Summit Wealth Partners
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The Rational Optimist™

Investments Are Too Risky? Insurance Too Expensive?

When Opinions Block Valuable Resources *By Mitch Levin, MD, CWPP, CAPP*

When we commit to taking a comprehensive look at a person's "financial life," we mean just that. We don't see people as stocks, or bonds, or life insurance, or a financial plan. Each of us has dynamic, multi-layered needs to fulfill in order to accomplish our lifetime financial goals. Sadly, many people, both financial professionals and consumers, tend to lean in one direction or the other regarding where they think financial emphasis should be placed.

A common separation is securities in various forms vs. insurance products. Many professionals, on each side, believe the other is too risky, too expensive, or inappropriate in some way.

We see this differently. Equities, bonds, insurance, CDs, and advanced planning and tax-optimization strategies are all valid. They are all tools one can employ to safeguard their interests, outpace inflation, and be as financially "lean and mean" as possible.

Now, can a great tool be misused? Absolutely! While that is so, highly qualified, fiduciary minded financial professionals (who place your interests first) can implement these tools to achieve the financial stability and fulfillment you seek. If this is possible, why wouldn't we do it? One reason many don't is that their perception is influenced by the differing parties I mentioned. The media agitates these differences and consumers get confused. This causes considerable stress, worry, doubt, diminishing confidence, and ultimately, paralysis (to some degree).

It is easy to understand; just look at what we've all got going on: we fret over our families, we worry about our careers, we stress over the economy, taxes, money, our health, and we often have fears that are out of proportion with probabilities. The likelihood of a catastrophe is so slight it hardly counts. In our industry, fears about recessions, corrections, bubbles, and so on are discussed every day. This is compounded by an ever-rejuvenating cycle of

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Jason Print, CFP® and Dr. Mitch Levin in planning session.

What's Inside This Issue:

Making the Most of Giving in 2013:
QCD Extended - Why It Could Be A Great Idea

By Chad Warrick, Senior Wealth Advisor and Chief Compliance Officer

When we consider how to best apply our financial resources, we typically want to shoot for being savvy regarding how we save, the tax implications of what we're doing, and the proper order in which we should proceed. Each of these aspects are valuable and we often have the pleasure of helping our clients sort through these questions. A topic we like to explore during the early months each year is how we'll accomplish our charitable endeavors - a task that is important to many people.

As discussed in a previous article, "How To 'Kill' Two Birds With One Stone… And Feel Good About It!" (June 2011), there are tax efficient methods to fulfilling one's Required Minimum Distribution (RMD) demands. Congress passed the American Taxpayer Relief Act (ATRA) in December of 2012, extending the Qualified Charitable Distribution (QCD) provisions for 2013.

This is great for anyone who is both required to make RMDs and who is charitably inclined. Here's why: A QCD is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA), owned by an individual who is age 70 or older. The QCD is paid directly from the IRA to a qualified charity. An IRA owner can exclude, from gross income, up to $100,000 of a QCD made for a given year, and a QCD can be used to satisfy any RMDs for that year.

Note: It is imperative to ensure the charitable organization is a qualified organization in the eyes of the IRS.

Another great benefit is that the amount of a QCD that is excluded from gross income is not taken into account in determining any deduction for charitable contributions. While this method of handling your RMD can be simple, we advise anyone interested in taking this approach to consult with their trusted Summit advisor. You can also read more about this by referencing IRS Notice 2007-7, Section IX for additional information regarding QCDs.

Something to Consider:

The people you care about are seeking financial guidance from someone. Doesn't it make sense for them to receive this important guidance from someone you know, like and trust?
Thank you for your continued trust and confidence!

Summit Wealth keeps clients informed on changes and economic trends that may affect all financial futures.

"Every recommendation we make has a place and a specific purpose where it will contribute to your comprehensive and integrated wealth plan. Without a complete review of your personal financial profile: your risk tolerance, income needs, tax situation, long-term care needs, and estate and charitable desires, no one can or should have an opinion on whether a specific strategy or investment vehicle is right for you."

