FEE-BASED WEALTH MANAGEMENT

CREATIVE PLANNING FOR YOUR FAMILY, BUSINESS AND ESTATE

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THE WEALTH MANAGEMENT FIRM™

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THE KELEMEN-WAY FINANCIAL PERSPECTIVE

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Create Your Own Compelling Retirement Vision

The present can be very demanding. It forces you to focus upon the short term. The deadlines are closer, and more available information makes decisions easier. And the near-term gives us more immediate gratification — or consequences if we act or fail to act. If you're like most families, you probably spent more time planning this year's spring break and summer vacations than you did on your retirement. But which one has the higher stakes?

Planning for retirement is hard work. It really is harder than planning spring break with the kids or a summer vacation. But the payoff is much later and rewarding. Why do so many people find it hard to do? We believe it is because they haven't really created a compelling vision of their retirement. Without the vision, the saving becomes harder and the day-to-day stress of daily living and work wears you down sooner. So how do you create your retirement vision?

The first question to ask is <u>why</u> do I want to retire? Are you running away from your problems or are you running toward some fulfilling goals? To get a handle on this, take out a full sheet of paper and try the following:

Imagine, starting today, you are now retired...

- **What would you immediately stop doing? Why?**
- **What would you continue doing — or start doing? Why?**

Is there a theme to your answers? Our guess is that many of the responses in the "stop doing" category have to do with **how** you are worked, rather than the work itself. This could be paperwork, scheduling, personnel issues, etc. The "continue" or "start doing" responses probably include some of the things you used to think were fun about your profession. Plus you may want more time off, more travel, hobbies, and volunteer work. So, maybe scaled-back employment is a part of your retirement picture.

These are generalizations, but we hope you get the picture. Your responses are the beginning of your retirement vision. To build on this, ask the following:

- **Between <u>now</u> and when I <u>retire</u>, what are the most important things I want to accomplish?**
- **Between when I <u>retire</u> and when I <u>die</u>, what are the most important things I want to accomplish?**

Travel and daily golf can get old without a purpose for the rest of your life. That's especially true for those very successful individuals who are hard wired to be achievers, or they never would have made it to where they are now.

These questions and answers must be asked and discussed with your spouse. Can you get along being around each other 24 hours a day? Retirement is a shared vision. We've seen several retirements delayed or ruined by incompatible visions.

Retirement involves three phases: **1) the Active** or "go-go" phase, **2) the Passive** or "slow-go" phase, and **3) the Final** or "no-go" phase. **While each phase can have its own vision, you need to capitalize on the Active phase while you still have your health and energy. Without a vision, it will pass you by.**

Once you have your vision, the actual financial planning for it becomes much easier. One of the most enjoyable aspects of our job is helping clients develop their own compelling retirement vision followed by the planning to help make it a reality.

The Trustee Dilemma—Naming A Relative Or A Corporate Trustee?

All parents want to leave their heirs a legacy of close family relationships, rather than a legacy of conflict. They often go to great lengths to make certain that each child is treated equally. But the wrong decision in the selection of a successor trustee for the various trusts in your estate plan can undermine your best intentions. Naming close friends, relatives, or trusted advisors as successor trustees of living trusts, or as trustees of charitable, life insurance, or credit shelter irrevocable trusts has its advantages. Sometimes this arrangement works very well, other times it can be disastrous.

We have observed that you never know your relatives very well until you have to share an inheritance with them or administer one of their trusts. The friend or relative serving as trustee can be put into a very uncomfortable position. It is time consuming and complex. Improper administration by an inexperienced trustee can lead to family conflicts, unnecessary expenses and taxes, poor investment performance, even litigation. For those reasons, some parents appoint a corporate trustee to help assure proper trust administration—and keep peace in the family.

So the trend may be shifting back to corporate trustees, but this is taking place at a time when the banking and trust business is undergoing a lot of impersonal change. Thus, clients are faced with a tough choice—and a new alternative.

Experience and Full-Time Attention

Individual trustees are often inexperienced and too busy with other aspects of their lives to dedicate the required time to properly administer a trust. Corporate trust officers usually work exclusively as trustees. They are familiar with all kinds of trusts, tax and estate planning issues and the legal responsibilities of a trustee. Some have experience with various types of assets, including stocks and bonds, real estate, closely held businesses, farms, mineral properties, international investments, and limited partnerships. Individuals usually do not.

Unfortunately, with banking mergers and economic pressures these days, many of them must spend a considerable amount of their time gathering new accounts to be managed on a proprietary basis by their employers, which are often mega banks in far away cities.

Objective and Reliable Service

Trustees are required to objectively follow the grantor's written instructions in the trust document for the benefit of the beneficiaries. This helps avoid conflicts that can arise between family members when one of them acts as trustee. **Corporate trustees never die, become incapacitated, go on vacation or get divorced. But they often get purchased or merged, the trust officer gets transferred, or accounts get reassigned to a distant call center with no regular trust officer.**

Wealth Protection

Corporate trustees are regulated entities and are held by the courts and regulatory authorities to higher standards than are individual trustees. They are required to conduct their own periodic review of their clients' trust accounts to assure they are being managed in accordance with sound fiduciary principles. They are also required to carry insurance and fidelity bonding to protect the trust assets held in their care. Individuals are not.

