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A WEALTH ADVISORY NEWSLETTER FROM HTG INVESTMENT ADVISORS

REFLECTING ON 2007

Positioning for 2008

Investors will remember 2007 as the year that the housing market collapsed and triggered a credit crunch. After several years of positive returns with low price volatility, global stock and bond markets began fluctuating widely. Some prominent hedge funds collapsed, including funds with hyped names like “High-Grade Structured Credit Strategies Enhanced Fund.” Many hedge funds that used quantitative investment strategies declined rapidly in August when many managers were hoping to vacation in peace.

As the year progressed, the “best and brightest” in many prestigious financial giants were discovering that they did not understand what they owned, as they wrote off tens of billions of dollars of losses on their holdings of “structured” products. These large losses resulted from classic investment mistakes: no consideration of highly unlikely events which could have catastrophic consequences; high concentration in investments that are subject to the same macroeconomic factors; inadequate due diligence; and use of excessive leverage.

Sovereign funds and other large foreign investors rushed to the rescue, buying a piece of America in exchange for some of the capital

that they had amassed selling goods to a country willing to accept an ever-expanding foreign trade deficit. By the end of the year, many desperate borrowers faced an environment where lenders were no longer willing to lend, which heightened investor fears of recession.

Despite the increased market fluctuations and heightened economic concerns, well-balanced, diversified investment portfolios provided returns for the year that were near long-term expectations. Severe downturns in some sectors were more than offset by solid returns in foreign stocks (especially in emerging markets), commodities, US growth stocks, highest quality US fixed income, and unhedged foreign bonds. These results in 2007 provided yet another demonstration of the benefits of a diversified portfolio that is well-designed and maintained.

We have been impressed over the years by many studies showing that individual investors, on average, underperform the markets by substantial margins. Much of this underperformance results from counterproductive changes made in response to short-term concerns. Certainly, a year like 2007 provides plenty of temptations to make such counterproductive changes. Fear causes investors to get out of investments after prices have already gone down. Caution prevents them from buying until prices have already risen.

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In uncertain times advisors should consider questions that challenge their assumptions.



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HTG News

ADVISORS

Acting as Financial Quarterbacks

Like a quarterback, an advisor formulates strategy and coordinates the efforts of a client's team.

Football was on the minds of many in the northeast and across the country as the New York Giants and the New England Patriots recently faced off in the Super Bowl. To get to the final game, the quarterbacks of these two teams demonstrated under pressure that they could flawlessly execute complex plays involving their entire teams.

The role of quarterback is familiar to financial advisors, who help clients maximize and protect their wealth. Like a football playmaker, an advisor formulates strategy and coordinates the efforts of a client's team – accountant, lawyer and insurance agent – to move a client toward long-term financial independence. Here are a few recent strategies from our financial advisor “playbook”:

TAX PLANNING

With her 50th college reunion approaching, a client wanted to make a substantial gift to her alma mater without depleting her bank account. Her financial advisor suggested she donate some highly-appreciated stock she had inherited. That way she would avoid capital gains tax, obtain a tax deduction, fulfill her charitable goal – and leave her bank account intact. The financial advisor then consulted with her accountant and advised her to split the gift between two tax years for additional tax savings.

Raising tax issues before the end of the year is one way financial planners help clients save money. Working with an accountant, the advisor provides valuable input on capital gains management, adequacy of withholding or estimates and timing of deductions. Especially with AMT issues on the rise, advance planning is a must for all taxpayers. Due to a financial advisor's in-depth knowledge of the client's income, savings and long-term goals, he or she is also uniquely positioned to help identify appropriate retirement plans for clients and their children.

RETIREMENT PLANNING

A quarterback has to think several plays ahead, as do all financial advisors. “When can I afford

to retire?” is the question most heard in advisors' offices. To answer that question, an advisor must integrate detailed knowledge of a client's income, assets, benefits, and lifestyle expenses with expertise in longevity issues and taxes, as well as investment and inflation rates. Analyzing required savings to meet the retirement objective, recommending and instituting the appropriate retirement plan, and assisting in the tax-efficient withdrawal of retirement funds are critical elements in the retirement planning process.

