



# Financial Matters

We help clients to maximize their financial well-being through education, communication and service that exceeds expectations.

Winter 2010

## Special points of interest:

- 2010 Retirement Plan limits will be the same as in 2009.
- Roth Conversion rules made more flexible in 2010. Call us if you would like a conversion illustration.
- Estate and generation-skipping transfer taxes are repealed in 2010 in the absence of new legislation.

## Inside this issue:

|   |   |
|---|---|
| Have the recessions' causes been addressed? | 1 |
| Six Ways to Sabotage Your Portfolio         | 1 |
| American Health Plans Quiz                  | 2 |
| "Funding" Your Living Trust                 | 3 |
| American Health Plans Quiz Answers          | 4 |

## Have the Recessions' Causes been Addressed?

There was a large volume of news coverage, speculation, and analysis during our recent recession. With its apparent end, you may wonder why this news isn't now being shouted from the rooftops.

Some of the world's most respected commentators were optimists and their opinions were reported almost hourly when the crisis began. Where are they now?

It is, they say, a measurable fact that the unprecedented monetary and other stimuli thrown at the crisis by governments worldwide are now reaping rewards. Deflation hasn't been a problem, economic stagnation has been largely controlled, and, thanks to radical government intervention, real growth is just around the corner.

And yet, the response, particularly in the developing world, remains muted.

Iraj Abedian, chief executive officer for Pan African Investment and Research Services, believes he knows why. The explanation is one that the developed world may not want to hear though.

He suggests that the problems which created the global crisis are not – contrary to what accepted wisdom would have us believe – cyclical. Consequently, all the remedies created to deal with it are at best inadequate and may even prove highly damaging in the long term.

In his opinion, the recent injections of monetary and fiscal action addressed a problem that simply wasn't there – at least not in isolation. He believes a far greater understanding of the problem is required. "While the tipping-point action was caused by the U.S. mortgage excesses, the root causes are mostly structural and not financial," he says.



Abedian believes three key failures must be accepted, understood, and addressed before any long-term solution can work.

First, he points to the moral failure of the Anglo-Saxon governance system, and he cites these exam-

(Continued on page 3)

## Six Ways to Sabotage Your Portfolio

1. Buy a stock simply because it is a good value. There are two problems with buying on value alone. First, the stock can stay a great value and not move. Second, the stock can become an even better value by continuing to move lower. Financials were a great "value" in 2008 but they just continued to become better values.
2. Be afraid to buy strong stocks. There's an old stock market adage that says the first stocks to double in a bull market usually double again. Or, as Sir Isaac Newton would say, "things in motion tend to stay in motion."
3. Holding on to losing stocks and hope they come back. Unfortunately, people are still hold-

(Continued on page 2)

## Six Ways to Sabotage Your Portfolio (cont'd.)

- ing many stocks from the go-go years that have no realistic hope of ever returning to their former glory. Just as the size of your winners matter, the size of losers matter just as much.
4. Fail to manage your team. Think of your portfolio like a baseball team. You own the baseball team and your financial advisor is the manager of that team. If we want to put together a successful team, we need to have as many players with solid skills as possible. If a player only has 1 skill you would either sit him on the bench, bump him to the farm team or release him. We want versatile players with well rounded skills and that's what type of players we look for when creating and monitoring your portfolio.
  5. Be arrogant—the market is easy to figure out. The market is going to do what it is going to do. How many times have economic numbers come our positive and the market goes down or negative and the market rises. It is impossible to predict what will happen, even if you have all of the numbers before they are released.
  6. Do anything based on the advice of a magazine cover. There are many examples of investments that have gone awry once they have appeared on magazine covers. One in particular was when the magazine covers and news stories touting the AOL and Time Warner merger? Deal of the Century said Time Magazine and CEOs of the Century in 2001. The decade old marriage has failed and if you had purchased TWX and held on to it, you would have had a loss of 82% during the decade.



## American Health Plans Quiz

In the 1920s, there were few health plans in America. Most healthcare solutions were primitive. Cures for illnesses included snake oil liniments, goat gland transplants, magnetic bathing fluids, chlorodyne preparations (a mixture laudanum, chloroform, and cannabis) and other treatments of uncertain benefit. Hospitals often were poorhouses where the indigent went to die. Gradually, as medical knowledge improved, group health plans gained momentum.

How much did the average American spend on healthcare in 1900?

- A) \$1 B) \$5 C) \$10 D) \$20

As medicine improved, hospitals wanted to change the way in which they were perceived by the public. How did they do it?

- A) Hospitals marketed themselves as places to have babies.  
B) B) Hospitals focused on happy outcomes for patients.

- C) Baylor Hospital offered Dallas school teachers a plan: pay 50 cents per month and Baylor would pay for all hospital visits.

- D) All of the above.

During the Great Depression, Baylor's approach became widely adopted across the United States. It was the first not-for-profit group insurance plan. What was it called?