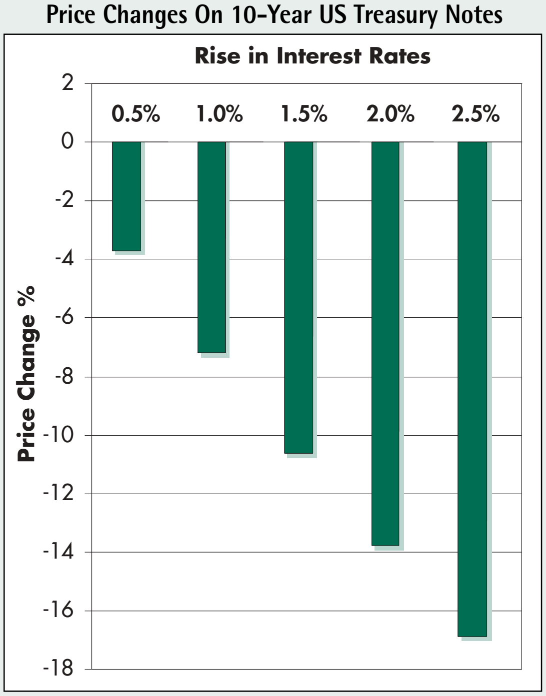
Co-Trustee Services

Naming a corporate trustee as co-trustee with a family member or trusted advisor allows you to have the best of both worlds. It combines the personal touch and knowledge of the beneficiaries with the expertise, "deep pockets," accountability, and administrative capabilities of a corporate trustee. **Unfortunately, many financial institutions either discourage or prohibit this arrangement.**

Continued on back page.

The Risk of Bonds When Interest Rates Increase

Price Changes On 10-Year US Treasury Notes



(Source: Business Week, with data from T. Rowe Price Associates)

Many people think that bonds are safer than stocks. Safety is a relative term. Because interest rates are so low, we believe that bonds may have seen their better days. They have more downside risk when interest rates increase. The chart to the left illustrates the potential changes in price on a new 10-year US Treasury note at par, currently yielding 4.9%. The results are more dramatic for a 30-year bond, and less for shorter maturities. But either way, the bottom line is that when interest rates increase, bond prices go down. After all, who would pay full price for an older bond when a new, higher yielding bond could be purchased?

Protect One of Your Most Valuable Assets—Your Identity

The foundation of financial planning is to protect what you already have. Thieves can wipe out your years of hard work and good investment results by stealing your identity, and then using it to rob you. The frightening part of identity theft is that it can go undetected for months.

According to the Federal Trade Commission, identity theft is the fastest growing crime in the United States. It occurs when someone uses your name or personal information, such as your Social Security Number, driver's license, credit card numbers, telephone numbers or other account numbers without your permission. The good news is that the anti-money-laundering privacy provisions of recent legislation create some safeguards, and you can reduce your risks by taking simple precautions.

Prevention

- ❑ The next time you order checks, do not include your home telephone number. Use only your first and middle initials, thus making forgery on stolen checks more difficult.
- ❑ Never print your Social Security Number or driver's license on your checks.
- ❑ Make two copies of your wallet's contents. Place one in a safe place and give the other in a sealed envelope to a trusted friend or relative who can assist you if you are out of town or the country.
- ❑ At least once per year request a copy of your credit report. It costs about $30 to get a consolidated report from the three major credit bureaus. Call (800) 685-1111 or go online to www.equifax.com. The credit bureaus also offer a monitoring service to notify you of any irregularities. The cost is about $70 per year, but you can get a free 30-day trail to see if you like it first. This might be useful to initiate just before you go on a trip where you might be using credit cards frequently and run a higher risk of credit card theft.
- ❑ Memorize your Social Security number, PIN numbers, and passwords.
- ❑ Shred all documents containing any personal and financial information before discarding them.
- ❑ Review your bank and credit card statements diligently for unauthorized purchases. Online banking makes this easy to do on a weekly or even daily basis.
- ❑ Take your name off all promotional lists, especially those that send pre-approved credit offers. It's easy to do by calling (800) 353-0809.
- ❑ Guard your mail from theft. Promptly remove your incoming mail from your mailbox and place outgoing mail in post office collections. Use a locking mailbox.
- ❑ Keep personal information and passwords in a safe place, both at home and at work.
- ❑ Beware of "shoulder surfers" as you use ATM machines, use a long-distance calling card, or enter your PIN to make purchases.
- ❑ Create unique passwords that are a combination of numbers and letters, never something obvious like your birthday, mother's maiden name, or even "password."
- ❑ When making purchases on the Internet, make sure the site is using a secure server. Look for "https" not just http at the beginning of any Web-page URL.

