The Kelemen, Way & Hanslits

FINANCIAL PERSPECTIVE

Creators of The Planning Vision Process®

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CREATING CLARITY & CONFIDENCE IN A COMPLEX WORLD

Dealing with Dementia

Lessons from Three Clients

We're not gerontologists, internists, psychiatrists, or medical doctors. But as "portfolio doctors," we've seen first hand what dementia—and especially Alzheimer's disease—can do to one's family and portfolio. But we've also seen the good side when clients admit they have a problem.

Dementia in its various forms is more common than you might think. The National Institute of Neurological Disorders and Stroke estimates that **6.8 million people and 50% of Americans over age 85 have some form of dementia. More than 1 in 5 women and 1 in 10 men will develop Alzheimer's,** according to the latest numbers from the Alzheimer's Association. For many of us, it's not a question of if, but of when. So what can you do to protect yourself, your family, and your wealth if it starts affecting you?

> *"The time to take action is in the early stages of decline. Unfortunately, this is also a time of denial."*

Many of you have had your estate planning attorney draft you a living trust. Unlike a will, which only takes effect upon your death, a living trust can arrange for a successor trustee to handle the management of your affairs while you are still alive but incapacitated. Powers of attorney are also useful.

The time to take action is in the early stages of decline. Unfortunately, this is also a time of denial. We've noticed several clients in the early stages or even middle stages of decline that won't "pull the trigger" and seek help, even if they have a living trust and/or a power of attorney. But here are true stories of three clients and what they did. (Their names and backgrounds have been changed to protect their identity.)

George

The first one I'll call "George," a retired high-level executive who was used to giving orders to large numbers of people and having them followed. Even before we had observed any signs of memory loss, he compiled a three-ring binder "user's manual" for his wife. It included everything from how to drain the lawn sprinklers in the fall, to the automobile maintenance schedule, to all the bill-paying procedures, and instructions to call our office about any financial questions.

George eventually started slipping in conversations, often forgetting what we had told him just days earlier, or what he had told us. Then one day he did something we never expected. He brought his wife and daughter into a regularly scheduled update meeting and instructed us to remove his name from all accounts. "I've been diagnosed with Alzheimer's. I'm fine now, but I'm starting to slip up now and then, and I don't want anybody to take advantage of me later," he explained. That same day all three of them met with the family attorney to remove George as a trustee of his living trust and appoint his daughter as a co-trustee with her mother. Then they did the same at the bank.

Talk about courage! About a year later George started going downhill very fast. He died three years later in a care facility, and his family was able to focus on enjoying each other and life. The family finances are managed without interruption or irrational instructions, and his widow remains financially secure today.

Mary

"Mary" is a retired professional and a very successful investor. In fact, investing is a passionate hobby of hers, consuming at least an hour each day on the computer. Her husband has been totally uninvolved with family finances. She had a well-constructed portfolio and had

Continued on page 4

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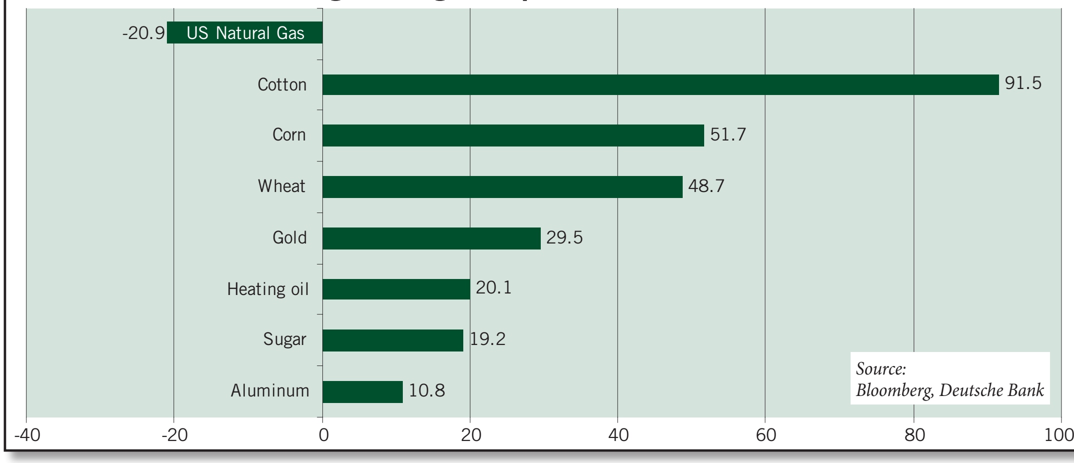
Investing in Gold, Oil, and Other Commodities

Over the past few years, commodities have caught the eye of the investing public and institutions. And now with gold reaching new highs and oil prices spiking as a result of events in Libya, interest is even greater. All of a sudden, we're being asked to buy gold and oil—and at near record highs, by the way.

