SALINE
WEALTH MANAGEMENT
GROUP

JEFFREY J. SALINE
PRESIDENT

MAIN OFFICE ■ 817 Berlin Road ■ Cherry Hill, NJ 08034
BRANCH OFFICE ■ 2001 Rt. 46 ■ Waterview Plaza #310 ■ Parsippany, NJ 07054
856.795.8000 ■ 888.SALINE4 (888.725.4634) ■ Fax 856.795.8002
e-mail: info@SalineWMG.com ■ www.SalineWMG.com

Financial Outlook

WINTER 2014

The Basics of Estate Planning Strategies

The goal in reviewing the basics of estate investment planning is to help you think about the steps you need to take to preserve the assets you've accumulated and pass them on to those you care most about as efficiently as possible.

Step 1: Name your beneficiaries. The first step in estate investment planning is to designate beneficiaries for assets held only in your own name. You also need to specify what percentage of those assets you want each of your beneficiaries to receive. Examples of these types of assets include your company retirement plan, IRA, any annuities you own, and your life insurance policy. The chances are that if you have any of these, you've already made these designations by filling out the appropriate account or policy forms. The only issue then is to keep them up-to-date when there are changes in your family, their needs, or your wishes.

Step 2: Write a will. After naming beneficiaries, you need to create the most important and widely used estate-planning tool: a will. It's a legal document that indicates several important things. First, a will designates who will receive the assets held in your name. If you die without a will — the legal term is "intestate" — a state court will decide who gets what. In most states, if you're married and have children, your surviving spouse and children split the assets. But how is that division made? It differs from state to state. Some states give a one-third share to the spouse and divide the rest equally among the children. Other states give spouses one-half. It's quite possible that the standards in your state could make life difficult for your spouse if she/he needs more than state law will provide. This is where a will is important, because it overrides state laws.

Second, a will is necessary if you want to leave money or valuables to people other than your spouse and children. In most states, you need a will if you want to leave assets to an unmarried partner as well. Third, a will is the only way you and your spouse can designate a guardian for your children in the event that you both die at the same time. Without a will, a state court will make that

Continued on page 2

What Is a Reasonable Rate of Return?

The assumed rate of return used in your investment program will determine how much you need to save to reach your financial goals and how much you can withdraw annually from your portfolio after retirement. Use a rate that is too high and you may not accumulate the amount you need or be able to withdraw enough during retirement. But what is a reasonable long-term rate of return?

Typically, the assumed rate of return for an investment program is the average annual return for some historical period. Data is readily available going back as far as 1926. Consider the following points when deciding on an assumed long-term rate of return:

❍ When selecting what historical period to consider, keep in mind that returns can vary substantially over different time periods. As a starting point, you may want to consider average returns for the period from 1926 to present, making adjustments from there.

❍ Understand the difference between arithmetic and geometric

Continued on page 3

The Basics

Continued from page 1

decision, too. Finally, a will is the legal vehicle by which you transfer funds from your name to trusts, which are legal entities that give you even more control over how you assets are distributed and can minimize estate taxes.

Step 3: Prepare for your incapacity. In addition to a will, a sound, basic estate plan includes two more components: a living will and a power of attorney designation. A living will provides instructions on what kind of life-extending care you want and don't want in case you are incapable of giving those instructions in person. A power of attorney designates a relative or close friend to pay your bills, manage your assets and finances, and represent you in a variety of ways when you're unable to do those things yourself.

Step 4: Avoid probate. Another goal of estate investment planning is to avoid probate, which is the legal procedure by which a state court supervises the payment of any debts you leave behind, determines the assets in your estate, and either executes your will or, if you die intestate, decides where your net assets go. There are three reasons to avoid probate: 1) it can take a long time — as long as three years; 2) court and attorney fees can be expensive (as much as 5% to 10% of your estate's value); and 3) the court's findings are a matter of public record.