INCAPACITY OR DEATH OF A LOVED ONE

There is no greater stress than the deterioration of someone you love. A financial advisor can support caregivers at this emotionally difficult time by managing assets, making funds available for increased expenses, and ensuring that the appropriate documentation is on record to allow family members to manage the loved one's affairs. When a spouse or parent dies, an advisor's extensive knowledge of the deceased's income, savings and personal goals can also be indispensable to the estate attorney and accountant as they gather documentation and decide the best way to handle death benefits, Social Security, etc.

ESTATE PLANNING

“I've done my estate plan,” a client proudly confided to his advisor recently. Make no mistake – he deserves to be proud. Clients often procrastinate about estate planning. But he was surprised to hear that there was a lot of work left to do, even with his well-drafted estate plan. Proper estate planning usually requires the involvement of several professionals, including an estate attorney, an accountant, and a financial advisor. At the outset, the advisor ensures that all assets are included in the plan, and he or she may help the client articulate his or her long-term goals and objectives. The advisor will facilitate implementation of the plan through re-titling, beneficiary designations and gifting. Once the plan is completed, the advisor works with the team to execute the estate “playbook”.



In this client's case, he had never re-titled his accounts or revised his IRA beneficiaries. Had these areas not been attended to, he would have missed out on a tax exemption that could cost his heirs a million dollars.

These are just a few ways that a "financial quarterback" helps clients strategize and execute the necessary plays to get them into the "end zone": financial freedom. ♦

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Reflecting on 2007...

Then enthusiasm causes them to buy the recent winners at high prices. And the cycle repeats over and over throughout the years.

This does not mean that a diversified portfolio should remain static. So what kind of questions should be asked to determine if changes are appropriate in the face of an uncertain economic environment in 2008?

Here are some questions that we regularly ask:

- Does the portfolio still properly reflect personal needs and goals, including the anticipated timing of additional contributions and withdrawals?
- Does the portfolio provide a proper balance between potential for long-term growth and preservation of assets during shorter term downturns?
- Have assets that did well in recent years become overpriced, or have assets that did poorly become underpriced? If so, it may be time to change their relative weighting in the portfolio.
- Are all of the fund managers performing up to expectations? Is there new evidence that other managers may be doing a better job?
- Have new asset classes become available, or is there new research that indicates that asset class weightings should be adjusted?
- Are asset classes that provide good prospective returns over a five and ten year time frame properly represented?

Once the answers to these questions are reflected in the portfolio, there should be little need to spend time worrying about short-term economic projections, transient crises, and the market fluctuations that 2008 may bring. ♦

"Next week I'm going to get organized!" If most of us had a dollar for every time we thought or said that, we could worry less about saving for retirement. There is no shortage of books, articles, kits, software and consultants to help a person get organized.

Finding out what works best for you is the first step. Would you prefer to use a computer or a file cabinet? There is no wrong answer. If you are not comfortable with the system you choose, you will probably abandon the project. Keep it uncomplicated with an ease of use that does not require large blocks of time.

Then ask yourself: what are my reasons for keeping records? Tax preparation and protection in the event of an audit probably come to mind immediately. But being able to access or recreate your information in the case of disaster should also be a consideration. If someone else needs to act on your behalf, they must be able to locate your records. Be sure to tell your personal representative where the files are kept.

Naming files can be the most daunting task, but once it's done, everything else falls into place. First, no matter which system you choose, your files should have simple, commonplace names. Then consider dividing files into current and previous years. At the end of each year, usually as you organize your files for the preparation of your tax return, just clean out the current file and shred what you will no longer need.

