

INVESTMENT MANAGEMENT

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CITY NATIONAL BANK
The way up. 

Have Your Cake and Eat it Too! The HYCET Trust

by Jeffrey M. Verdon, Managing Partner, Jeffrey M. Verdon Law Group, LLP

The HYCET Trust® is the trust for today's times. Since the estate and gift tax laws have now been made permanent, the right trust vehicle can help you make the \$5.45M gift tax exemption in a way that your trustee can accommodate you should you have donor's remorse, or later need or want to recapture all or part of the gifted assets. Conventional irrevocable gift trusts do not afford the donor the ability to reclaim the gifted assets once made.

This Is Why You Get to Have Your Cake and Eat It Too!

The HYCET Trust is established in a qualifying jurisdiction such as Nevada. Future potential creditors of the donor or your kids and grandkids cannot reach the assets gifted to the trust. Yet the trust permits the trustee to later name the donor/grantor (or his or her spouse) as a beneficiary should you later need or want all or part of the gift reclaimed.



Jeffrey M. Verdon
ATTORNEY AT LAW

The HYCET Trust is a disruptive technology in the way it provides the flexibility to reclaim the gift if you later need or want it, based on favorable IRS private letter rulings. The Trust protects assets from lawsuits brought against the Trust beneficiaries and can be further used to "freeze" the value of the estate by allowing assets to be sold to the Trust for an I.O.U. without recognizing any taxable gain or loss saving millions in death taxes.

To supercharge the gift to the HYCET Trust many of our clients will purchase their life insurance policies in the Trust. Why? Because the assets placed in the trust may be used to pay the premiums, or better yet, finance the premiums using the trust assets to pay annual interest only payments. Premium financing is another disruptive technology that allows you to retain your assets in your personal investment portfolio, while paying interest only at rates at 2.5% or less. Adding life insurance to the HYCET Trust will allow you to double or triple the



eventual amount of funds in the trust so the investment professionals can generate a much greater amount of investment income for the beneficiaries.

We invite you to contact us for additional information on how you can protect your assets and legacy with a HYCET Trust.



JEFFREY M. VERDON
LAW GROUP, LLP

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Wait... what?

Every two seconds a new lawsuit is filed in the U.S. We know that safeguarding your assets and legacy isn't child's play.

Call us for a complimentary consultation.



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²Community Reinvestment Act government data, 2002-2014.

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Finding and Keeping Your Balance

It is hard to find balance in wealth matters when one's wealth reaches substantial levels and complexity. There is a seemingly endless amount of information; ideas, claims, predictions, and legal and tax techniques. Much is written about legacy planning, family values transfers, and the responsibilities of wealth. It all can be useful to varying degrees after the center point for families is established and they know all that they are balancing.

The center point is simply the family members and their goals. They should know the answer to the question of "what is this wealth intended to accomplish specifically." I regularly find that families are either not thinking of, are mis-prioritizing, or are losing sight of the objectives of their wealth. They're off balance. With substantial wealth, however, they may not realize it. The question of purpose is a simple one but can be difficult to answer completely and the answers can often seem to change for unclear reasons.

First things first. Clients should expect that the first priority of their advisors – including tax, legal, banking, investment, real estate, etc. – is to help them clearly identify, understand, and refine their needs and goals that are aligned with the purposes of their wealth. Every advisor should make a beneficial contribution to helping establish and maintain balance. Each has a role to play in that regard, formal or informal.

How do you focus on what's important to you and what works within a uniquely tailored plan that has the right risks and expected returns while also remaining open to new ideas and retaining financial flexibility? It's a tall order and there are always tradeoffs to consider.

► **Balance how you spend time to create goals, quantifying them to the extent possible, and then determining what return is required to reach them.** This is your risk need. It's a simple but valuable starting point. It gets tough quickly when you consider all the various types of assets, use of leverage, liquidity, cash-flow, volatility, fees, taxes, account types and titling, and perhaps other matters. With substantial wealth, the need to create separate accounts or structures for specific needs like college planning or retirement disappears. Unfortunately, the desire for adequate planning also seems to fade as well due to the often misplaced sense of security greater wealth provide.

► **Balance how you view risk.** Ask yourself what the risks of not reaching particular goals? Risks come in many forms; investment loss, lack of liquidity at the wrong time, performance risk, inflation risk, correlation risk, reinvestment risk, and more. Balancing your risk need and your risk tolerance is crucial. Understanding and accepting the implications of not reaching your goals is key before taking the risk.

