

THE Navigator

CLERMONT
WEALTH STRATEGIES



Asset Diversification



Fall 2011

Actively Managed ETFs — Something To Consider?

Exchange-traded funds (ETFs) appeal to investors because of their tax efficiency and typically low fund expenses, due in part to their status as passively managed index funds. But investors now have another ETF option: actively managed exchange-traded funds.

Actively managed ETFs offer several potential advantages over their mutual fund counterparts. Holding actively managed mutual funds along with ETFs may offer broad coverage across a variety of market sectors.

The ETF Appeal

Like mutual funds, ETFs hold a variety of stocks and provide exposure to the overall market or a specific market segment. Unlike mutual funds, which are priced at the close of any given trading day, ETFs trade on an exchange like stocks and can be bought or sold anytime the markets are open. ETF investors have access to the same tools available to stock investors, such as buying on margin, short selling, and setting limit orders. And investors can monitor the fund's investments since the SEC requires a daily disclosure of the fund's holdings. In a volatile

market, investors may benefit from ETFs' liquidity and transparency.

The Tax Factor

Actively managed ETFs generally can be more tax efficient than active mutual funds because investors pay capital gains tax only when they sell appreciated shares. Mutual fund shareholders, on the other hand, pay tax on any capital gains distributions they receive, even if they haven't sold their own shares.

A Drawback

Actively managed ETFs are relatively new investment products, so they don't have much of a track record. Looking at the background and past performance of the fund's portfolio manager may help investors make a decision. Holding mutual funds in addition to ETFs may provide broader market coverage.

Weighing the Risks

Investors who are looking for higher-than-average yields in the corporate bond market generally have to take on considerable risk to reap the potential rewards. If you fall into this category, so-called "junk" bonds may be worth a look. But, before you invest, make sure you understand and are comfortable with the risks involved.

Bond Lessons

Corporate bonds are classified either as investment grade or non-investment grade. Typically, investment grade bonds are issued by financially stable companies. While overall, they carry very little risk of default or bankruptcy, their returns are generally lower than the returns on riskier bonds.

Junk Bonds = Added Risk

Junk bonds are non-investment grade bonds issued by companies with an uncertain financial outlook. They typically offer higher interest rates to compensate for their added risk. While these rates may be attractive, investors should consider the possibility that they could lose part or all of their original investment.

Treating Life Insurance as an Investment

Individuals traditionally purchase life insurance to replace lost income if a family breadwinner dies unexpectedly. But life insurance can serve another purpose. More and more, investors and their advisors are looking at life insurance as its own “asset class,” one that has a low correlation with other investments.

Preserving an Inheritance

Life insurance proceeds can be used to preserve an inheritance for your loved ones. The proceeds will be available to your beneficiaries no matter what the securities, real estate, and other assets you own are worth at the time of your death.



Life Insurance and Estate Planning

Life insurance is often an integral part of an estate plan. Life insurance can:

Prevent a sale to pay estate taxes. If the estate is illiquid, life insurance proceeds can be used to pay estate taxes without forcing an executor to sell or mortgage assets.

Avoid the depletion of estate assets. Life

insurance proceeds can provide cash to pay estate and other taxes while leaving the estate assets intact for loved ones.

Provide cash for a buyout. Life insurance proceeds can be used to fund a buyout agreement among multiple owners of a privately held business.

Managing Your Policies

Based on life expectancy projections and other criteria, your financial professional can help you manage your insurance policies, allowing you to make informed decisions about the amount of life insurance you may need or want to have.

Take Control of Your Tax Bill

In the final quarter of the year, finding ways to lower your 2011 tax bill may be one of your primary concerns. There are a number of effective tax-reducing strategies that may help.

Before you proceed, estimate how much federal income tax you'll owe for 2011. This will give you a better idea of how much of an impact a particular strategy will have on your tax liability.

Keep in mind that factors other than taxes may influence your decision to employ certain strategies. For example, investment decisions should never be based on taxes alone, and tax considerations shouldn't be your only reason for holding or selling an investment.

Not every tax-reduction strategy will benefit every taxpayer (or benefit everyone to the same extent). It's important to consider your own tax

situation and consult with your personal tax advisor before implementing any of the suggestions.

Consider These Tax-trimming Strategies

These commonly used strategies may help reduce your 2011 tax liability.

