Vigil Trust & Financial Advocacy

Visit us at
www.trustvigil.com

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Listen to Tom's Podcast at www.trustvigil.com

Tom Batterman a member of the National Association of Personal Financial Advisors (NAPFA), the nation's leading professional association of comprehensive, Fee-Only Financial Advisors, has been participating in their consumer-oriented, public service campaign aimed at educating Americans about the need for financial professionals to hold themselves to a Fiduciary Standard.

"While there are many different models for delivering financial services to clients, frankly the fiduciary model is the only one I could ever consider using," said Batterman.

Tom recently had the chance to participate on a nationally syndicated podcast show *The Fiduciary Voice*. To listen to this podcast we have placed a link on our website www.trustvigil.com under information-podcasts and presentations.

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Third Quarter Newsletter 2007

How Much Can You Withdraw

In a recent survey, respondents were asked what percentage of their retirement savings could be safely withdrawn every year without running out of money in their lifetime. Approximately 42% of the respondents didn't know, 6% said 25% or more, 6% said 15% to 24%, 17% said 10% to 14%, 19% said 5% to 9%, and 10% said less than 5% (Source: *National Underwriter*, May 8, 2006).

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While there is no one correct answer, to ensure funds last for decades, it is usually recommended that no more than 4% of the balance be withdrawn each year, an answer only 10% of the respondents gave. Thus, if you need to generate $50,000 of retirement income after Social Security and other pension benefits, you'll need to save $1,250,000 by retirement age. That is a conservative number meant to ensure you never outlive your retirement funds.

That assurance, however, comes at a very steep price—many people will have a difficult time saving 25 times that amount needed to withdraw annually. Thus, it's probably best to go through a detailed analysis of how much you can withdraw. This amount can be calculated based on your life expectancy, expected long-term rate of return, expected inflation rate, and how much principle you want remaining at the end of your life. Guess wrong at any of these variables and you risk depleting your assets too quickly. Yet, your life expectancy, rate of return, and inflation are difficult to predict over such a long time. Keep these points in mind:

Your Life Expectancy-While it is easy to find out your actuarial life expectancy, life expectancies are only averages. Approximately half of the population will live longer than that. You can gauge your life expectancy by how long close relatives lived and how healthy you are. Just to be safe, you might want to add five to ten years to that age.

Rate of Return-Expected rates of return are often derived from historical rates of return and your current investment allocation. Historical rates of return are averages of returns over a period of time. Actual returns may be better than that in some years and less than that in other years. You might want to be more conservative than that, assuming a rate of return that is lower than long-term averages. Even if you get the average return right, the patterns of those returns can significantly affect your portfolio's balance.

Expected Inflation- While inflation has been relatively tame recently, that has not always been the case. Inflation can have a dramatic impact on your purchasing power, For instance, at 2.5% inflation, $1 is worth 78¢ after 10 years, 61¢ after 20 years, and 48¢ after 30 years.

Use conservative estimates when determining your withdrawal calculations. That will result in a lower withdrawal amount, but will also help ensure that your funds don't run out. You should review your calculations every couple of years in retirement to make sure you are on track, especially during the early years. If you find you are depleting your assets too rapidly, you may need to go back to work on at least a part time basis.

Please call if you need help determining how much to withdraw on your retirement assets.

Shopping For A Financial Advisor?

Assessing Real Costs Key To Understanding What You Are Paying For

Every year, there are a handful of potential clients that chose not to use Vigil's services because they feel they can get the same level of service from another provider (or in some cases do it themselves) at a lower cost. These folks tend to fixate on Vigil's fully disclosed professional fee. Yet, what most of these potential clients fail to fully comprehend is that the costs of using other financial advisors or solutions are not always readily apparent.

If you are in the process of shopping for a financial advisor keep in mind that there are both "hard" costs and "soft" costs in investing. Hard costs are costs that appear on your monthly statement. At Vigil, the cost to you is straightforward – we charge our on-going advocacy clients an annual professional fee roughly equal to 1.2% of the first $500,000 in market value of assets under management with 1/12th of this fee billed monthly. Since our fee is based on the value of our clients' portfolios, we have an ongoing, vested interest in the success of our clients' investment strategies.

However, it is important to look beyond hard costs alone in selecting financial management assistance. Investors should also be aware of soft costs. Soft costs are costs that are imbedded within the transactions or the investment. These imbedded costs are not easily determinable and are deducted from the return on your investment, so their existence lowers your return. If you are aware of these costs, there are strategies that can be implemented to control them. Effectively controlling these costs will save you a lot of money each year, but these savings will not show up as a separate "cost reduction" line item; they will simply result in a higher return on your investment.

Frequently, soft costs provide additional income to your financial advisor. For instance, affiliated mutual funds pay management fees to an advisor's related company; non-affiliated mutual funds pay fees to be included on the advisor's recommended list of mutual funds; advisors use a related company to execute portfolio investment transactions at additional compensation; and the list goes on. All of these practices potentially (if not actually) affect the objectivity of the recommendations of your advisor and possibly cause the advisor to recommend actions for you that are better for the advisor and its related parties, but not necessarily better for you.

