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MENTOR
C A P I T A L

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Mentor Monthly Missive

In this issue:

- Being a financial planner is more than just managing investments
- Is it campaigning or mud slinging?

It's not just about investments

It seems everyone wants to talk about investments. It's sexy and exciting. Our success with investments is seen as a measure of our success as individuals. It's our investments that ultimately will drive us toward our financial goals and objectives.

But as clients of Mentor Capital know, there is a lot more to the wealth-management process than investments. Although investments are important – and admittedly a lot more interesting than miscellaneous itemized deductions – they're only part of the picture. The rest involves “shadow” issues that, while maybe less interesting, have no small impact on our financial success.

Here are some real-life stories about the shadow issues with which we recently have helped clients:

- During a quarterly review, it was discovered that the custodian of a client's deferred-compensation plan was distributing far more than required, resulting in increased taxes and accelerated depletion of the account. Our advisors worked with the custodian to correct the situation and initiated a qualified rollover of a portion of the excess distributions. This will lower the client's tax bill and keep the deferred account intact for a longer period.
- We worked with a Florida client's attorney to ensure that the state's homestead laws were considered as the client moved to title real property to her trust. The client, currently single, would need to do additional planning in the event that she marries. We will monitor the situation and, if a suitor appears, initiate additional work through the client's attorney.
- Client received a notice from the Internal Revenue Service demanding \$6,300 in back taxes, interest and penalties for what it said was the inaccurate reporting of IRA distributions. In response, we assembled documentary evidence and composed a letter for the client, showing that the portion of the IRA distributions was indeed not taxable because it was rolled over in a timely manner.
- A client wanted more control over payroll and taxes for her business (and save the monthly fee the business was paying for payroll service). We took the business owner step-by-step through the payroll process, showing her how most tasks can be automated and providing instructions on what needed to be done and when. After successfully navigating several payroll cycles, the business owner now has the control she wanted and is saving substantial dollars every month.
- Client in good health owned a several-million-dollar variable universal life insurance policy with a cash value that was far in excess of the sum of all premiums paid. Through the planning process it was determined that the client did not need the insurance benefit to provide for his dependents, nor did he need it to pay estate taxes. A thorough review of the policy determined that the cash value was free of surrender charge; that the internal cost of insurance was greater than \$10,000 per year; and that the investment choices inside the policy were relatively expensive and had sub-par performance. The result was that a tax-free exchange of the policy's cash value for a low-cost annuity was initiated, saving the client the \$10,000 yearly insurance cost and making available passive low-cost investments designed to provide market returns while minimizing risk.

- Client initiated estate planning through an attorney, then came to us for investment, tax and other planning advice. During our review we determined that although the client had established marital bypass trusts, neither trust was funded; indeed, the husband retained ownership of a substantial brokerage account in his own name; the home was titled jointly with rights of survivorship; and the estate was seriously out of balance and would result in a substantial estate-tax bill upon the demise of the second to die. The solution was to fund the trusts, transfer ownership of the home to the wife's trust and to balance the estate to take advantage of the two exemptions available.

So you can see that although a lot of time during the wealth-management process is spent dealing with investment issues, a lot too is spent on the “shadow” issues that are no less important.



Who has the best song wins

Is anyone else disgusted with the political attack ads we've been bombarded with? Do the candidates really believe voters are so ignorant as to cast their ballots for the candidate who has the most terrible things to say about his or her opponent? Are campaign donors really content with candidates spending their money simply to criticize each other?

I recently spent some time in Brazil, where they're electing a new President, among other officials. I was struck by the political advertisements on TV, which almost without exception focused on the qualities and accomplishments of the candidates themselves. In many cases the ads were accompanied by a jingle or song touting the candidate.

José Serra, the governor of São Paulo state, is running against Dilma Rousseff, chief of staff of the current President, Lula (“Squid”) da Silva. Each candidate had a campaign song that was upbeat and positive. Their ads in general gave me a good feeling about the political process there.

Brazil is moving quickly toward joining the developed world. The Brazilian standard of living is improving, and economic and social equality are getting better. Brazilians are striving toward a more Western style of life. Our politics, though, is one thing Brazilians would be better not trying to emulate.



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