Chad Warrick,
Senior Wealth Advisor
Chief Compliance Officer
CWarrick@MySummitWealth.com

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issues in Washington. No wonder we see so much apprehension regarding new strategies and a "safety first" culture developing in the world of finance.

According to James Poer of Investment Advisor Magazine (October, 2012), guaranteed income could be a missed opportunity for clients, and clients are willing to and desirous of purchasing guaranteed income through an annuity, but advisors are reluctant to recommend these products. Research shows that half of 61.5 million households surveyed said they would put more of their assets into an investment providing guaranteed income even if it provided a lower return. Considering the "safety first" environment I noted a moment ago, this is a significant trend.

Guaranteed income could be the next big asset class. The average cost of guaranteeing typically runs at or around 1%, yet investors said "they would be willing to pay between 4-6% to guarantee that they would not run out of money in retirement." According to an Ibbitson Study, retirement income increased and risk decreased when guaranteed income replaced cash or fixed income allocations.

Further, the 2007 article by Babel and Merrill (Wharton Financial Institutions Center) entitled "Rational Decumulation" suggests that taking advantage of insured economies of scale allowed investors to gain financial security for retirement using 25-40% less money than would be required not using more safe income providing accounts.

Of course, every person's plan is unique and these types of strategies, like all others, are not suitable for everyone. Careful consideration with the help of a qualified financial professional (with no conflict of interest) should be made prior to making decisions like this.

Shouldn't we all do our best to enjoy our retirement years rather than worrying (or overspending)? Rather than talk about retiring, perhaps we should talk about "the next chapter in our life." This creates a positive, anticipatory quality, rather than the end of something. Also, dying broke is the big "joke," yet don't let the joke be on you. We really do not know when our time here will end.

Even Charles Feeney, the renowned billionaire who has given away his money and intends to die broke, saved tens of millions of dollars for himself and for his family to be certain he does not die completely broke. After all, who would want to fly to a distant city on a jumbo jet that plans to land on fumes? We must take care of ourselves first before deciding on how and how much to leave to our heirs.

"This is where keeping an open mind in regards to how the prudent application of any and all financial tools can work synergistically is incredibly valuable."

This is where keeping an open mind in regards to how the prudent application of any and all financial tools can work synergistically is incredibly valuable. These collaborative strategies can provide the comprehensive solution you want and deserve. Buttressing your long-term investment strategy with the benefits of a carefully selected annuity or a sound life insurance platform can prove exceedingly helpful.

For example, did you know that since the 2006 Pension Protection Act, any new life insurance policy allows you to access half the death benefit, tax-free, for certain long-term care needs? Did you know that, for a couple aged 62, a mere $10,000 a year could purchase between half a million to one million dollars worth of life insurance that is tax free and guaranteed to their children? These are benefits we should all be aware of, regardless of whether we choose to access them or not. We deserve that.

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I've written much about the negative influences on consumer perception and I've done so for a reason. Your perception is a critical component of your decision making process.

Those who are clouded with doubt caused by locker room conversations and tangled reports from CNBC may not remain open minded enough to allow a great professional to guide them into and through a fulfilling retirement.

The alternative is to meander through our retirement years, full of concern and frustrated by unexpected and disappointing results. This costs us money in the form of time, inefficiencies, unnecessary tax payments, and inappropriate insurances. We are taking this financial journey for comfort, not dismay – we simply need to maintain enough perspective to see the truth through the opinions.

Make Great Decisions,

Mitch

Thank You For Attending!