Sell losing investments. Capital losses are fully deductible to offset capital gains and up to \$3,000 of ordinary income (\$1,500 if married filing separately). Excess losses can be carried over to future years.

Take your profits. Consider selling appreciated stock, especially if you'll have offsetting capital losses from the sale of other investments or carryover losses from a prior year.

Add to your retirement account. Increasing your pretax contributions to your employer's retirement savings plan means you'll pay current taxes on a smaller amount of income.

Make a charitable donation. You can generally deduct contributions made to a qualified charity by December 31. You'll need a receipt from the organization.

Leaving Assets in a **Beneficiary-controlled Trust**

Parents who plan to leave an inheritance to an adult child may want to consider a beneficiary-controlled trust. This arrangement allows the child access to the inheritance while offering protection from creditors and can be a good alternative to leaving the assets outright.

How the Trust Works

Parents create a beneficiary-controlled trust when they establish their own trusts. At the death of the second parent, the trust assets are retitled directly from the parents' trust to the child's trust. In addition to being the beneficiary, the child serves as co-trustee with another independent co-trustee, such as a financial institution or other professional fiduciary. The independent co-trustee has complete discretion to make distributions from the trust to the child. Because only the independent co-trustee — and not the child — has the authority to make distributions, the assets are protected from lawsuits or the actions of creditors.

The Trust Assets

There are no restrictions on what can go into the trust. It can hold virtually anything — a home, securities, collectibles, all types of vehicles, etc. — making the trust arrangement almost comparable to an outright distribution from the parents. If desired, the trust can provide for trust assets to pass to the grandchildren of the trust creators after their child's death.

Tax Considerations

The trust generally must file an annual income-tax return. Tax rates on accumulated trust income generally will be higher at lower income levels than the rates that apply to individuals. However, if all trust income is distributed to the beneficiary, the income is reported on the beneficiary's income-tax return and taxed at the beneficiary's income-tax rate.



Vetting a Retirement Community

Many retirement communities are feeling the pinch of a stagnant economy and real estate market. To attract potential buyers, some communities have come up with a new strategy: the retirement getaway.

The Plan

Retirees or preretirees spend a few nights in a model home with access to everything the community offers. They meet the residents, sample the food, and enjoy the activities and other amenities. The hope is that guests will decide to purchase a home.

“To attract potential buyers, some communities have come up with a new strategy: the retirement getaway.”

The Price Tag

Not all communities offer a free stay. Some charge a per-night cost, and mandatory attendance at a sales presentation is usually standard. Generally, guests pay for their own transportation and meals.

The Decision

If you're interested in the community, ask for a detailed explanation of the overall costs, such as property taxes, homeowners insurance, and management fees. Be clear about owner and management responsibilities. Make sure the location and activities appeal to you and will meet your long-term needs.



Protecting the Intent of a Charitable Gift



Although choosing a charitable organization to receive a significant donation may be the first step in achieving your philanthropic objectives, specifying your intentions for your gift is equally important. As the donor, you have the right to designate how your gift will be used and what ultimate purpose your gift is meant to serve. In that sense, the organization receiving your donation is merely the conduit for fulfilling your wishes.

A Reason for Caution

Examples exist of the mismanagement and misappropriation of charitable gifts, particularly when generations have passed since the original dona-

tion. The original trustees of the organization are gone, and subsequent trustees may not be as diligent in adhering to the donor's intent. Before making a gift, donors should do everything possible to ensure proper long-term stewardship.

Define Intent

When making a donation, donors must be very clear about what the gift should accomplish. For example, is the gift meant to benefit the public, a specific population, or a cause? If it's a tangible asset, such as a work of art, the donor might specify the circumstances under which it may be sold — or expressly forbid its sale under any

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circumstances. A donor may want to stipulate what should happen to the gift if the organization defaults or ceases to exist in the future.

Vet the Organization

Donors should thoroughly review the organization's financial condition and history for any signs of trouble or mismanagement. Another important factor is whether there are trustees and directors in place who are capable of overseeing the donor's plans for the gift.

Develop Safeguards

If possible, the donor should establish checkpoints for a gift that's given in perpetuity. If the donor's original intentions are in danger of being thwarted, the situation can be discovered and corrected in a timely manner.

Creating a mechanism to protect the original intent of a gift can be complex, so donors should seek professional help.

This publication involves sophisticated tax and financial planning concepts. Before applying anything you read to your situation, you should consult with your professional advisor.

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