But gold and oil aren't the only commodities traded, and others have certainly outperformed them in 2010. As you can see by the chart, the spot price for gold increased 29.5% and heating oil increased by 20.1% But you would have made more money investing in cotton (+91.5%), corn (+51.7%), or wheat (+48.7%).

2010 Percentage Change in Spot Prices of Selected Commodities



Source: Bloomberg, Deutsche Bank

Commodity prices react to the basic economic principles of supply, demand, and perception of future supply and demand. For example:

- Economic growth in emerging nations can increase the demand for industrial metals, such as copper. Some governments hoard copper to meet perceived demand, and prices rise.
- Or, the U.S. government requires ethanol to be added to gasoline. Thus, more corn is needed and the government offers subsidies to corn growers to increase production. Too much corn gets planted, and prices fall.
- Or, people think their will be an oil shortage so they bid up the price of oil futures in anticipation of a shortage. The same with gold.

So, how do you invest in them?

The most common way is in a commodity mutual fund or exchange traded fund (ETF). You can purchase ETFs that track just one commodity, such as gold, or a whole basket. Given the leverage that commodity funds employ, a basket of different commodities is less volatile than a single commodity fund. Some of these diversified funds track a specific commodity index. Some indexes might be weighted more toward energy; others more toward metals; or some equally weighted among many different commodities.

Returns (including losses) are generated three ways:

1. ***The spot return.*** This is the change in price of the commodity's spot price.
2. ***Roll yield.*** This is the change in price of the underlying commodity futures contracts between the purchase price and the spot price at the settlement date (when the contract expires).
3. ***The collateral return.*** Futures contracts are highly leveraged, often 90%. They require only a small deposit. The rest is collateral typically Treasury Bills or other bonds. The collateral return is the interest earned on those bonds. This is an important source of return for many commodity funds and why their returns over the past decade have closely tracked those of intermediate term bonds.

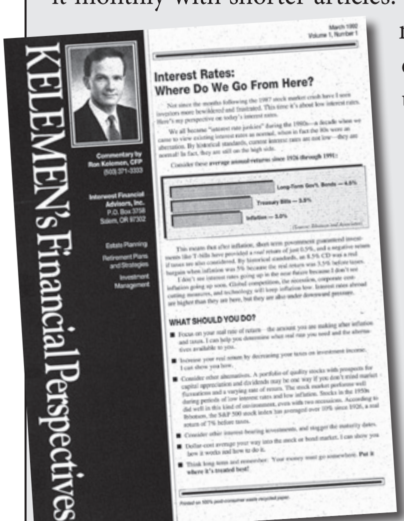
Beware of the "Contango" Trap.

Rather than take delivery of a full tanker of oil or a silo of wheat when a commodity futures contract expires, fund managers sell their existing contracts and buy new ones. (See Roll yield above). But when contracts for future delivery of a commodity are more expensive than near-term contracts for it, the fund must absorb the cost of paying for a higher-priced contract, thus creating a loss for its investors. That's basically happening in early March with oil futures. Traders call it a "contango trap." Therefore, you could loose money even if a commodity's spot return increased.

A basket of commodities can often help a portfolio because many commodities tend to move in opposite directions from stocks and bonds. And in an inflationary environment, they tend to do well. In most of our portfolios, we have a small percentage allocated to a diversified commodities fund. So yes, many of our clients have a position in gold and oil. We periodically change the tracking index, as we have recently done because we see oil commodity futures in "contango."