- A) Blue Shield B) Blue Cross C) Red Cross D) The Baylor Plan

What event caused a record number of employers to begin offering health plans to their employees?

- A) Prohibition  
B) World War II  
C) The Cuban Missile Crisis  
D) President Johnson's 'Great Society' program

(Continued on Page 4)

## Recessions' Causes (cont'd.)

ples: “When the private sector knowingly bundles together bad assets and sells them on; when credit rating agencies knowingly rate these assets too high; and when regulators knowingly fail to put a stop to it.”

Second, Abedian says that “the market knows best” paradigm has failed and has done so spectacularly on the world stage. What’s more, governments share in the failure. The U.S. government's understandable need to recover from the 9/11 attacks and the resulting consumer confidence crisis may have inadvertently sowed the seeds of the subprime disaster.

## “Funding” Your Living Trust

Using effective Estate Planning strategies could prove to be a great investment. That’s because your estate is everything you own, including the value of life insurance in most cases. One effective tool families can use to properly plan their estate is the revocable living trust. Many families can benefit, provided they use it properly. Experience suggests that many revocable trusts are often “unfunded” after they’ve been drafted by the attorney and signed by the grantor (the person who creates the trust).

Funding the trust means assets are placed in the name of the trust. For example, if Bob and Mary Jones have a brokerage account in their names as joint tenants with rights of survival (JTWROS) they would have the account re-titled in the name of their trust(s). This just requires some paperwork and follow-up. It’s important to know that if assets aren’t placed in individual names (whether a trust is used or not) and remain as JTWROS, then the unified credit of the first spouse to die is lost forever! And, if the unified credit does revert back to only \$1 million per person in 2011, it could be an important planning issue for many “middle class” households. Note: Qualified Retirement plans (IRA, 401(k), 403(b), etc.) should not be re-titled to the trust because that’s a taxable event.

Last, but not least, is the unbalanced global trade regime. The developed world annually spends more than \$1 trillion in agricultural subsidies to manage its own market prices – suffocating the developing world’s best efforts to produce and sell goods at a fair price. For Abedian, this self-interest is neither economically sensible nor morally acceptable.

Addressing such deep-rooted structural and economic imbalances may demand a major mind-shift and include longer-term structural, regulatory, and behavioral changes. But, if Abedian is even remotely correct, the price is one we have to pay for a more prosperous, sustainable, and inclusive global economy – one that we can all celebrate.

*“Change is the law of life. And those who look only to the past or present are certain to miss the future.”*

*—John F. Kennedy*

Properly funding a living trust provides many benefits. It enables the Trustee (the person who manages the trust after the grantor dies or becomes incapacitated) to manage the funds for the benefit of the beneficiaries without going through the probate process. Probate is a legal process, to ensure a decedent’s estate is distributed properly. The court wants to make sure any debts they may have are paid before beneficiaries receive funds.

Unfortunately, for the dearly departed and their family, probate is public. Anyone is able to obtain a copy of the decedent’s will, which often lists bank accounts and brokerage statements, as well as the amount in each. The amount each beneficiary receives could be listed. Some people don’t care about this lack of privacy, but others find it intolerable. You can confirm this by visiting your local courthouse and asking to see recent wills. You can even make copies of them.

This is where the living trust really shines. Assets placed in the name of the trust don’t have to go through the probate process; it’s private. In addition, unlike a will, funds can remain in the trust for the benefit of beneficiaries until they reach a certain age, or to protect them from predators or their own incompetence. It’s important to note that some attorneys include trust language inside a will. This is called a “testamentary trust” that doesn’t become effective until after the estate has gone through the probate process. While it’s better than no trust at all, it doesn’t avoid the public nature of probate.

Of course this information is not intended to be “legal advice.” You should always meet with a knowledgeable estate planning attorney for professional advice. Some basic estate planning now could pay big dividends for your family in the years to come.

*“Everything has its beauty, but not everyone sees it.”*

*—Confucius*



## American Plans Health Quiz Answers

**\$5.** That's the equivalent of about \$110 in 2008. Few people thought health insurance was important in 1900 because healthcare cures were relatively inexpensive.

**All of the above.** Hospitals tried all of these methods, but the Baylor plan was the most successful.

**Blue Cross.**

**World War II.** Factory owners couldn't raise wages so they offered employees fringe benefits, including generous health insurance plans.

*The O'Meara Financial Group, Inc. is committed to maximizing our clients' financial well-being through education, communication and service that exceeds expectations. We provide personalized wealth planning and investment management services for individual investors and corporate retirement plans.*



Margaret O'Meara, CFP®, AIFA™  
O'Meara Financial Group, Inc.  
157 Broad Street, #303  
Red Bank, NJ 07701  
732-224-9900  
momeara@omearafinancial.com  
www.omearafinancial.com