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WEALTH STRATEGIES

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JEFFREY M. VERDON LAW GROUP, LLP

But I Thought My Assets and Legacy Were Protected

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

Upon hearing bad news many think, "That's awful, but it could never happen to me." However, this true story happened to two smart, nice people who learned the hard way that bad things can indeed happen to good people.

Stephen and Joan were highly skilled professionals, happily married for 18 years. They were savvy about their investments, assets, liabilities and potential tax exposure. And now it was time for them to hire an attorney to create a new estate plan.

Ever diligent, their estate planning lawyer prepared a high-quality plan that made sure that when the first spouse dies, the assets would be seamlessly governed by their trust without the need for probate delay and expense.

Months later, Stephen and Joan were as busy as ever. Their practices were booming and they moved into their dream home.

Then disaster struck. Stephen was running late and took a shortcut around the traffic. He never saw the stop sign. Seconds later, he crashed into another car. He was fine, but the other driver wasn't. He died of his injuries. And the fault was Stephen's.

Although they had an auto liability policy, it only provided coverage up to \$100,000. The victim was young and had a wrongful death claim worth millions. Their insurance would not be enough.

Nothing could have prepared Stephen and Joan for what was to come except for better planning. While they had an excellent estate planning lawyer, he failed to include "firewall" protections in case of an intervening lawsuit before the living trust plan was needed. In other words, despite having substantial assets and some



Jeffrey M. Verdon

liability insurance, their lawyer didn't include a comprehensive estate plan with asset protection planning.

Hindsight is always 20/20. Stephen wished his lawyer had explained there were other more protective strategies he could have included along with the basic estate planning tools. In today's litigious climate, implementing an estate plan with asset protection "firewalls" is not your "grandfather's" old estate plan, but rather an effective and legal means to level the playing field against complete and utter financial calamity. Unfortunately, fraudulent transfer laws preclude such planning after the worst case scenario happens. Stephen and Joan were sadly forced into the position of potentially selling their dream home and cashing in a significant portion of their retirement funds to settle the wrongful death lawsuit.

They never dreamed it could happen to them. But it did. It can happen to any of us.

There are countless families like Stephen and Joan who use traditional estate planning lawyers who fail to upgrade estate plans from coach to "first class." First class estate planning services are not inexpensive, but coupled with the potential risk of losing it all, an upfront investment in such estate and asset protection planning seems like a bargain.

Take this moment to consider your own situation. Has your estate planner upgraded your estate plan from "coach" to "first class?" Like Stephen and Joan, have you been penny wise and pound foolish?

Feel free to reach out to me directly at 949.333.8150 or jeff@jmvllaw.com to learn more about your level of protection with no obligation.

About Jeffrey M. Verdon Law Group LLP

Jeffrey M. Verdon Law Group LLP is a boutique Trusts & Estates law firm specializing in Comprehensive Estate Planning and Asset & Lifestyle Protection, including Tax-Efficient Portfolio Management. For over 30 years, through our recognized concierge client services program, we work with

affluent families and business owners to make sense out of the complex tax code and wealth transfer opportunities available to the well-informed, and provide "firewall" asset protection planning to protect the estate against future potential lawsuits.


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INVESTMENT MANAGEMENT

Separating Signal from Noise

by Bruce Simon, CFA, Senior Managing Director, Chief Investment Officer, City National Rochdale

With market-moving events occurring seemingly by the hour, and no shortage of media attention on even the most trivial news stories, what is truly worthy of investor attention?

At City National Rochdale, we believe that perspective is one of the most integral foundations of investing. It takes experience to perceive markets at the right distance. Short-term volatility can lead to myopic irrationality, and create misleading noise for market observers and investors. Long-term strategies can run the risk of ignoring valuable signals that might otherwise be used to inform decision-making.

We ground our clients' portfolios in the value of the ideal perspective: a distance in which both the noise and the signal can be effectively identified, and leveraged for meaningful insights.

At the end of last year, we predicted that 2015 would be another successful year for equity investors, but cautioned that gains would be hard-fought and accompanied by significant turbulence along the way. We thought that investor patience would be tested by the onset of higher interest rates in the U.S. and continued economic struggles among the world's other major economies. While the story for the year remains to be told, the turbulence has returned as expected.

"U.S. Stocks Fall Amid Concerns About the Deepening Greek Debt Standoff" was the headline in a news article last month. Sounds pretty scary. The very next day, a market recap was titled "U.S., Europe Shares Rise with Greek Bonds on Signs of a Debt Deal." These head-snapping changes in seemingly important stories are enough to give investors nausea, and are certainly contributing to this year's stock market roller coaster ride. Short-term myopia is driving asset price performance, and, to those only attuned to the market for intermittent periods, the context seems entirely unpredictable.

We believe that any attempt to derive actionable insight from the market begins with the understanding that financial asset prices are driven by three main factors: **fundamentals**, **valuation**, and **psychology**.

