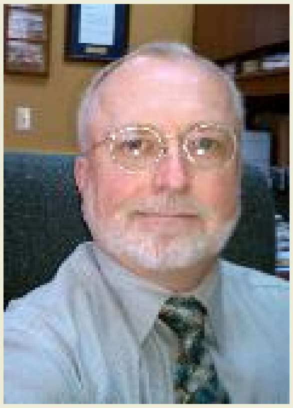
# The Monthly Mu$e

*Ideas and concepts to consider.*

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Greetings,

The past months have been good for markets, but as we enter the summer, volatility is returning. This spring we're seeing headlines dominated by domestic and international political tension, along with a repeat of Europe's fiscal crisis.

I invite you to call and setup an appointment to discuss how this effects the investments and opportunities in your portfolio.

Sincerely,
Ross

**2012-05**



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## Four Money Mistakes You Might Be Making

Three years after the economic crisis led many Americans to re-evaluate their financial picture, economic uncertainty is still the norm. While there's little you can do about the shaky economy, you can help stabilize your own finances over the long term by evaluating what you're doing right ... and wrong. There's no guarantee, but avoiding these four money mistakes may help you survive and ultimately thrive in any turbulent economy.

### Mistake 1: Jumping on the bandwagon

Are you letting economic news--good or bad--control your financial decisions? For example, are you selling gold because you've heard that prices are at record highs or buying real estate because you've heard that prices are at record lows? Have you decided to pull most of your money out of the stock market because you've seen headlines warning of a possible financial crisis?

Unless you're basing your decisions on your own needs and circumstances rather than on the opinions or actions of others, you can't be sure you're doing what's right for you. Instead of jumping on the bandwagon, take a proactive, rather than reactive, approach to your finances, no matter what economic news you're hearing or what other investors are doing. Revisit your tolerance for risk and your own financial goals, and try to prepare yourself for a variety of scenarios. Avoid basing money decisions on emotion, or you may find yourself facing unanticipated consequences down the road.

### Mistake 2: Only saving what's left over

Do you continue to worry that you're not saving enough? Do you routinely rely on credit rather than cash to pay for the things you want or need? Rather than blame your financial inertia on your income, look a bit deeper, because the real culprit may be the lack of financial priorities. If you don't know exactly how you're spending your money and you haven't set financial goals, it's unlikely that you'll see much financial progress.

Go back to basics by preparing (or reviewing) your budget. If you tend to save only what you have left over every month, you can put yourself on a more disciplined course by having a fixed amount taken out of your paycheck automatically for retirement. Or, you can set up automatic transfers from your checking account to a savings or investment account.

### Mistake 3: Not having an emergency fund

One lesson that you may have learned over the past few years is that the job market isn't stable. That's a major reason why one of your savings priorities should be an emergency fund. While it isn't glamorous, this underappreciated workhorse really pulls its weight during hard times. Having cash on hand that you can use for an unexpected expense, or to pay bills if you lose your job, is vital because it can help you avoid having to rely on credit or tap your retirement savings. If you don't have emergency savings to fall back on, a minor money shortfall can quickly turn into a major cash crisis.

### Mistake 4: Not asking for help

Even if your finances are in good shape right now, you may be overdue for a checkup. Reviewing your finances is especially important during periods of volatility because it can help reveal potential strengths and weaknesses, and identify changes you might need to make to adjust to the current economic climate. And if you're already in financial trouble, don't let fear or shame prevent you from asking for help. Facing financial problems early may help you make a full recovery. Many creditors are willing to work with you, but this may be much easier while your credit is still good, and while you still have time to turn things around.



See disclaimer on final page

# Business Owner Succession Planning

*What will happen to your business when you become disabled, retire, or die? You will generally need to identify someone to transfer your ownership interest to family members, co-owners, key employees, or an outside party. There are many options for you to consider.*

Every successful business owner must eventually face the question: What will happen to my business when I become disabled, retire, or die? Sooner or later, you will generally need to identify someone to transfer your ownership interest to family members, co-owners, key employees, or an outside party. Without a succession plan, the business may need to be liquidated.

## Successor management

One of the first questions that should probably be addressed is: Do you have successor management readily available to run your business? Without it, the business may fail. You might look among co-owners, family members, and key employees for candidates. It may be necessary to train successor management, helping others develop their skills or even bringing in new talent. Of course, if you sell to an outside party, that party may provide their own management. It should be noted that successor management can, but need not, be the same as the successor owners.

## Co-owners

If you have co-owners, you and your co-owners may wish to keep ownership limited to a select group. One way to do this, while providing a market for your interest in the business, is for you and the other owners or the business entity to enter into a buy-sell agreement. A buy-sell agreement is a legally binding contract in which the owners of a business set forth the terms and conditions of a future sale or buyback of a departing owner's share of the business. Specifically, buy-sells control when owners can sell their interests, who can buy an owner's interest, and at what price.

