

# THE Navigator

CLERMONT  
WEALTH STRATEGIES



Winter 2012

## Revisit Your Portfolio in the New Year

Are your investments helping you reach the goals you've set for yourself? The start of a new year offers an opportunity to determine whether your current asset mix is moving you closer to your objectives and to make adjustments if your investments aren't performing as you expected.

### Multiple Goals, Multiple Time Frames

You may be saving and investing for a variety of short- and long-term goals at the same time — a new home, a child's college tuition, your retirement. Over time, the goals you're investing for may change. You may achieve some of your objectives, and new goals may take their place. Reviewing your investments can help you decide whether they're appropriate for meeting your needs, both now and in the future. If you're in doubt, making changes to your strategy may be the best solution.

### An Objective Assessment

Your portfolio review should include a comparison of your investments' performance with appropriate benchmarks.

An investment that has consistently underperformed its benchmark can undermine your efforts to reach your goals. And, if the proportion of stocks, bonds, and cash equivalent investments has changed significantly from the original asset mix you chose, or if your tolerance for risk has increased or decreased, rebalancing can bring your portfolio in line with your current objectives.

As you review your portfolio, keep in mind that taking some risk with your investments may potentially provide the growth you need for a financially secure future. Not taking enough risk with your investments presents a risk of its own — the risk that you'll fall short of your financial goals.

## Gift Tax Filing Facts

Knowing when to file a federal gift-tax return for gifts you've made to children, grandchildren, or others during the year can be challenging. While consulting your tax advisor is highly recommended, the general guidelines below may help.

Under current law, all taxable gifts made during your lifetime must exceed \$5,120,000 (in 2012) before you'll have to pay federal gift tax. However, you still might have to file a gift-tax return.

Very generally, you'll be required to file a return for any year in which your gifts to any one person total more than the gift-tax annual exclusion in effect for that year. For 2012, the exclusion is \$13,000.

The tax law includes exceptions to the filing requirement for spousal gifts and gifts to qualified charities. Gifts that are qualifying transfers for tuition or medical expenses also don't require a return.

## Choose a Trustee with Care

Creating a trust can be a useful estate planning strategy, but choosing an appropriate trustee to manage the trust property can be a difficult decision. Although you can choose anyone you want to serve as trustee — a relative or friend, your attorney, an institution — keep in mind that serving as trustee can be a complex and time-consuming task.

The person or institution you select will be legally responsible for managing and distributing the trust assets to beneficiaries according to the trust's terms, often over several years. You should be confident that the trustee you select will be able to set aside personal feelings and make objective decisions that are in the best interest of the trust's beneficiaries.



### Choosing a Corporate Trustee

Appointing an institution to serve as trustee of a trust you've created — or as co-trustee with a friend or family member — brings valuable expertise to trust administration. Your trustee must have the knowledge and skills to:

- Plan an appropriate investment strategy that protects beneficiaries' interests
- Make prudent investment decisions
- Maintain records of trust assets and transactions
- Perform ongoing accounting tasks
- Pay bills
- Inventory and change titles of assets, as necessary
- Obtain appraisals, titles, deeds, and other real estate documents
- Provide account statements to beneficiaries
- Keep records of taxable income
- Prepare and file annual trust tax returns
- Arrange the transfer of assets

Managing a trust often requires a significant time commitment. Your trustee must be willing and available to manage trust assets and address the needs of beneficiaries for the trust's duration.

You may want to consider appointing an institution as trustee or as co-trustee with an individual. A corporate trustee can provide stability, continuity, experience, and objectivity in decision making that can protect the interests of beneficiaries.

## Make Selling a Rational Decision

Wide market swings can be unsettling to any investor. Standing by as the value of an investment drops is never easy.

But reacting emotionally instead of rationally to market swings can cause you to make poor investment decisions that may haunt you for a long time. Liquidating an investment at the wrong time or for the wrong reasons can significantly reduce your portfolio's return. That's why establishing guidelines for determining when it's the right time to sell should be an essential component of your investing strategy.

Before you make any decisions, compare your investment's performance to a comparable benchmark index. A period of low returns may not be a major cause for concern if performance is in line with the returns of similar investments.

Keep in mind that a long investing horizon gives your portfolio more time to potentially recover from losses, so consider waiting out any decline in your investments' value. If you want

to sell, make sure you base your decision on objective criteria and not on your emotional reaction to a market that may be temporarily in the doldrums.