► **Balance your team.** Seek out experts that look at the entirety of your goals and all aspects of your balance sheet to take advantage of sophisticated strategies that are suitable. It may be that you can ladder loans to an intentionally defective trust to minimize taxes. Or utilize customized leverage to improve cash flow or enable asset transfers to the next generation. Alternative investments can be used for either downside risk management or to generate incremental risk-adjusted returns. More wealth means more choices and more decisions. Your assets, debt, and structures should be simple enough to meet your goals and preserve flexibility but not so simple that they are ineffective.

► **Balance your evaluation and assessment.** Think about how to roll everything up annually to review it in an integrated fashion. This helps you get a clearer picture of how all the elements mentioned above are interacting. With regard to assessing investment performance, don't spend much time bench-

marking your performance and concentrate on what **you** need to reach your objectives. Industry benchmarks can be useful references, but they are secondary to the performance you expect given the risk you are taking and your constraints for liquidity, cash-flow and other elements. Calculating your returns and seeing everything holistically takes work when you consider your real estate, other real assets, illiquid assets including private and direct investments, partnerships, business ownership interests and partnerships, stock options and restricted stock, all debt, etc.

“How do you focus on what's important to you and what works within a uniquely tailored plan that has the right risks and expected returns while also remaining open to new ideas and retaining financial flexibility?”

With a clearer understanding of your own balance, staying there should encompass these considerations:

1. Know your limits. For example, we see professionals in one field suddenly try to become experts in another too quickly. It's tough to be a great doctor and also a great real estate investor at the same time. Take time to understand how that real estate fits in to your bigger picture. Avoid becoming too ambitious too quickly in the name of being opportunistic.

2. Check regularly, perhaps annually or whenever something in your life changes, to see that your balancing "plan" for risk need and risk tolerance are known by you and your advisors and are still sustainable and comfortable for you to reach your goals.

3. When planning, gifting, or making philanthropic commitments be sure not to plan yourself into financial inflexibility. Losing too much financial flexibility by over-committing can inhibit the capacity to borrow and use leverage when appropriate to maintain your balance.

4. Staying with an advisor of any kind, financial, legal, tax, etc., just because you always have is not reason enough. Every advisor, friend or otherwise and their firm has to earn more than your trust. Trust is all-important of course, but not all-encompassing. Your advisor should be able to provide advice and also challenge your assumptions and sentiments in a way that helps you define and reach your goals and stay in balance.

5. Most importantly, be focused on your own objectives and be certain that your tax, legal, financial, and other advisors are clear on them. Set high expectations. It is very difficult to find and keep **your** balance otherwise.

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Michael Pagano

Michael Pagano is executive vice president of Private Client Services for City National Bank. Private Client Services tailors solutions to help wealthy families and individuals grow, preserve, and transfer their wealth. The group also specializes in working with professional services firms and select nonprofit organizations. Mr. Pagano has been with City National since 2007, and is a member of the bank's Executive Committee. Mr. Pagano has worked in the financial services industry since 1985 and has been in private wealth management and private banking since 1994.



About City National Rochdale

City National Bank is backed by \$36.4 billion in total assets, and provides banking, investment and trust services through 75 offices, including 16 full-service regional centers, in Southern California, the San Francisco Bay Area, Nevada, New York City, Nashville and Atlanta. The company and its investment affiliates manage or administer \$53.9 billion in client investment assets, including \$40.3 billion under direct management.

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CITY NATIONAL BANK

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Don't Manage Your Investments Based on Seasonal Trading Patterns

Why the Early Summer Concept of "Sell in May and Go Away" Makes Little Sense

Every year, we hear a number of market strategists who suggest investors should "sell in May and go away." Although on the surface data supports this seasonal influence, if we dive deep into the historical data we see a broader reason that this is not the best avenue for long-term growth and stability.

The S&P 500 Stock Index has produced lower returns during the months of May to October than November to April. From 1926 through 2015, the S&P 500 Index has produced an average total return of 4.3 percent from May through October. This compares much less favorably to the 7.0 percent average total return for November through April. This seasonality cannot be fully explained by market analysts, but there is some evidence that markets display lower trading volumes during the months when market participants take their summer vacations. This pattern does not hold every year, but the trend has shown strong staying power over time. There is 89 years of data supporting this general underperformance from May through October.

But, should investors really heed this advice to "sell in May and go away?" Our advice is a resounding "no."