As an independent, fee-only trust company, Vigil receives NO benefit of any kind from soft costs. Our only compensation is the fee we charge that you see each month. However, we are keenly aware of the existence of soft costs costs. We attempt to use investment instruments that do not involve any transaction costs or other needless ongoing expenses that reduce returns, if using such investments is in our client's best interest. To the extent we need to use investment instruments purchased through a broker, we negotiate transaction costs with the brokerage firm and use other strategies to minimize those costs. Our job is to implement strategies to control these costs to increase your return. In this regard, we do exactly the same things you would do if you were managing the portfolio yourself, that is if you were aware of the existence of these costs and had the knowledge and tools available to control them. This is a subtle but critical point; no assessment of the costs of working with a particular financial advisor is complete unless and until you consider soft costs, how they may result in inferior investment decisions for your portfolio and how they may increase the cost of your investments through a lower return.
If you having a difficult time determining to what extent soft costs are embedded within your portfolio consider consulting with a Financial Advocate-someone whose job it is to represent your best financial interests. At Vigil, our Financial Advocates routinely review portfolios, at no obligation, to help investors identify where soft costs exist. Once soft costs have been identified investors can then begin assessing the real cost of working with their advisor.

Why To Consider Selling Assets Before 2011

If you're wavering about whether to sell your grandmother's home or an investment that may still be gaining value, now you have additional time to

make that decision. Congress recently extended the 15% maximum tax rate on long-term capital gains, a move that is expected to bring a total of $149.7 billion in tax savings to investors. The provision had been set to expire at the end of 2008, but now will remain in effect through 2010.

A long-term capital gain is the profit you earn selling an asset you own for at least one year. If, for instance, you purchased stock for $1,000 and sold it years later for $1,000,000, taxes are calculated based on a $999,000 gain, until 2003 you'd have owed Uncle Sam as much as 20%-$199,800 in this example. At a 15% rate, you pocket an extra $49,950, owing taxes of only $149,850.

Homeowners who sell enjoy an additional tax break. You can exclude from capital gains up to $250,000 ($500,000 for married couples) of profit on the sale of your home. To qualify, your home must have been your principle residence for at least two of the five years prior to the sale.

What about assets you own for less than a year? When you sell those "short-term" assets, profits are taxed as ordinary income, at a rate of up to 35%. The same rule applies to collectibles such as coins or art regardless of how long you own them.

What if you loose money on a sale? Losses on the sale of long-term assets can offset capital gains, plus you can deduct up to $3,000 in losses from your income each year. Excess losses can be carried forward to future tax returns.

Things get trickier for inherited assets. Currently, the value of assets you inherit is stepped up to the market value at the death of their owner. When you sell, you are taxed only on the profits exceeding what the assets were worth when you received them. For example, if your Uncle leaves you $5 million in stock for which he originally paid $100,000 you're taxed only on sale proceeds exceeding $5 million.

But the tax break ends in 2010, along with the estate tax. If you inherit and sell assets that year, your tax bill will take into account the assets' purchase price. But inheritors will be able to increase the tax basis of total inherited assets by a maximum of 1.3 million. (Surviving spouse can further inflate the basis up to $3 million.) So if you inherit that $5 million stock our uncle purchased for $100,000, your capital gains will be based on a new tax basis of $1.4 million ($100,000 original basis + $1,300,000 step-up).

If you have hesitated to sell certain assets whose value may be rising, remember to factor in the new rules for capital gains, which could affect your ultimate tax bill. If you need help making these important decisions, we are always here for you.

Finding Money To Save

Everyone knows that they should be saving at least 10% of their gross income for retirement, but that can seem like an impossible goal after paying your bills. However, don't just figure that you can't come close saving 10% of your income without looking at the after-tax cost.

For instance, assume you earn $50,000 annually and your employer matches 50 cents for every dollar you contribute to the 401(k) plan, up to 6% of your pay. So, you put 6% of your pay, or $3,000, in the plan, your employer will match 3%, or $1,500. Your contribution really costs less than 6%, because the money is taken out before income taxes. If you are in the 25% tax bracket, your $3,000 contribution will save $750 in taxes, or 1.5% of your pay. So, between your contributions and your employer's match, you will contribute 9% of your pay toward retirement, but it will only cost you 4.5% of your pay.

What if you don't have a 401(k) plan at work? Take a look at individual retirement accounts (IRAs). While you won't get an employer match, you can contribute to a deductible IRA, if eligible, and contribute pretax dollars, which reduces your contributions cost by your marginal income tax rate. In 2007, you can contribute a maximum of $4,000 to an IRA, and individuals over

50 can make an additional $1,000 catch-up contribution. Or, if you may prefer to contribute to a Roth IRA. While you won't get a current income tax deduction for your contribution, you can make qualified distributions free from federal income taxes.

Don't just assume that you don't have the additional funds to save for retirement without looking at the after-tax cost. Please call if you would like help with this analysis.