► When it comes to stock prices, **fundamentals** refer to the future earnings growth of a company, and are dependent upon many factors – both internal (e.g. business strategy and execution) and external (e.g. macroeconomic) to the company's operating environment.

► **Valuation** is a process that attempts to identify whether an asset is overvalued or undervalued relative to its future earning power, past history, or other companies in similar businesses.

► **Psychology** is the short-term "noise" that tends to create mispricing opportunities when investors overreact to the market-moving news of the day, and is heavily influenced by investor mood, or sentiment.

In our view, investors should gauge the impact of daily headlines on each of these three factors. A perspective that is too near to the headlines *du jour* may ignore valuation and fundamentals, whereas a perspective that is too distant may ignore the useful context that these factors may provide. There is noise in the news, certainly, but there are valuable signals, too.

Understanding any scenario in the context of these three factors can help isolate actionable signals. One could construct a scenario in Europe that involves Greece defaulting on its debt, exiting the Eurozone, and opening the door for other larger countries to follow suit. This would have a devastating effect on European fundamentals and would undoubtedly impact other equity markets outside of the Eurozone. We assign an extremely low probability to this outcome, and therefore view most of the headlines coming from Greece to be noise, and impacting investor psychology more than anything else.

How does our interpretation of the signals translate to our outlook? We continue to view both market fundamentals and valuation levels as reasonable and supportive of higher stock prices. While the precise timing of the Fed's first rate increase is the subject of endless speculation in the financial press, looking back three years from now it likely won't matter much whether the first rate hike was in June or September of 2015. More important than the exact timing is the pace at which the Fed raises rates, and the subsequent impact on the global economy. The depth of the economic impact is likely to have a far greater effect on fundamentals and valuation than the timing of the decision.

Successful investing involves distinguishing the signal from the noise. At City National Rochdale, we manage client portfolios with the philosophy that all news and current events are worthy of consideration, but not all are worthy of action. It's this perspective that enables us to focus on events that are likely to shape long-term trends, and to build your portfolio on the tangible, not the ephemeral.

For more information about working with City National Rochdale, speak with your financial advisor, or visit cnr.com.



Bruce Simon, CFA
Senior Managing Director, Chief Investment Officer

Mr. Simon joined the former City National Asset Management (predecessor to City National Rochdale) in 2011 and has over 30 years of experience in the investment industry. He leads City National Rochdale's skilled team of portfolio managers and research analysts, and as Chairman of the firm's asset allocation committee, Mr. Simon directs the firm's views on the economy and investment strategy. Previously, Mr. Simon was Chief Investment Officer and Managing Director at Ballentine Partners, a \$5 billion independent wealth management firm near Boston. He has also served as Chief Investment Officer and Managing Director at Morgan Stanley's Private Wealth Management division in New York, as well as Chief Investment Officer at Glenmede Trust Co. in Philadelphia. At Glenmede, he also managed the Pew Charitable Trusts, one of the largest private foundations in the United States. Mr. Simon holds a BS in Marketing from Penn State University as well as an MBA in Applied Economics from George Washington University. Additionally, he holds the Chartered Financial Analyst designation and is a member of the CFA Institute.

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The Advantages of Using a Crummey Trust

by Sherry Radmore, Shareholder, Ells CPAs

Annual gifting can be a wonderful way of giving to your loved ones while taking advantage of the gift tax exclusion that reduces your potential estate tax liability. By strategically using the exclusion you can give away a specific amount each year (\$14,000 per person in 2015) to an unlimited number of individuals, free of gift and generation-skipping transfer tax. There are a few different options you can utilize for making the gift. You can make an outright gift or you can use a traditional custodial account that is easy to create and maintain. With both these options the individual either gets immediate access to the money or takes control at a predetermined age, 18 or 21. If this is not what you want, think about using a Crummey trust instead.

The Crummey trust, named after a famous court case, allows you to transfer property with the intent that it remain in the trust until the beneficiary reaches an appropriate age or series of ages (e.g., age 30, 35 and 40) or events (e.g., college graduation or marriage) or both. You are the one who decides how the money is to be used, how much the beneficiary can receive, and at what point in time.

There's one important thing to know before you decide to set up a Crummey trust: annual contributions made to the trust won't qualify for the annual gift tax exclusion unless the beneficiary is notified that a contribution has been made to the trust and given the right to receive that contribution. Once the beneficiary has been notified, he or she is given a limited period of time (usually 30 days) during which he or she can withdraw the contributions from the trust. The IRS requires that beneficiary's right to withdraw the funds be absolute in order for the gift to qualify for the annual exclusion so while the donor's expectations can be discussed with the beneficiary, those discussions should always remain unwritten and ultimately it is the beneficiary's decision.

Used properly, a Crummey trust can provide the flexibility and control that is missing from other types of gifting programs. It can be a valuable tool in estate planning and is worth consideration.

Sherry Radmore

Please call Sherry Radmore if you would like to discuss the benefits of setting up a Crummey Trust or for more information about the type of trust that is right for you and your family. Contact Sherry at 714.569.1000 or sradmore@ellscpas.com.



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