First Response after ID theft

- ❑ Immediately place a fraud alert on your name and Social Security number by calling:
  - **Social Security Fraud Line (800) 269-0271**
  - **Equifax (800) 525-6285**
  - **Trans Union (800) 680-7289**
  - **Esperian (formerly TRW) (888) 397-3742**
  - **Federal Trade Commission ID Theft Hotline (877) 438-4338**
- ❑ Call the creditor(s) involved
- ❑ File a police report, especially in the jurisdiction where the theft occurred. This will help prove to creditors that you were diligent. It is the first step toward an investigation, if there is to be one.
- ❑ Notify us so that we can assist you with changing any account identifiers and to put your account custodians on extra alert.

THE KELEMEN-WAY ADVANTAGE

Ron Kelemen and Mary Way are Certified Financial Planner™ certificants and jointly serve their clients as a team. Their fee-based practice focuses on wealth planning and management for professionals, business owners, and retirees. Together, they have developed The Planning Vision Process® and several other unique processes. They are both advisory associates of The H Group, Inc., one of the largest independent fee-based registered investment advisory firms in Oregon with 16 professionals and over $250 million under active management. They are also registered with Financial Network Investment Corporation, (unaffiliated with the H Group, Inc.) a national broker-dealer with offices throughout the United States, Member SIPC.

About Ron Kelemen, CFP®

In practice since 1981, **Ron Kelemen, CFP®** is a contributing author of the definitive book on retirement planning: *Ways and Means: Practical Answers from America's Foremost Financial Advisors and Retirement Planning Attorneys*. His other contributory book, *Strictly Business—Planning Strategies for Privately Owned Businesses,* is now available from Ron or Quantum Press. He is a Board Member of the Willamette Valley Estate Planning Council, active in several local charities, and is frequently quoted in the press.

About Mary Way, CFP®, CPA

Mary Way, CFP®, CPA is a professional team member on Ron's team for over eight years. She is also a non-practicing CPA with 16 years experience in banking, business, and finance. She is active in Salem Rotary, the Financial Planning Section of the Oregon Society of CPAs, The Oregon Financial Planning Association, and The Willamette Valley Estate Planning Council.

Team Update

It's been a long time since the last issue in early January—the longest time between issues in 12 years. So much has happened! We completely replaced the carpeting, which was almost as disruptive as an office move, except that our address stayed the same. We migrated to a new web-based server and got up to speed on new state-of-the-art financial planning software.

Lani Moore spent her free time getting ready for her daughter's wedding, attending a conference in Utah, and driving her daughter home from college in Utah.

Debbie Renggli and husband **Bob** broke ground on their new home and faced a myriad of decisions and meetings with contractors. They are targeting a July move in date. Meanwhile, Bob started commuting to a new job in Portland selling office equipment. As this goes to press Debbie will be driving daughter Gretchen home from the University of San Francisco.

Mary Way and husband **Steve** just got back from a dream vacation in Australia, with lots of snorkeling on the Great Barrier Reef. In January she attended the two-day Financial Planning Association conference and the Annual Estate Planning Council Seminar. She also passed her Municipal Securities Principal Series 51 exam so that we can continue to offer our clients advice and service on 529 college savings plans.

Ron was quoted by several publications, including the *Wall Street Journal, Business Week Online, The Oregonian, WSJ.com, Investment Advisor,* and *MSNBC.com*. He presented two seminars to Salem area doctors and clinic administrators, and one for the Humane Society. He also attended two Strategic Coach conferences in Chicago, a Financial Network study group in Park City (actually, he was snowboarding most of the time), completed a half marathon and the 15k Shamrock Run. He and wife Kathy are winding down a busy and fulfilling school year with Feruza, their exchange student from Uzbekistan. As this goes to press they will be traveling to Italy to visit daughter Skyler who is winding down her year as a high school exchange student.

New Emails

Our Email addresses have changed! Although the old ones will still work for a while longer, please use our new ones. As a reminder, our spam-filtering software will delete any email without a subject in the heading. The general address is

Salem@thehgroup.com

Our specific addresses are:

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Kathyk@thehgroup.com
Maryw@thehgroup.com
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The Trustee Dilemma – Naming A Relative Or A Corporate Trustee

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The Independent Alternative

Independent trust companies are becoming a preferred option for those who need a corporate trustee, but without the conflicts of interest, impersonal service, and the pressure to add new assets under management. Because they don't manage money, they are not merger or takeover targets, nor do they have conflicts of interest by using their own managed common trust funds. They hire independent investment advisors, lawyers, and accountants—usually the same ones who worked with the grantors and their children over the years. They also allow for co-trustees. This provides a local team who knows the family well, backed up by a corporate trustee that takes care of all the trust administration.

We would be happy to discuss the independent trust company option with you and your attorney. Sooner or later, all of us—including those we name as trustees—eventually die, and many of us will become incapacitated before that. (Isn't that a depressing thought!)? **We encourage you to make it easy on your loved ones by providing continuity and stability. And above all, by minimizing intra-family conflicts.**

Thank You!

We'd like to thank our clients for following our advice and not selling out their portfolios over the past few months. We know it wasn't easy, but as this goes to press in early May, it is quite obvious that your patience has been nicely rewarded.