## Family members

Keeping the business in the family can present many issues that may contribute to the success or failure of the business as it is transferred to the successor generation. Do you wish to sell the business to family members, make gifts or bequests of interests, or perhaps use some combination of these? Do you need income for retirement, for your surviving spouse, or for the payment of final expenses? You may need to provide compensation to family members working in the business and profits to family members retaining an ownership interest, while cashing out some family members or otherwise providing for them.

Gifts you make are generally subject to federal gift tax. But you can make gifts of up to $13,000 per recipient per year free from gift tax using the annual exclusion. You can effectively double that amount by splitting gifts with your spouse. You can often obtain significant valuation discounts by making gifts of interests in a family limited partnership or a family limited liability company.

In 2012, you can also make gifts or bequests of up to $5,120,000 that are sheltered from federal gift tax and estate tax by the basic exclusion amount. This limit applies to all gifts you make during life and to your estate at your death. Under some circumstances, spouses may be able to effectively double the limit by splitting gifts with a spouse or by using the unused exclusion of a deceased spouse (portability). Note, though, that unless Congress acts, in 2013 the exclusion will be reduced to $1 million and portability expires. Similar exclusions or exemptions apply for generation-skipping transfer (GST) tax purposes, an additional tax imposed when the transfer is to someone two or more generations younger than you. There may also be state gift, estate, or GST tax to consider.

Sales to family members can utilize buy-sell agreements and installment sales. Installment sales allow the family member to make payments over time.

## Key employees

You may have some key employees working for you, who provide some unique skills and value to your business, and who have an interest in owning the business. You may be able to sell the business to them utilizing buy-sell agreements and installment sales. A business can also be sold to an employee stock ownership plan (ESOP), a tax-favored retirement plan for employees.

## Outside party

In some cases, succession is not practical using transfers to co-owners, family members, and key employees. Or it may be that you need to obtain the highest possible price for the sale. In that case, selling to an outside party may be the answer.

## Income tax consequences

Generally, the sale of your interest in a business will result in capital gain or loss tax treatment. You generally receive a tax basis stepped up (or stepped down) to fair market value for property you own at your death. Therefore, there will generally be no capital gain if your estate sells your interest shortly after your death. Also, if you sell your interest in an installment sale, capital gains (if any) are generally not taxed until installment payments are received.

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# Why Women Need Social Security

*If you have any questions about the Social Security program or the benefits you may be entitled to, visit www.socialsecurity.gov, or call (800) 772-1213.*

Did you know that the first person ever to receive ongoing Social Security benefits was a woman? Ever since Ida May Fuller received the first retirement benefit check in 1940, women have been counting on Social Security to provide much-needed retirement income. Social Security provides other important benefits too, including disability and survivor's benefits, that can help women of all ages and their family members.

## Retirement benefits: a steady stream of lifetime income

While Social Security retirement benefits are important for everyone, they are especially important for women. Because women generally live longer and tend to have lower lifetime earnings than men, they may be more dependent on Social Security benefits in retirement.*

Fortunately, you can count on two features of Social Security to help you provide for a long retirement. First, benefits last as long as you live; although you may exhaust other sources of retirement income, it's impossible to outlive your Social Security retirement income. Second, Social Security benefits are subject to automatic cost-of-living adjustments that increase benefits when prices increase, an especially valuable feature when you have to rely on a fixed income for many years.

When you work and pay Social Security taxes, you earn credits that enable you to qualify for Social Security benefits. You can earn up to 4 credits per year, depending on the amount of income that you earn, and you'll generally need 40 credits (10 years of work) to be insured for retirement benefits. Your monthly retirement benefit will be based on your lifetime earnings. However, if you don't work outside the home or haven't worked long enough to qualify for Social Security based on your own record (or have much lower earnings than your spouse), you may still be eligible based on your spouse's record.

## Disability benefits: help when you're ill or injured

During your working years, you may suffer a serious illness or injury that prevents you from earning a living, potentially putting yourself and your family at financial risk. But if you're insured under Social Security, you may be able to get disability benefits if you have worked long enough in recent years, your disability is expected to last at least a year or result in death, and you meet other requirements.

More women than ever are now insured for Social Security disability benefits. According to the Social Security Administration (SSA), in 1970, only 41% of women were insured; today, approximately 74% of women are insured.** In general, to be insured for disability benefits, you must have earned at least 20 work credits during the last 40 calendar quarters (10 years). If you qualify for benefits, certain family members (such as your dependent children) may also be able to collect benefits based on your work record.

Because eligibility requirements are strict, Social Security is not a substitute for other types of disability insurance, but it can provide basic income protection for working women and their family members.

