



CAPITAL MANAGEMENT, LLC

Anne C. Chernish, CFP®

PO Box 7150

Ithaca, NY 14851-7150

607.272.0004

www.anchorithaca.com

Want to read more?
Call Susan 607.272.0004
to get on our Mailing List

MONEY AT WORK

Four “talking points” in eldercare

Over time, the roles of parents and children inevitably change, especially if one or more of the parents has health problems. This can raise sensitive financial issues. For example, an elderly parent may no longer be competent to handle his or her affairs. You might ignore the situation and hope it goes away, but that is not a realistic approach.

Instead, it is generally better to discuss “eldercare planning” frankly and openly with your parents. Include siblings and anyone else who should be involved. Here are four practical suggestions.

1. Take it slow.

It is usually not necessary to cover everything in one or two



(see Four “talking points” on back page)

Riding out market ups and downs

The last few years have certainly been bumpy for most investors. The equities markets have gone up, down and even sideways. If you are investing for the long term, you must learn to deal with the vagaries and position yourself accordingly in 2012. Usually, it’s not a good idea to exhibit knee-jerk reactions based on daily market fluctuations. That can make a bad situation worse or fail to maximize benefits in a good situation.

In particular, you might avoid several common mistakes that seem to plague many investors. Here are five prime examples.

Mistake 1: You misunderstand the use of bonds. Some investors equate bonds with complete safety. But that is not exactly true. As we have seen with the recent rating downgrade by Standard & Poor’s, even U.S. Treasury bonds possess some risks. Other bonds, “junk bonds,”



may provide a significantly higher yield than Treasuries but carry a much higher risk of default.

Of course, there is a place for bonds within a well-diversified portfolio. You just do not want to overload on bonds or blindly chase after yield. Find the proper balance to match your investment objectives and risk tolerance.

Mistake 2: You think you are diversified enough but you are not. If you have spread your

(see Riding out market on inside page)

FX2011-0929-0090

Create your own dynasty trust



Even if you are not Warren Buffett or Bill Gates, you may have amassed a sizeable nest egg during your working career. Now the trick is to transfer some of your wealth to the younger generations with the minimum amount of estate- and gift-tax erosion. This requires some knowledge of the prevailing laws.

First, the federal estate-tax exemption can help protect your assets. For 2012, the exemption effectively shelters up to \$5.12 million (up from \$5 million in 2011) from estate tax, not even counting amounts passed to your spouse under the marital deduction. The exemption is currently “portable” between married couples. Also, the tax law imposes a generation-skipping tax (GST) on most transfers that leapfrog a generation, but it allows a generous exemption equivalent to the estate-tax exemption. **Caveat:** The exemption amounts are scheduled to decline to \$1 million in 2013.

To complement these tax breaks, one technique that may be used by affluent families is the “dynasty trust.”

How it works: Depending on the terms of the trust, the income is accumulated or is paid out on behalf of the trust’s beneficiaries—children, grandchild-

ren and possibly even more remote descendants. The trustee may also have discretion to invade principal in certain circumstances.

As long as the assets remain in the trust, they do not become part of a beneficiary’s taxable estate when he or she dies. So the wealth in the trust compounds without any current tax over three generations or more.

Be aware, however, that state law may have an impact in this area. Discuss your personal situation with an estate-planning expert.

There are other reasons besides taxes for establishing a dynasty trust. Since the assets are controlled by the trustee, the trust beneficiaries cannot embark on any wild spending sprees. Also, creditors—including a spouse in a divorce proceeding—cannot reach the trust assets. Typically, a dynasty trust is set up during the grantor’s lifetime (known as an “inter vivos

trust”). However, it can also be established through a will as part of an overall estate plan.

Note that a business owner might contribute a portion of his or her business interest to a dynasty trust. If the business **remains** successful, all of its value and future appreciation is shifted to the children and grandchildren free of estate tax. The business interest may be supplemented by transfers of cash, securities, real estate or other assets. Finally, a dynasty trust may be set up with “strings attached” to reflect the grantor’s personal preferences and desires.

Dynasty trusts have been mentioned in tax reform discussions. However, at least at this writing, they remain intact.

In summary: A dynasty trust is appropriate in certain circumstances. But this is not a do-it-yourself proposition. Obtain assistance from a knowledgeable professional. ♦



Riding out market ups and downs (continued from front page)

investments over a half-dozen offerings, you still may be “under-diversified.” In particular, look to diversify within different classes of investments.

For instance, if you have invested solely in stocks or in bonds, you should probably adjust your portfolio.

Also, in today’s economic environment, do not ignore diversification available through international investments or gold. Just be aware of the special risks associated with these investments.

Mistake 3: You sell too soon or too late. Timing the sale of securities is a tricky proposition. Sell too early and you may miss a run-up in value. Sell too late and you may magnify the loss instead of minimizing the damage.

Best approach: Seek professional guidance. Note that you can cap losses on securities sales by implementing a stop-loss order. This instructs the broker to automatically sell securities once they fall below a specified price.