The easiest way to avoid probate is to create a living trust. A living trust is a legal entity into which you can transfer ownership of your assets while you are still alive. By designating beneficiaries, those assets can be distributed to your heirs quickly and privately, without going through probate.

Step 5: Minimize federal estate taxes. Regardless of how large your estate is, most states are going to require your heirs to pay some kind of tax on at least some of the assets they inherit, and there's not much that can be done about that. But with the federal government, it's a different matter; and the stakes are much higher than they are at the state level.

As far as the federal government is concerned, as of 2013, no estate taxes are due if your estate is worth less than $5.25 million (the threshold is indexed for inflation for future years). Above that level, you must pay up to 40% in federal estate taxes. For large estates, there are trusts that can help minimize federal estate taxes.

Everyone deserves to have their assets directed the way they want after they pass on. If you have a small estate, designating your plan and insurance beneficiaries may be enough, while owners of larger estates need to consider how trusts can help them avoid probate and minimize estate taxes.

Whatever your situation, every decision can benefit from a sound investment plan that takes into account what your total estate is worth and what your survivors need to meet their immediate and long-term needs. ❍❍❍

Organizing Your Estate

Estate planning is an ongoing process that rightly entails careful recordkeeping, review, and updates for the rest of your life to keep up with changes in the markets, laws, and your family. When you've finished creating the plan, the next step is to make it possible for your survivors to activate it easily and confidently when the time comes. And that means organizing your estate so all those documents are readily available.

This is not merely a matter of sparing your spouse needless energy and anxiety. It can also mean preventing the loss of a significant amount of money from your estate. According to the National Association of Unclaimed Property Administrator, as of July 20, 2011, state treasurers held *$32.9 billion* in unclaimed accounts and other assets.

While it isn't necessary or even desirable to keep every piece of paper documenting your financial life, keeping the most important documents well organized can save significant time for settling your estate.

Recognize that it's not just the estate documents you've created that you have to organize. It's also a wide array of documents that serve as proof of purchase and ownership of your assets and document your and your spouse's key life events. One of the best ways to organize them all is to collect them by category and create another master document that explains what they are, where they are, the first steps your spouse needs to take to get the settlement of your estate started, and contact information for all the important advisers he/she needs to connect with.

After collecting all appropriate documents by category, put them in a separate, labeled file folder, binder, or envelope for each category, and store them in a place that protects them from fire and water — either a home safe or a safe deposit box at a bank. ❍❍❍

Rate of Return

Continued from page 1

returns. For the period from 1926 to 2012, the arithmetic average annual return for the Standard & Poor's 500 (S&P 500) was 11.8%, while the geometric average return was 9.8%.* The arithmetic average is a simple average of the sum of each annual return divided by the number of years used. The geometric return calculates the return earned over the years, calculating the change in value over a specified period. Typically, the geometric return will be equal to or lower than the arithmetic return.

- Don't forget to factor in inflation. You will need a higher amount at that future date for the same purchasing power. From 1926 to 2012, inflation has averaged 3% annually.*
- Returns tend to regress to the mean. There is a tendency for the stock market, when it has had above- or below-average returns for an extended period, to revert back to the average. So, following an extended period of above-average returns, it is possible that the market may go through a period of below-average returns.
- Use conservative estimates. When deciding between a lower or higher expected return, it is usually more prudent to use the lower return. While a higher return means that you will need to save less annually, you run the risk of not meeting your savings goals if actual returns are lower. If you save too much, you can always reduce your savings in later years or spend more in retirement. The alternatives are far less attractive if you don't have enough money saved.