Financial Perspectives—20 Years & 100 Issues Later

Check out the masthead on page 1. **This is the start of our 20th year of writing this newsletter!** Originally it was called *Kelemen's Financial Perspectives.* Ron published it monthly with shorter articles. As time became an issue, it moved to bimonthly, then eventually quarterly. It gives us an opportunity to keep all of our clients and advocates up-to-date with the most recent conversations we have from recent client meetings. The most popular article still remains the Team Update on Page 4. Our thanks go to Jonie and her fine team at In House Graphics for quickly transforming our words and statistics into an attractive publication.



Don't Miss This One-Time Planning Opportunity

Will you be over age 70 ½ this year? Or do you know someone who is? The tax bill signed into law this past December includes a very tax-smart way to take required minimum distributions (RMD) from IRAs or retirement plans—and help your favorite charities at the same time. But unless Congress renews this provision, this is the only year in which to take advantage of it.

By way of background, if you turn age 70 on or before June 30 of this year you must take a withdrawal from your retirement plans and IRAs by April 1, 2012. If you are already 70 ½ or older as of January 1, 2011 you must do so by December 31, 2011. Typically the amount you would take if you are 70 is the total retirement plan balances divided by 27.4, if your spouse is within 10 years of your age. This joint life expectancy divisor increases each year as you get older. **The withdrawal is 100% taxable, and the tax penalty for not doing so is 50% of what you were supposed to take.**

Not all of our retired clients need their required distributions for living expenses, so some of them turn around and donate their RMDs to charity and avoid some of the taxes on their RMD. However, it is rarely a dollar-for-dollar deduction. Some people don't itemize, or if they do, they aren't allowed to claim all of their itemized deductions. For many retired people, taking their RMD raises their taxes on their Social Security benefits.

Sample RMD Divisors for married couple*

Age	Divisor of January 1 Retirement Plan Values
70	27.4
71	26.5
75	22.9
80	18.7
85	14.8
90	11.4

** Assumes spouse beneficiary is no more than 10 years younger. See IRS Pub 590 if spouse is more than 10 years younger, or if the IRA owner is single.*

Here's Your Opportunity

But under this law, you can contribute up to $100,000 directly from your IRA account to one or more charities, thus avoiding these issues. You can use this charitable transfer to meet ***or exceed*** your minimum distribution requirements. This is far more efficient because it becomes a dollar-for-dollar donation in many cases.

EXAMPLE

Attained Age in calendar year: 75

Account value on January 1: $1,000,000

Life expectancy divisor 22.9

RMD: $43,668 (must be taken by 12-31)

This works best for those who claim the standard deduction, or who would lose deductions because of a phase out of itemized deductions, or who are subject to the 50% limitation on Adjusted Gross Income. **Caution: you can only do this after you turn 70½, not a day sooner.** If you have already taken your distribution, you can still donate the difference between it and $100,000.

This must be done as a direct transfer, and it must go to a public charity, rather than a private foundation. It is possible to send it to a donor advised fund, but special rules apply and you could not co-mingle the new transfer funds with the existing account.

If you have questions about whether this is appropriate for you, let's talk. **One thing to determine is whether or not you have adequate retirement capital.** With the handful of our clients who would like to do this, we have all been pleasantly surprised to see that they could afford to do so because their accounts have recovered very nicely over the past two years.

You will also need to coordinate with the charities. To take advantage of this, you should have the transfer well under way by early December at the absolute latest. This may be your last chance to help charities in this manner, while lowering your tax bill at the same time.

The Team Advantage™

Ron Kelemen, Mary Way, and Larry Hanslits are independent Certified Financial Planner™ certificants. They jointly serve their clients as a team with over 72 years of combined experience. They are members of The National Association of Financial Advisors (NAPFA), and as such work on a fee-only basis and do not accept any third party compensation or finders fees. Their practice focuses on wealth planning and management for professionals, business owners, and retirees. They are advisory associates of The H Group, Inc., one of the largest independent fee-only registered investment advisory firms in the Northwest with 18 professionals and over $500 million under active management.

About Ron Kelemen, CFP®

In practice since 1981, Ron is a contributing author of three financial planning reference books and is frequently quoted in the national press and professional journals. *Medical Economics* continues to list him as one of the 150 best financial advisors for doctors. He is active in Rotary and several non-profit organizations.

About Mary Way, CPA, CFP®

Mary joined the practice in 1995. She is also a non-practicing CPA with 16 years experience in banking, business, and finance. She is Immediate Past President of the Willamette Valley Estate Planning Council, and a board member of the Salem Rotary Foundation.