Investors face significant real world headwinds to actually sell stocks in May. One is transaction costs. Selling stocks is not free, and will result in costs to sell and eventually to buy back stocks. Investors could also face paying taxes on any gains from the sale of stocks. Those sales could result in significant taxes if the gains are short-term in nature. Finally, few, if any investors can time the market to both sell and then repurchase stocks on a consistent basis. Many studies have shown that investors who try to time the market often fail. This failure may reduce their annual return by up to 35 percent. This is the result of simply missing the best 10 trading days of any given year.

Another important reason that investors should not "sell in May and go away" is that while returns are lower during this time frame, they are not

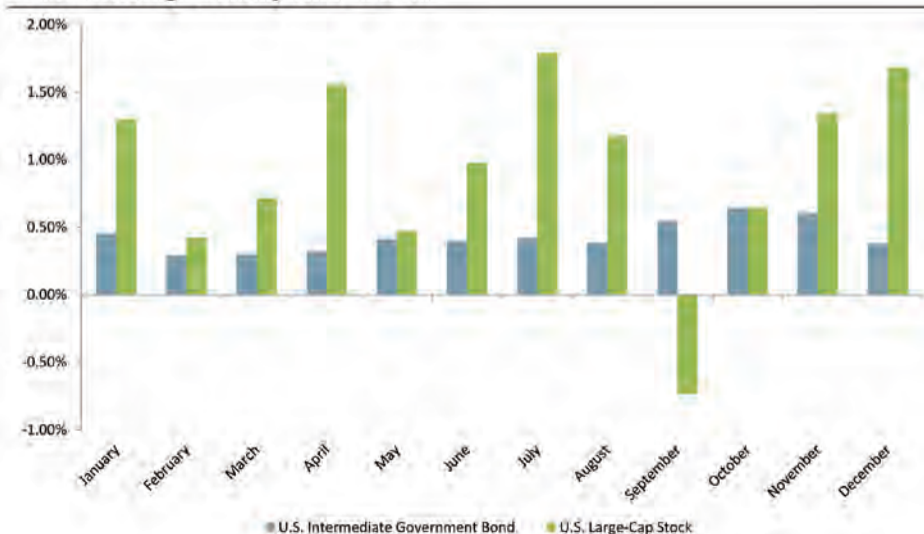
negative. Returns of 4.3 percent from May through October are not insignificant. A better strategy, in our opinion, is to take a longer-term view towards the markets. Investors should have long-term financial plans that incorporate an appropriate mix of investments that allow them to weather periodic market storms without completely selling or dismantling portfolios.

We also see in the chart that intermediate-term U.S. government bonds, as represented by the "IA SBBI US IT Govt Bond TR Index," can often move in the opposite direction from that of stocks. Bonds have shown minimal seasonality. Bonds can also be used to counterbalance potential weakness in equity prices and provide stability to a diversified portfolio.

Investors need to think about longevity issues rather than seasonal trading patterns such as "sell in May." People are living much longer and healthier lives. For example, a couple who is 65 years old today has a 50 percent probability that at least one of them will live to 95. One in three children born today are projected to live to 100 years old. The standard advice has traditionally been to reduce risky assets such as stocks as an investor reaches retirement. The problem with that advice is that people are living for decades in retirement and need to take some risk in their portfolios just to maintain purchasing power. If inflation averages 3 percent for 25 years, that will cut the purchasing power of a portfolio in half. That is why we recommend investors look at a total return portfolio rather than just an income portfolio.

Finally, investors should employ sound strategies such as rebalancing portfolios back to their target weightings. This discipline would likely cause investors to take some gains in the seasonally strong period of November to April. Trimming some of the winning stocks is a good discipline, but it is much different from "selling in May and going away." Rebalancing or trimming stocks before May remains a sound and disciplined strategy. Then, if markets pull back or sell off during the May through October time frame, investors can be prepared to "buy in the summer" rather than "sell in May."

Chart 1. Average Monthly Total Returns



Data Source: Morningstar Direct, average monthly returns 1926-2015 and Wells Fargo Investment Institute

Chris Rommel

Chris Rommel is Orange County's regional managing director for Wells Fargo's Wealth Management Group. He leads a team of 120 wealth professionals who provide financial planning, investment and fiduciary services, brokerage, insurance and private banking to high net worth and ultra-high net worth clients across southern California. A 30-year banking veteran, he assumed his current role in 2013.



Ben Alvarado

Ben Alvarado is executive vice president and president of Wells Fargo's Southern California Community Bank. He oversees approximately 3,800 financial professionals at 234 banking stores and manages more than \$34.1 billion in deposits and \$11.3 billion in loans. A 25-year banking veteran, he assumed his current role in 2014.