So what is a reasonable long-term rate of return to use in investment programs? Starting out with the average geometric return (since this is more conservative than the arithmetic return) from 1926 to 2012 of 9.8% and subtracting the long-term inflation rate of 3% would result in a return of 6.8%. You may even want to use a more conservative return than that if you feel the stock market may go through an extended period of below-average returns. If you'd like to discuss this in more detail, please call. ❍❍❍

* The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future returns. Returns presented are for illustrative purposes only and are not intended to project the performance of any specific investment vehicle. Source: *Stocks, Bonds, Bills, and Inflation 2013 Yearbook.*

When Taxes Drive Investment Decisions

While you should always keep the tax consequences of investment decisions in mind, it's a mistake to let them drive those decisions. Why? Because the goals for each are fundamentally different: the goal of investing is to make money over the long run, while the goal of tax planning is to minimize losing money in the short run. A few examples of what can go wrong will illustrate the point.

Concentrating investment and credit risk. Municipal bonds are a great way to reduce your exposure to both federal and state taxes. While a municipal bond from any state shelters interest payments from federal taxation (except alternative minimum tax for certain taxpayers), only municipal bonds issued from within the state in which you live will lower your liability for state income taxes. The problem with confining your choices to in-state bonds is you concentrate your exposure to the risk that your home state could run into financial problems that could jeopardize your returns.

Holding onto an investment too long. The higher tax rate on short-term capital gains encourages some investors to hold on to an investment too long. Stock prices can move quickly, and by holding on to a stock just because you want a more favorable tax rate can cause you to lose some or all of your profits or deepen losses.

Selling an investment too soon. Conversely, investors can be tempted to sell a stock prematurely in an attempt to harvest capital losses to shelter capital gains. You could regret it if the stock you sold later experiences big gains. Selling may also leave a hole in your asset allocation strategy and diminish your portfolio's level of risk-reducing diversification.

The proper approach to tax-efficient investing. That doesn't mean that taxes are a good thing or that you shouldn't try to minimize the taxes your investments trigger. But there's a wrong way to go about it — and a right way.

Please call if you'd like to discuss this in more detail. ❍❍❍

Bond Price Fluctuations

There are two primary factors that affect bond prices — interest rate changes and credit rating changes. Interest rate changes typically will cause a bond's value to fluctuate more than credit rating changes.

As interest rates rise, a bond's price adjusts down, while the bond's price will increase when rates decrease. Simply put, bond prices and interest rates move in opposite directions. Also, bonds with longer maturity dates are more vulnerable to interest rate changes.

Credit ratings also influence a bond's price. When a bond is issued, rating agencies assign a rating to give investors an indication of the bond's investment quality and relative risk of default. Typically, higher-rated bonds pay a lower interest rate than lower-rated bonds. After the bond is issued, the rating agencies continue to monitor it, making changes if warranted. A bond's price tends to decline when a rating is downgraded and increase when a rating is upgraded. However, these price changes are typically minor if the rating changes by only one notch. Certain downgrades are more significant, such as a downgrade that moves a bond from an investment-grade to a speculative rating, a downgrade of more than one notch, or a series of downgrades.

If you want to minimize the risk of price fluctuations, consider these tips:

❍ If you hold a bond to maturity, you'll receive the full principal value, so you won't be affected by price fluctuations.

❍ Consider investing in bonds with shorter-term maturities.

❍ Design your bond portfolio using a ladder, so you'll have bonds coming due every year or so. Since the bonds are held to maturity, changing interest rates won't result in a gain or loss from a sale.

❍ Choose bonds that match your risk tolerance. Lower-risk bonds, such as U.S. Treasury bonds, are less susceptible to credit rating risks. ❍❍❍

News and Announcements

Saline Wealth Management Group has recently expanded. Capital Planning Institute (CPI) has merged with Saline Wealth Management, further building on the depth of knowledge and experience of the firm. With the addition of seasoned industry representatives, Charles Barley (President of CPI) and Kathy Moore, Saline Wealth Management continues to grow while maintaining our core principles of providing high quality financial/retirement planning services.

This merger allows us to expand while also upholding our customer service model. Charles and Kathy are highly regarded by their clients, and CPI is a welcome addition to the team. They also bring along with them additional support staff.

In other news, Eli Saline is recently engaged to his fiancé Megan Moore. Their wedding is planned for December 2014. Congratulations! ❍❍❍