Some suggested labels are:

CURRENT FILES

- *Income* – Information for this section will move to the permanent file with your tax return.
- *Expenses* – Much of this content can be shredded after one year; move the rest to a relevant permanent file.
- *Bank Accounts* – Statements and cancelled checks should be kept for seven years.
- *Investments* – Each investment account should have a sub-file. If the end-of-the year statement shows a complete transaction

history, that will suffice. Keep trade confirmations for tax filing, along with rental property, limited partnerships and loan documentation here.

PERMANENT FILES

- *Income Taxes* – Keep a copy of each federal and state income tax return along with supporting documentation for at least seven years. The IRS has three years from the filing date to audit your return for good faith errors, six years to challenge your return if it estimates you underreported your income, and eternity if you failed to file your return or filed a fraudulent return.
- *Estate Planning* – This should include wills, durable powers of attorney for both medical and financial matters, gift tax returns and beneficiary designations for retirement accounts and insurance policies.
- *Insurance* – Create a sub-file for each type of insurance policy and related information.
- *Employee Benefits* – This is a good place for all employment-related files such as curriculum vitae, employment contracts and related retirement benefits for current and past employers.
- *Home Inventory* – Records pertaining to the purchase costs of a residence as well as any permanent improvements to that property should be kept for six years after you sell that home. Records of furnishings, including art and jewelry, can be kept here. If you have done a pictorial inventory, this is a good place to file it.
- *Personal Papers* – Create a file for each family member. Keep documentations like birth certificates, baptismal and confirmation records, Social Security cards, diplomas and professional licenses, wedding licenses and military discharge papers.

Finally, start small. Whether you currently have a system you'd like to reorganize or a cardboard box filled with bits of paper, choose file names and begin sorting the records for the current year. The most difficult part of any project is getting started.

- ◆ Tom Gnuse was a participant in the *Investment Advisors Summit 2007*, held in Washington, DC in late November. Independent investment advisors from around the country met with industry consultants and journalists for discussions ranging from “Creating Your Ideal Practice” to “Building a World Class Team.”
- ◆ Robin Sherwood and Barbara Ollinger attended an advanced user seminar by Money Tree, a leading provider of financial planning software and retirement planning software.
- ◆ Amy Sheinberg received her Series 65 license in October, having passed the NASD Uniform Investment Advisors Law Exam.
- ◆ Robin traveled to Chicago in October for a two-day forum featuring mutual fund managers from Loomis Sayles, Gateway and Oakmark Funds, among others.
- ◆ Robin attended a symposium on investment trends sponsored by Alliance Bernstein.
- ◆ We are pleased to welcome Julie Ruth to our HTG family. She will be with us temporarily helping out with various office and administrative duties.
- ◆ Barbara’s daughter, Heather, was named the Connecticut Cross Country State Runner of the Year, and the Gatorade Cross Country Player of the Year for Connecticut.

We would be happy to add family members or friends to our newsletter mailing list. Please call or email Jennifer at (203) 972-8262 or jennifer@htgadvisors.com. Also, if you’re interested in receiving your newsletter by email, please let us know.

2008 IRA CONTRIBUTIONS LIMITS INCREASED

Traditional IRA and Roth IRA contributions for 2008 have increased to \$5,000; taxpayers age 50 and over are eligible to make an additional \$1,000 catch-up contribution, for a total of \$6,000.

The annual elective deferral limit for 401(k) plans remains at \$15,500 in 2008; taxpayers age 50 and over are eligible to contribute an additional \$5,000, for a total of \$20,500.

SEP (for self-employed individuals) contribution limits have increased in 2008 to \$46,000.

1099 CORRECTIONS

The Internal Revenue Service requires that 1099s for clients receiving reportable income in 2007 be mailed by January 31, 2008. However, because many corporations, mutual funds or real estate investment trusts (REITs) are not able to provide accurate, final information until after the January 31st deadline, corrected 1099s can arrive through February and into March. While it is not necessary to file an extension, it may be advisable to delay filing your tax return until mid-March.



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