

## What's better for your estate – a will or a trust?

You may have heard that a living trust is better for estate planning than a will. In reality, there are pros and cons to each. While the topic is too

complex to cover thoroughly in a brief article and we at Mentor are not attorneys, we do periodically help our clients address this question.

the owner's death. Trust assets are not automatically frozen after the owner's death, unlike assets owned directly. And the entire matter of property disposition after death is a private matter, whereas probate is on public record.

Sounds good so far, but you should be aware of the drawbacks.

First, setting up a trust is generally more complex and costly than writing a will. While a simple will, especially for younger people, can be created by a lawyer for just a few hundred

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### **We're in the news!**

During the past month reporters interviewed two of Mentor Capital's advisers about issues related to personal finance.

They were quoted on Forbes.com and in the Chicago Tribune. To see what they had to say, visit the **Articles** section of our website at [www.mentoradvisers.com/articles/advisers-in-the-news](http://www.mentoradvisers.com/articles/advisers-in-the-news).

A revocable living trust is set up during the owner's lifetime to hold property, generally in an attempt to avoid probate. The trust can hold almost any kind of assets that an individual can – bank and brokerage accounts, life insurance, real estate, cars, etc. A trustee, typically the owner himself, manages the assets until death, when a successor trustee takes over.

Because a trust is a separate entity it can continue in existence long after

## Don't be an ostrich – confront your risks!

*Risk management doesn't just mean buying insurance*

An important element of financial planning is protecting the things you can't afford to lose: your income, for instance, or your house or car.

The proper approach is one of managing risks – not necessarily buying insurance, but doing a thorough and thoughtful assessment of the risks you face, then deciding to take one or a combination of these courses of action:

- 1) Act like an ostrich and ignore the risk
- 2) Assume the risk yourself
- 3) Pay someone else to assume the risk.



For most risks, you wouldn't want to select Item 1. Although many people would prefer not to think about

wrecking the car or losing their home to fire, most buy insurance against such disasters – with the former, it's the law; with the latter, the mortgage company requires it.

(Unfortunately, too many "ostrich" the risk of death or disability. Because they're not forced by law or lender to confront these risks, they ignore them. If they experience a loss, though, they and their families suffer.)

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## 2006 Investment returns

2006 was a stellar year for most types of investments. The chart to the right shows returns for various indexes. So does this mean that we should invest heavily in real estate in 2007?

*Absolutely not!*

The list looks different every year and a winner one year can be a loser the next. International stocks were tops in 2005. As always, it's best to diversify intelligently across many assets classes with the help of an advisor.

Index Name	Description	2006 Return
NAREIT Equity	Real estate	35.03%
MSCI EAFE	Developed world stocks	26.86
Russell 2000 Value	US small cap value stocks	23.48
S&P 500 Value	US large cap value stocks	20.80
Russell 2000	US small cap stocks	18.37
S&P 500	US large cap stocks	15.79
Russell Midcap	US mid cap stocks	15.56
Russell 2000 Growth	US small cap growth stocks	13.35
S&P 500 Growth	US large cap growth stocks	11.01
LB Aggregate	Bonds	4.33

Source: CMC EResearch

## Will or trust

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dollars, a trust must be custom written for an individual, which will usually cost thousands of dollars in attorney fees.

Once the trust is created, all applicable property must be retitled in its name. This can be costly and burdensome, especially for real estate, where a mortgage lender is usually involved. And as you acquire new property you must remember to put it into the trust.

Finally, you will still need what is called a *pourover will*, which covers the distribution of any of your property that may not be owned by the trust, for example, clothes, jewelry, or art.

Keep in mind that using a revocable living trust will *not* reduce your estate taxes. There are

other types of trusts and estate planning techniques to accomplish that.

So who is best served by using a living trust? You may want to consider this if you are older, perhaps in ill health and no longer want to manage all of your assets or if your estate is large and complex. Younger clients often decide that the benefits are not sufficient to justify the work and expense.

## Ostrich

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Proper risk management means using a combination of Items 2 and 3. That is, assume for yourself some of the risk, then pay an insurance company to assume the rest. Smart consumers will buy insurance to cover the risk of catastrophic losses – those that would result in financial ruin – and assume for themselves the more manageable risk of minor losses.

The result is usually a higher level of insurance coverage and lower premiums. This is because by their nature, risks that are more likely to occur are more expensive to insure. A telling example of this involves your car insurance. Comprehensive coverage with a \$50 deductible costs substantially more than coverage with a \$2,500 deductible. The \$50 losses can occur every day; for example, a door ding or a stone thrown up by a truck. The \$2,500 losses (for most drivers, anyway) will occur much less frequently.

As consumers we have limited funds available for insurance. Being smart means making a careful assessment of the risks we face, comparing costs among different carriers, then managing premiums by choosing appropriate deductibles.

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