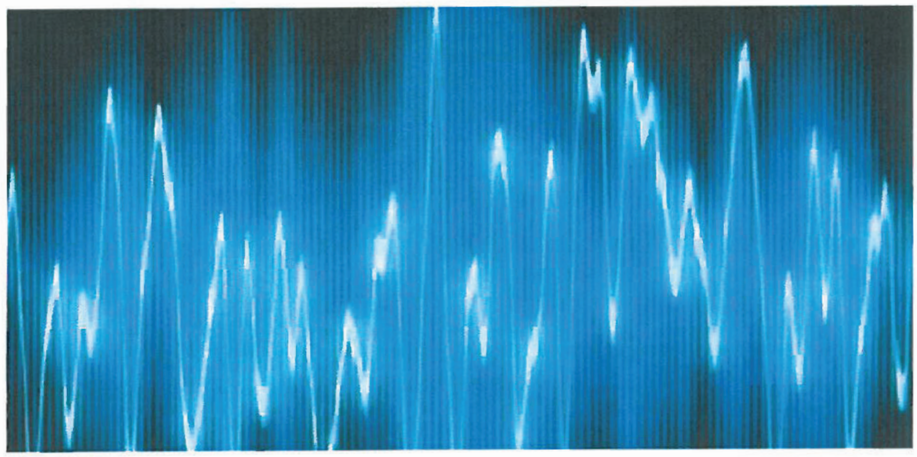
More than 100 clients, professional colleagues, and friends of the firm joined us to celebrate client success and innagurate our new Orlando office in style.

Arthur's Catering did a terrfic job and the members of the Orlando Philharmonic polished the evening with class. What a fun and engaging experience.

It is no secret as to why we love doing what we do - we have the greatest clients and colleagues we could ask for. It is an honor serving as trusted advisors to so many and we appreciate the opportunity to do so.

Thank you for helping us celebrate that!

Are You Listening To The Music Or The Noise?



I keep hearing—from people desperate to gin up a reason to hate and fear common stocks—that the equity market is "too volatile." And not just too volatile in some abstract sense, but that high volume, short term trades made by evil computers running incomprehensible algorithms are "taking over the stock market and making it impossible for the individual investor."

Does anybody even know what that means? Do you?

Dictionary.com defines volatility—insofar as it applies to prices, values and markets—as "tending to fluctuate sharply and regularly." Not sure what they mean by "regularly," and in fact I think one of the things that bothers people so much about volatility is its randomness, but set that aside for a moment. Note, if you will, that nowhere does this definition suggest the idea only of falling prices. This may strike you as hair-splitting, but it's not: volatility, properly understood, is sudden, sharp price movement ***in either direction.*** I note for example that the S&P 500's price changed over five percent in about four weeks in January, from its closing level on December 31 of last year. That was pretty darn volatile, don't you agree?

Or wouldn't you, because the sharp, sudden price change was *upward*?

This is the first clarifying idea about volatility that I want to suggest: that it isn't a synonym for "down a lot in a quick hurry." It's a statement of the plain fact that equity prices wander, with about equal randomness, to places below ***and above*** their long-term trend.

My second clarifying suggestion proceeds from the first. It's "What does any of that have to do with you?" Can you find any evidence that the long-term trend of equity values is meaningfully affected in any way by the tendency of prices to run up far beyond the trend, or to fall suddenly below it? In short, other than in your own emotions, *what has volatility to do with the trend of real values?*

Let me offer some anecdotal evidence of what I mean by this, and let me restrict my discussion just to sudden downward price movements, if for no other reason than that those are the episodes that tend to have the most emotional impact on people.

From 1946 through 2012, the *average* intra-year decline in the S&P 500, from closing peak to closing trough, was about 14%. Please think about that for a minute, because you can see in this statistic the beginnings of an outline *of what it takes, in practical terms*, to be a successful equity investor. If history is any guide, and it's the only real guide I can offer, you had to be prepared to sit out a 14% average decline every year of those 67 years, just to maintain your long-term allocation to equities. Wait: it gets worse.

There was a decline of at least 15% (again, on a closing basis) on an average of once every three years. And there was a "bear market"—a decline of a minimum of 20% (and in reality an average closer to 30%)—about every five years or so. Is that too "volatile" for you?

Just before you answer that question, let me add a couple of more data points to the mix, and then I'll leave you to make your own judgment. (1) The S&P Index came into 1946 at about 18, and went out of 2012 at 1426. That is, it went up about 80 times. (And why? Because that's about how much earnings went up.) (2) If you compounded dividends, and paid taxes out of your pocket rather than out of your portfolio, your annualized compound return from 1946 through 2012 was around ten and a half percent.