About Larry Hanslits, CFP®

In practice since 1985, Larry merged his practice with Ron's and Mary's in 2011. He sits on the investment policy committee of The H Group, Inc., provides advanced estate planning case writing services to attorneys nationwide, and is a teacher and a judge for the financial planning scholarship competition at Oregon State University.

TEAM UPDATE

Our year is off to a great start, and we hope yours is, too. It's been fun and exciting having Larry here. We're enjoying getting to know all of our mutual clients. The integration of our two practices has been smooth and easy, but it has involved a lot of work on Lani's and Debbie's part.

Lani started a digital archive of old family photographs while visiting her mother in Utah in February. When she returned, she helped husband Jim plant fruit trees and started growing tomato and pepper seedlings for the summer garden.

Debbie calculated and sent all the RMD information to our clients over age 70 and got the tax information packets sent. As far as fun? She told us to write "I'm just all work and no play—at least for this quarter!"

Larry taught his financial planning class at Oregon State University for the financial planning scholarship contest and is looking forward to being one of the judges who, in April, will award scholarships to the students who wrote the best financial plans. He and Laurie are enjoying being empty nesters, learning to cook for two. Their Florence home and horse ranch is now fixed up and on the market.

Mary participated in the two-day Mid-Winter FPA conference in January. She and Steve went to New York City where they saw "Spiderman" and attended Steve's daughter Emily's Masters recital from the Manhattan School of Music. Emily has a beautiful soprano voice, polished by years of dedicated practice and advanced training. When she graduates this June she's hoping to join an opera program for young professionals.

Ron attended his quarterly Strategic Coach workshop in Chicago and attended a communications technology seminar in Salem. But his highlight was a month in southern India. The first three weeks were as the Rotarian team leader of four young adults (ages 27-33) on a vocational and cultural exchange to Bangalore. They experienced five very hospitable homestays, numerous interviews with business and political leaders, cultural events, fantastic food and several Rotary events. After the exchange, Kathy and daughters Shanti and Skyler joined him for a week of independent travel to help him celebrate his 60th birthday.

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Dealing with Dementia Lessons from Three Clients...*Continued from page 1*

done quite well on her own. About three years ago Mary sought us out to mange her portfolios. "Why?" we asked. Once again, we were privileged to witness foresight and courage. "I've just been diagnosed with Alzheimer's," she explained. "I'm starting to not trust my own judgment. I don't want to do anything stupid with our investments."

We all agreed that one of the best things Mary could do was to keep her mind as engaged as possible. So we carved out a small amount of her assets for a hobby account for her to continue managing. It only lacked an extra "0" on the bottom line. She could afford to lose it. She turned her serious money over to us.

Lately, we've had to explain things repeatedly. Mary's husband is worried. But once again, Mary is showing courage and wisdom. She recently gave her son a power of attorney and has him attend our update meetings. The side benefit is that the son is getting a quick education from us on wealth management and will be in a much better position to handle a large inheritance when it eventually arrives.

Susie

Widowhood struck "Susie" somewhere in the early to moderate decline phase. Her husband had been a very successful business owner who controlled everything with an iron grip, and he left her a very large estate. The grief, stress, medical, and family issues seemed to accelerate her decline. Her two adult children aren't very good with money, except at spending it. Susie is still cognizant most of the time, but just isn't interested in money, unless she is giving it away. But she had the good sense to hire a trusted advocate (recommended by her attorney) who pays her bills, manages the cash flow, visits her regularly, and coordinates things between the handyman, accountant, attorney, and us. Things would be an absolute mess without her.

The Common Thread

All three of these individuals have things in common. They had good estate plans, and they relied upon professionals for financial advice. But most importantly, they had the courage and common sense to overcome the denial often associated with dementia. It wasn't easy, but they did it. As a result, their financial futures are secure and their families have less stress.

Maybe for some of us, dementia will hit too quickly before we have the competence to pass the baton. Therefore, it just makes sense to start building a deeper bench and have a serious discussion with your family and advisors about how you would want to see things unfold if Alzheimer's or other forms of dementia strike you or your spouse. What are the trigger points or warning signs? Who will take over, and under what circumstances? You have control now—use it now to have at least some control over your future.