### Choose Your Sell Criteria

Identifying "triggers" in advance that would prompt you to sell an investment may prevent you from making impulsive decisions based on short-term market performance. Here are some examples.

You might sell an investment when:

- Performance falls below a predetermined price or percentage return for a period of time.
- The investment reaches a "target price" you've set for it.
- Performance lags behind that of a comparable benchmark by a certain percentage.

Consider establishing "sell" parameters with your broker to remove any emotional component from your decision.

# Valuing Artwork

Making a donation of artwork to a museum, educational institution, or other qualifying charitable organization can give you an opportunity to share your collection with others and provide you with a charitable income-tax deduction. If such a contribution is among your charitable goals, your first step generally should be to obtain a written appraisal from a qualified source to support your claim.

## What Constitutes a Qualified Appraisal?

A qualified appraisal is one that's made by a qualified appraiser and dated no earlier than 60 days before the date you donate the artwork. Very generally, a qualified appraiser is one who has the education and experience to value the type of property being appraised and who regularly prepares appraisals for a fee.

Typically, the appraisal should include the following:\*

- A sufficiently detailed description of the artwork (e.g., size, subject matter, medium, name of artist)
- The authenticity and condition of the artwork
- Any donor restrictions (or the terms of any other agreement) on the disposition or use of the artwork by the charitable organization
- The appraised fair market value of the artwork
- The specific basis for the valuation
- The date (or expected date) of the contribution



## Claiming the Deduction

The IRS has certain requirements that must be met in order to claim the deduction for donated artwork. For donations of artwork valued at \$20,000 or more, you must attach a complete copy of the signed appraisal to your tax return and be prepared to provide a conforming photograph of the artwork if requested by the IRS. If the artwork has been appraised at \$50,000 or more, you can request a Statement of Value for the item from the IRS before filing your return. A copy of the qualified appraisal and a check or money order for \$2,500 (for up to three items) must be submitted with your request.

\* This is not an exhaustive list.

# Controlling Risk

Understanding how two investments move in relation to each other — *asset correlation* — can help you choose securities that are likely to perform differently under various market conditions. Selecting securities that tend to behave differently can help control portfolio risk and improve diversification.

**Positive correlation** means that two securities will perform the same way. When A's value rises or falls, B's value typically rises or falls as well. Selecting two assets having a perfect positive correlation won't reduce risk.

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**Zero correlation** means there's no relationship between the returns of two investments. Since they're random, the returns of A won't predict the returns of B.

**Negative correlation** means two securities will move in opposite directions. Combining investments with negative or very low correlation can reduce risk.

Keep in mind that in highly volatile markets, investment correlation can change substantially over a short period of time. Assets with low or negative correlation can suddenly become more highly correlated, exposing a portfolio to greater risk.



# A Plan for Leaving Wealth



One of your planning goals may be to leave a substantial inheritance to your children. But, if children lack the skills and maturity to make good financial decisions, they can quickly deplete assets you've spent a lifetime accumulating. When you have doubts about a child's readiness to handle sudden wealth, you may want to consider an estate plan that directs when and how your heirs will ultimately receive the assets.

You can protect an inheritance and preserve wealth for the future by restricting the distribution of assets until children reach a certain age or achieve certain milestones in their lives. One way to accomplish this is to set up

a trust to hold the assets and appoint a family member or another individual or institution as trustee. The trustee will be responsible for managing and distributing the trust assets to your children according to criteria you've spelled out in the trust agreement.

## Distributions Over Time

You can provide your children with distributions throughout their lifetimes by spreading an inheritance over several years. Transferring a certain portion of the assets at specified ages or time intervals can help ensure that assets will be there for your children no matter what the future brings.

## Meeting Conditions

You may want to promote certain behaviors or reward particular accomplishments by tying asset distribution to the attainment of specific goals. For example, you might require your child to earn a college degree or perform volunteer work before receiving an inheritance. Keep in mind that not all children possess the same capabilities or interests. Building in some flexibility with the conditions you impose can be a wise move.

## A Needs-based Approach

You could also allow trust distributions for medical, educational, or other special needs based on your child's circumstances. However, if this means children will be treated differently, consider explaining your reasons in advance to minimize any bad feelings that could arise.

*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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