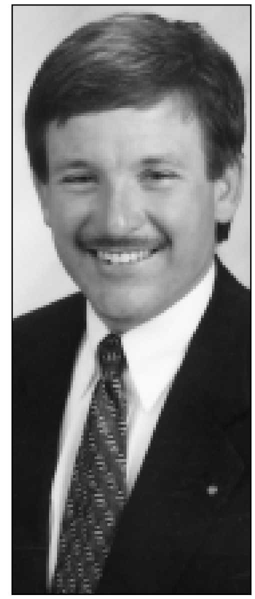
VIGIL Strategies

Taking you where you want to be

Second Quarter Newsletter 2003

Don't Overlook the Allocation of Your Retirement Investments



In a current ad for TD Waterhouse, a narrator interviews a number of investors who have no idea what they really have in their investment account. Unfortunately, in our experience this is too often particularly true with retirement plan investments; it is not at all uncommon for investors to fail to understand what their retirement plan investments really are, let alone how those investments fit into their overall financial situation.

In plotting your investment strategy, the first step is to determine your long-term objectives and to develop an asset allocation designed to achieve those objectives. Then, consider the total pool of investment assets available to you and determine based upon long-term performance characteristics, tax considerations, relative size of your different investment "pools" and other factors, which asset allocation exposures should be achieved within each "pool". This process should then drive the types of investment exposures you look for in your retirement plan.

If you are fortunate enough to have a retirement plan that gives you the ability to direct your own investments and permits you fairly unlimited access to investments of your choosing, you should be able to find exactly what you need. If your plan offers you self-directed but a limited selection of alternatives, you may need to compromise your desires to work within the options you have available. If your employer does not offer self-direction, you will need to acquaint yourself with the investment strategy that is being used for the plan and build the rest of your investment strategy around that inflexible situation – while strongly encouraging your employer to offer self-direction!

Even with the decline in the stock market over the past 3 years, retirement plan assets are an increasingly large portion of most individuals' net worth. With this trend comes the increasing need to make sure your retirement investments are properly positioned to do their part in helping you achieve your long term goals. Sometimes that means your retirement investments are tilted toward stocks, sometimes toward bonds, sometimes a bit of both; the actual decision for you in your case depends upon your unique situation – your financial circumstances, age, risk tolerance and other factors. But whatever the right answer is for you, make sure you or someone you trust DOES know the answer to the question "What is in your retirement plan account?" It may mean the difference for you in reaching your long-term financial goals.

Inside...

Trapped Into Inaction by the Thought of Capital Gains Taxes?

Consider a Charitable Remainder Trust

Does a single stock investment constitute a large percentage of your net worth? If so, diversifying your portfolio may seem like a daunting task, particularly if you are concerned about incurring substantial capital gain taxes. The stock market's performance over the last 3 years has highlighted the risk of investing in stocks as a whole, let alone in having a sizeable portion of your net worth tied up in the fortunes of one company. Fortunately, many strategies exist to help you reduce the risk involved in a single stock position, create liquidity, or achieve diversification. As always, the most appropriate strategy will depend on your personal objectives, your cash flow needs, and your long-term view about your stock, and any restrictions on your shares.

For individuals with large stock gains and who plan to leave a portion of their estate to a favorite charity, a Charitable Remainder Trust (CRT) may be the most appropriate strategy for you. A CRT literally gives you the best of all worlds under this situation – avoidance of the capital gain tax on your investment, fulfillment of your charitable intent at death, continued enjoyment of the income from the asset during your life – and an immediate income tax benefit to boot!

A CRT is created when you donate your asset(s) (for example, appreciated stock), to a Trust with two types of designated beneficiaries - a non-charitable beneficiary (yourself, yourself and your spouse, your child) who receive income and a charitable beneficiary, which receives the balance after death. Your trustee pays the non-charitable beneficiary regular income according to the income distribution method you choose – there are a host of alternatives to select from depending upon your exact situation and goals. Then, upon termination of the trust your designated charity (or charities) receives the remaining value of your trust.

The benefits of a CRT are significant. With a CRT, you will generate an immediate tax deduction based on the difference between the appreciated asset value and present value of income interest in the Trust retained by the non-charitable beneficiary. Since the CRT is a tax-exempt entity, the sale of assets contributed to the CRT by the Trust is a tax-free occurrence. As a result, the entire sale proceeds may be invested into a diversified portfolio that benefits both you and your favorite charity, meeting your investment and philanthropic goals at the same time!

Appreciated stock is the easiest way to fund your CRT. While you may use "difficult assets" like real estate, closely held business interests and even personal property to fund your CRT, these should be used only after consulting with your attorney or accountant. These "difficult assets" can present a number of unanticipated tax issues that don't arise in the gifting of appreciated stock.

CRTs are a wonderful solution for individuals with capital gain assets and charitable intent who do not want to part with enjoyment of the benefit of the asset at this time. Contact us for further information if you think a CRT might be of interest to you in your situation.

Retirement Account Distribution Rules Have Changed

Over the past few years there have been a number of changes made to the manner of calculating the required distributions that must be made from IRAs and other retirement investment accounts. Additionally, many of the rules concerning the distribution requirements after your death have been changed, increasing the importance that you make sure your IRA and retirement account beneficiary designations are correct and best postured to take maximum advantage of the opportunities for tax deferral that the new rules provide. Contact us for assistance with assessing the impact of the new rules on your situation, your current investment strategy, your retirement income planning and your beneficiary designations.