There, in its essence, is the answer to the issue of current events-driven "volatility"—as well as to the "problem" of a jillion computer-based algorithms trading against each other every nanosecond: *it doesn't really have anything to do with the lifetime investor.* In the long run, volatility has historically been little more than noise, while the long-term trends of earnings, dividends, cash flows and equity values have been music.

As we begin another year in which there will probably be any number of "crises"—because there are every year—maybe the best investment policy you can formulate is by asking yourself the simple question, "Am I listening to the music? Or am I listening to the noise?"

Giving Until It Hurts *No Longer Applies*

By Kyle Johnson, Communications Manager

Being a good steward of one's family, community, and livelihood is something all of us work toward. Merriam-Webster defines stewardship as "the careful and responsible management of something entrusted to one's care." Our spouses, children, grandchildren, careers, and charitable endeavors all fall under this description.

While we understandably subjugate most priorities to the needs of our immediate family, many of us want to give to worthy groups and causes – we want to support the great work of people making a significant impact on others' quality of life. A great example of this (among many) is the work being done at Lighthouse of Central Florida.

Lee Nasehi and her dedicated team help empower independence, confidence, safety, and purpose for hundreds of people with vision impairment each year – and they need help to reach more people. There is great news for those of us who have a willingness to give: Giving Until It Hurts No Longer Applies.

A few simple questions not currently asked by accountants and financial advisors about a person's taxes and future taxes could potentially open a floodgate of possibilities for giving. Luckily these techniques apply to most donors, not just those who are wealthy. In a matter of mere minutes you can discover incredible, tax-savvy benefits that can dramatically increase your charitable efforts, affording you greater capability to make a difference.

Surveys of Americans consistently indicate that a major frustration is that advisors have not been more proactive about future issues that might affect their financial well-being. Avoiding future estate and income tax problems or handling large financial decisions takes careful planning today to assure you can easily avoid or solve financial problems and make the right choices – doing so benefits you, your heirs, and hopefully your favorite charities.

People tend to not plan ahead and only use their CPAs or financial planners in a reactive manner. Our simple review can get you planning ahead and address areas that are missed by most peoples' accountants and brokers. This review quickly identifies your concerns and helps develop strategies that may avoid future problems. Many times, planning strategies not only support greater charitable donations, but require them to maximize the plan's benefits.

Greater peace of mind, bigger impact, and flourishing charities – all by simply applying a proper discovery review and implementing specific, efficient, and tax-smart strategies that are readily available and easy to achieve for most.

"Finglish" (n) Financial English

Main Street - A colloquial term used to refer to individual investors, employees and the overall economy. "Main Street" is typically contrasted with "Wall Street." The latter refers to the financial markets, major financial institutions and big corporations, as well as the high-level employees, managers and executives of those firms.

Safety-First Rule - A safety-first rule is a form of margin of safety that can be used when creating a portfolio using post-modern portfolio theory. When maximizing the objective function, the expected return used in the security market line equation is lowered, to reflect this margin of safety. The objective function in this capacity is the Sharpe ratio or the Sortino ratio.

Portfolio Income - Income from investments, dividends, interest, royalties and capital gains. Portfolio income does not come from passive investments and is not earned through normal business activity. Typically, income from interest on money that has been loaned does not count as portfolio income.

SUMMIT WEALTH
PARTNERS
800 N. Magnolia Avenue, Suite 105
Orlando, FL 32803

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CONTACT INFORMATION

www.MySummitWealth.com

ORLANDO

800 N. Magnolia Avenue
Suite 105
Orlando, FL 32803
PH: 407-656-2252
FX: 407-656-8116

NAPLES

9180 Galleria Ct., Suite 200
Naples, FL 34109
PH: 239-254-1875
FX: 239-254-0476

JACKSONVILLE

4223 Duval Drive
Jacksonville Beach, FL 32250
PH: 904-273-4550
FX: 904-212-0193

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