## Survivor's benefits: financial protection for your family

You probably know the value of having life insurance to protect your family, but did you know that Social Security offers valuable income protection as well? If you are insured under Social Security at your death, your surviving spouse (or ex-spouse), your children, or dependent parents may be eligible for benefits based on your earnings record.

You also have survivor protection if you're married and your insured spouse dies. If you're caring for a child who is younger than age 16 or disabled and who is entitled to benefits, you may be entitled to widow's benefits. You may also be entitled to benefits if you are age 60 or older (age 50 or older if you're disabled).

## Three tips

- Use the benefit calculators available on the Social Security website to estimate your future retirement, disability, and survivor's benefits. Social Security was never intended to cover all of your financial needs, but understanding what benefits you might be entitled to can help you plan for the future.
- Consider the impact on your Social Security benefits if you plan on taking time out of the workforce. Having years of no or low earnings may mean lower benefits, and can also affect your eligibility for disability coverage.
- Check your earnings history regularly, and report any name changes right away to the SSA so that your earnings are recorded properly. If your name doesn't match SSA records, any income tax refund can also be delayed.

***Sources:*** **Fact Sheet: Social Security Is Important to Women, SSA Press Office; **Fast Facts & Figures About Social Security, 2011, SSA*

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## What is personal liability insurance and do I have it?

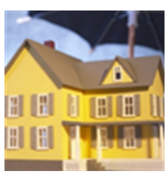
Personal liability insurance protects your assets if you injure another person or damage someone else's property. It's also known as third-party insurance because it protects you if a third party files a claim against you. Personal liability insurance can be purchased as part of a package policy (such as a homeowners or automobile insurance policy) or as a separate policy (such as a personal umbrella liability policy).

Today, lawsuits are everywhere. What if your dog bites a neighbor? What would happen if someone slips and falls on your front walk? While you may not be able to avoid all accidents, you can transfer some of the financial risk of the resulting loss to an insurance company by buying personal liability insurance.

How much liability coverage do you need? Probably more than you think you do. Because there's no optimum amount that applies to everyone, how much personal liability coverage you need depends partly on your tolerance for risk. Can you afford to pay the cost of a claim out of pocket or would even a small claim threaten your finances? If you already have liability coverage, take a look at your current policy. Determine whether your liability limits are high enough, or if there are any coverage gaps you'd like to fill.

If you own a homeowners or automobile insurance policy or another type of property insurance (e.g., mobile home insurance or renters insurance), you have basic personal liability coverage. These policies will protect you against many liability claims. Your insurance company will defend or settle claims and lawsuits brought against you and pay the sum owed for covered damages (bodily injury or property damage), up to the liability limits of the policy. If you want greater liability coverage limits or if you want broader coverage that includes more types of claims, consider buying a personal umbrella liability policy.

No personal liability insurance policy will protect you against every loss you might face. Generally, personal liability policies don't cover claims stemming from your business or profession, claims resulting from an act intended to cause injury or damage, and damage to property owned by you.



## What is umbrella insurance and why do I need it?

Umbrella liability insurance (ULI) provides additional liability coverage in excess of the liability coverage provided by other insurance policies, such as homeowners, renters, and auto insurance. By providing liability protection above and beyond these basic coverages, ULI can protect you against the catastrophic losses that can occur if you are sued. Although ULI can be purchased as a separate policy, your insurer will require that you have basic liability coverage (i.e., homeowners/renters insurance, auto insurance, or both) before you can purchase an umbrella liability policy.

A typical umbrella liability policy provides protection, up to the coverage limits specified in the policy, for vehicle-related liabilities above your basic auto policy; for claims of bodily injuries or property damage caused by you or members of your household; for incidents that occur on or off your property; for non-business-related personal injury claims, such as slander, libel, wrongful eviction, and false arrest; and for legal defense costs for a covered loss, including lawyers' fees and associated court costs.

Policy exclusions vary from one insurer to another, but typically, basic umbrella liability insurance doesn't cover intentional damage caused by you or a member of your family or household; damages arising out of business or professional pursuits; liability that you accept under the terms of a contract or agreement; liability related to the ownership, maintenance, and use of aircraft, nontraditional watercraft (e.g., jet skis), and most recreational vehicles; damage to property owned, used, or maintained by you; damage covered under a workers' compensation policy; and liability arising as a result of war or insurrection.

How much liability insurance do you need? A large judgment against you could easily wipe out your assets and put your future earnings in jeopardy. That's why you should also consider factors such as how often you have guests in your home, whether you operate a home-based business, how much you drive, whether you have teenage drivers in your home, and whether your lifestyle gives the impression that you have "deep pockets." Your insurance professional can help you determine how much coverage you need.