Did You Know?

Putting the Market in Perspective

To try to put the last 3 years of market performance in some sort of historical context, the stock market's worst 10 year performance over the last 200 years was a loss of 9% - in other words, at the end of the 10 years, you had 9% less than you started with 10 years ago. If we consider the period from 1999 to 2009, in order to match the worst 10 year period in 200 years of history, the market needs to go UP from March, 2003 levels about 7% per year through the end of 2009. It has been a history-making slide for the market; but better days are ahead!

Financial Planning Not Unlike Physical Fitness

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successful, hardworking, and intelligent but very busy man. Retirement planning was very important to this client but he felt that he was not did not have the time necessary to devote to this important area of his life. So, he researched fee-only advisors, and called upon Vigil to advise him. After reviewing his assets we determined about 50% of his assets were in his company retirement plan. The other 50% of his assets were invested in various equities. After reviewing his goals, lifestyle, and investment timeline we decided that, for him, it made sense to be more aggressive with company retirement savings and invest this entire amount in equities while shifting his after-tax investments into more conservative investments. This provided him with amount of risk that he was comfortable with. By placing the equity portion of his portfolio within his company plan he will capitalize on tax advantaged growth. His original plan did not consider the tax benefits of coordinating his company retirement plan with his after-tax investments. Does your current plan include a strategy for tax savings?

At Vigil, we review all of our clients' assets before making any recommendation. As our clients' lives change so do our recommendations. Has your financial situation changed over the past three years? Has your financial plan been modified to address these changes? As you review your investments, ask yourself:

1. Is it time for me to rebalance my portfolio? Do I have too much money sitting in cash? Is there a higher after-tax return option available for this money?
2. Did the market's poor performance over the last several years leave me with too much concentration in one asset, industry, or investment?
3. Have I refinanced my mortgage and taken advantage of historically low interest rates?
4. Have I maximized my tax deferred contributions? Should I invest in a Roth IRA?
5. Despite the market's performance, are my savings still on track? Do I consistently save? Consistent additions are the most reliable way to grow investment assets.
6. Am I properly insured? Are my assets?

Fortunately, unlike weight-loss where you cannot hire someone to lose the weight for you, you can hire someone to create a successful financial plan for you. Be careful who you hire! Not all financial "experts" are created equal. Make sure that you select someone who above all else puts your interests first. Your financial planner should review your retirement plan options and create an investment strategy that compliments these options. Otherwise, you may end up with an investment strategy that meets your financial planner's needs while yours are pushed aside.

Are You Maximizing Your Retirement Growth Options?

One of the best ways to save for your retirement is through your employer's retirement plan (401K or 403B). Few options are better because with your employer's retirement plan you able to invest pre-tax dollars that are in many cases at least partially matched by your employer.

Are you aware that the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) provides for increased contributions in 2003? The limitation as to what can be contributed to an employee's account in any given year in a defined contribution plans under section 415(c)(1)(A) is now $40,000. In addition, other retirement contribution amounts have been increased. These adjusted amounts are as follows:

2003 Retirement Plan Contribution Limits

401(k) and 403(b) Deferral Limit	$12,000
401(k), 403(b), 457 Catch-up Contribution Limit	$2,000
SIMPLE Deferral Limit	$8,000
SIMPLE 401(k) and IRA Catch-up Contribution Limit	$1,000
Annual Compensation Limit	$200,000
DB 415 Limit	$160,000
DC 415 Limit	$40,000
Dollar Limit for HCE	$90,000
Dollar Limit for Key Employee	$130,000
Comp Limit for SEP Eligibility	$450
457 Deferral Limit	$12,000
S.S. Wage Base	$87,000

Be sure to take these new limits into account when planning your deductible retirement contributions for 2003. And although it has been frustrating in the past few years to see your contributions result in no increased plan value because of investment losses, stick with it. Better days are ahead soon!

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Vigil Trust & Financial Advocacy

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Financial Planning Not Unlike Physical Fitness

You have heard it over and over again; Americans are overweight. Let's say you know you need to lose 10 pounds. How do you approach this goal? Do you purchase a weight-loss pill? Submit to eating only grapefruit/meat/soup? Or, do you follow the tried and true method of eating less and exercising more?

Likewise, you've heard financial professionals repeatedly explain that investing in your company's retirement plan (401K, 403B, etc.) provides you with the most tax advantaged growth opportunities. You know it is to your advantage to maximize this investment option. How do you approach this goal? Do know how your money is invested within the plan? Do you know what options are available to you? Has your financial advisor reviewed your retirement plan savings? Has she taken your company's plan options into consideration?

Successful weight-loss and investing are not done in a vacuum. Both require a disciplined and well thought out plan. There is no magic pill that will melt away unwanted pounds. Losing weight requires a lifestyle change. Similarly, there is no magic retirement plan that will provide for you in your retirement years; it is up to you to make sure that your retirement investments are being invested in a manner consistent with your retirement goals. Successful financial planning demands that the investor's total lifestyle is considered. This means investors' retirement plans, IRAs, post-tax investments, businesses, and real estate investments all need to be coordinated into a comprehensive wealth building strategy that minimizes taxes and maximizes growth.

Perhaps your situation is similar to one of our newer clients. Recently I met with a

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VIGIL Strategies

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