed income, ultra conservative to all equity, aggressive growth allocations and should be rebalanced periodically to ensure the original target allocations are maintained.

### Implement Your Solutions

Once you and your financial advisor have reassessed your investment portfolio, there are two ways to implement: “all at once” or dollar-cost averaging. The “all at once” option invests all funds immediately. While this may be appropriate for some investors, others may like to ease back into the market over time. After all, these funds represent nest eggs and college educations. For those of us who fall into this category, dollar-cost averaging is often a more attractive choice.

Dollar-cost averaging allows a periodic, predetermined investment amount over a given time period; the time period could be three months to a year or longer. The chosen time horizon should be discussed with your financial advisor. Many investors have found this to be a great alternative to just jumping back into the market, especially for those who have moved to an all-cash position.

It is essential that you have a clear and thorough understanding of your risk tolerance and how your portfolio is constructed. Take this opportunity to regain control of your financial future and your ability to meet your goals. Capitalize on your financial advisor's expertise—contact your advisor today.



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Asset allocation/diversification of your overall investment portfolio does not assure a profit or protect against a loss in declining markets.

Dollar-cost averaging does not assure a profit nor protect against a loss in declining markets. An investor should be prepared to continue the program of investing at regular intervals. An investor should also consider his financial ability to continue his purchases through periods of lower price levels in order to fully utilize a dollar-cost averaging program.

# Estate Planning Versus Estate Tax Planning

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Since 2001 and President George W. Bush's tax cuts, you have probably heard much discussion of the federal estate tax and how it affects estate planning. Most recently, a temporary (two-year) compromise set the minimum levels for federal estate tax at \$5,000,000 for an individual and \$10,000,000 for couples.

These levels do not mean that a person with a net worth of less than \$5,000,000 does not need estate planning. Simply put, estate planning is the action taken to distribute a person's assets with consideration given to: ease of administration, legacy to be created, providing for minor children, charitable goals as well as minimizing taxation. However, the headlines of recent years only speak to that last point, which is federal estate tax planning. Individuals or couples with a net worth below the federal estate tax levels must still be aware of several situations, outlined below, that may compromise their estate plans.

For example, most Americans are familiar with the concept of a will. While a will is an individual's written declaration of his or her intention for the distribution of assets, it does not address all owned property, including beneficiaries named on life insurance, annuities, 401(k)s and IRAs.

To address these items, it is very important to periodically review all insurance policies and retirement plan beneficiaries. An unpleasant surprise awaits a loved one who is named in a will when an ex-spouse is still listed as the beneficiary of the 401(k) at a previous employer. Regardless of what is stated in the will, the proceeds of the 401(k) would pass to the ex-spouse.

Parents of minor children can cause delays in providing for their children by naming the children as beneficiaries on life insurance policies. Before minor children can receive the life insurance benefits, a court-appointed guardian or trustee must be named. This delay can cause hardship at precisely the time you wish to minimize it.

In addition to reviewing beneficiaries, a review of existing estate planning should be conducted periodically as well. It is not uncommon for trusts to have been established to accomplish

a specific bequest but be unfunded. Also, when individual trustees have been named, a review is needed to confirm the trustee is still able to continue in their duties. Life insurance that has been purchased to complete estate plans also needs to be reviewed thoroughly. As with the 401(k) example, beneficiaries need to be confirmed. Additionally, policies should be reviewed to confirm adequate funding of the policy. Policies purchased long ago may not have performed as assumed when first purchased and may now require additional funding or that alternatives be explored.

Finally, don't forget about taxes. Taxes need to be considered even for estates below the federal estate tax threshold. In fact, 20 states and Washington, D.C., have either their own estate tax or inheritance tax, or a combination of both. An estate tax is levied on the value of a remaining estate and its ability to pass along assets. An inheritance tax is levied on the value received by a beneficiary. For state estate tax, the exemption can be as low as \$338,333, as in the case of Ohio. Inheritance tax exemptions can be as low as \$0 with top rates often in the teens. Indiana has a \$100 exemption for non-related beneficiaries at a top rate of 20 percent.

Most importantly, thought must be given to what you wish to happen with your assets. With that information you can then compare your plan to your goals and make adjustments accordingly.

Lastly, communicate your plans to your family and your financial advisor. Your financial advisor has the experience to help you with all of these steps. Schedule an appointment today to begin the review process to ensure your wishes are carried out.

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