

Wealth Wisdom

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Second Quarter 2008

Yours, mine and ours: The need for estate planning for blended families

Whether a marriage is the first or the third, issues abound around budgeting, savings, investments, insurance, integrating employee and retirement benefits and property ownership. Many times, the most overlooked aspect is estate planning, especially when there are children from previous marriages.

Adult children present special concerns. In particular, you need to carefully plan your estate to avoid conflicts that can erupt if your adult children resent your current spouse or fear that he or she will inherit or mismanage your estate.

Upon remarriage, you should review your life insurance policies beneficiary designations. An ex-spouse may still be the beneficiary or may be entitled to a survivor's benefit from your pension or retirement plan. Of course, you may not be able to change beneficiary designations subject to a court-ordered award or decree.

When there are minor children, you should consider what will happen to them in the event you or your spouse dies. Do you want to provide for the children in the event that you die, even though the children may be your spouses from a previous marriage? If your spouse dies, will the children live with you or with their other parent or family member? Because child custody issues can be complicated when the person who wants custody isn't biologically related to the child, you'll need an attorney's advice on this issue.

Blood may be thicker than water

Don't assume your spouse's children will love you as much as your spouse does. They may see you as a competitor or a villain, taking their place in your spouse's heart and in his or her will. Whether this is actually true is irrelevant. After your spouse is gone, they can make your life complicated unless you plan ahead. For example, plan for your estates to be distributed according to your wishes and both spouse and children must clearly understand what those wishes are. You and your spouse may want to set up one or more trusts for your children and one another or you may want to execute a prenuptial or postnuptial

agreement along with your will. You could agree to leave a specific amount to the surviving spouse and the rest to any surviving children or you may want to use life insurance to provide for your children or your spouse.

Ensure rights with a marital agreement

Prenuptial and postnuptial agreements are contracts used by couples to define rights, duties and obligations during marriage and to determine what happens in the event the couple separates or divorces or one partner dies. Remarrying couples should consider using marital agreements if they have substantial assets or children to protect and want to avoid some financial trauma that could occur if the marriage ends. The marital agreement spells out what assets and liabilities each partner is bringing into the marriage and determine how assets brought in — and acquired during — the marriage will be divided. The agreement will help make sure your children retain the right to those assets in the event that you and your spouse divorce.

Clearly, a prenuptial agreement is written prior to marriage (it's also known as a premarital agreement, antemarital agreement or prenup), and if it's written during marriage, it's called a postmarital agreement. Whichever contract you choose, both should include you and your spouse's decisions in four basic areas:

- **Assets and liabilities** — Who owns what property and what will become marital property? Will gifts and inheritances received be shared or kept separate?
- **Divorce** — What will happen to assets brought into the marriage, assets purchased through joint funds, etc.?
- **Estate** — What will go to children from a previous marriage and children you may have in the future? Who gets what after either spouse dies?
- **The contributions of each partner** — Are there any special circumstances that need to be considered?

[Yours, mine and ours, continued on page 3](#)

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Wading through the hot and cold market volatility pool

You've probably heard the expression that if you have one foot in cold water and the other in hot water, on average, you're OK. So, OK may be the average, but it isn't a comfortable feeling. However, to get comfortable, you might need to add cold water to the hot or hot water to the cold or need to take your feet out of the buckets all together. But what does any of this have to do with market volatility? Well, just like changes in water temperature, volatility means ups (too hot) and downs (too cold) in the market.

Let's look at one market, the S&P 500 — the index of the largest U.S. stocks. For the 12 months ending March 31, 2007, the S&P is down -7.15 percent, which has put cold water on many investors. During this 12-month period, the volatility between the highest point and the lowest point is 17.22 percent. Or, in other words, there's been too much hot and cold water this year and now it's cooler than last year.

Since 1925 there have been 82 calendar years through 2007. Twenty-three calendar years with a negative return, the rest (59) positive. From a historical perspective, the S&P 500 is up 72 percent of the time. For the calendar year 2007, the S&P 500 was up 5.49 percent. To put that in perspective, the greatest loss was -43 percent in 1931, the greatest gain was almost 54 percent in 1933 — that's a lot of cold and hot water.

When it comes to market volatility, time is considered a diversifier. If you relate time to buckets of water, consider what happens when the buckets are set out for awhile: They begin to warm or cool to the room temperature (think of room temperature as "average"). Now, look at a 10-year average of the S&P 500. From 1925 through 2007 there have been 48 -10-year periods. The greatest loss was a 10-year period ending 1938 at -.89 percent; the greatest gain was 20.06 percent in ending 1958. As time is taken into account, the average returns of the S&P 500 begin to blend toward a historic average of approximately 10 percent.

But remember — this is an example of just one market. A portfolio should consist of more than one market — it should be several markets strategically mixed together to provide a well-balanced allocation. Additional markets include international, small companies, emerging markets and bonds — among others. The reason? Markets may behave differently in relation to each other as the economy changes. So, when one market is in cold water another may provide hot water and vice versa.

Generally, a portfolio should be structured to meet client goals and needs, usually resulting in required rate of return over a given period of time. Money is placed into a portfolio that is allocated between equities and fixed income securities and diversified through sub-asset classes such as large company stocks, small company stocks, international company stocks, government bonds, municipal bonds, etc. Regardless of the time perspective, the risk tolerance needs to be identified. This is similar to knowing the temperature sensitivity. Some people like it hotter and others like it colder. That return may have volatility over a short period of time. Since time and diversification can reduce volatility, occasionally giving a portfolio a chance to work through time will provide the return necessary to fulfill goals, needs and objectives.

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So what should you do as an investor? If you're uneasy with your portfolio, visit with your wealth management advisor. The time spent will assist you and your advisor in understanding your desired portfolio risk (you wish the water temperature was this), needed portfolio risk (the water should be this temperature) and any rebalancing (adding hot or cold water) necessary to maintain your objectives.

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Majority of owners' estate plans are outdated

A new study conducted by Prince & Associates, Inc. and Campden Research finds that the majority of owners of ultra-high-net-worth family businesses are leaving their professional and personal interests vulnerable through inadequate business succession, asset protection and estate planning. While these families are highly successful in building and managing their businesses, they are often less successful when it comes to transitioning their companies from one generation to the next, with only 15 percent of family-owned companies lasting past the second generation. The study surveyed 242 second- to third-generation business owners with interests valued at a minimum of \$300 million, and mean value approaching \$730 million. (PRNewswire)



Yours, mine and ours, continued from page 1

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What was fair the day you were married could be completely unfair a few years later. For instance, the birth of children that requires one spouse to leave work or a move that's advantageous to one spouse and detrimental to the other. Once the balance shifts, a judge is likely to void the contract, and his or her determination of fairness — not yours — will prevail.

Prenuptial agreements are far less likely to damage relationships between couples and their families when they're negotiated for people who have been previously married and who have children from previous marriages. In these cases, each party has loyalties to third parties — usually their children — and each has a legitimate interest in protecting the rights of their children to inherit his or her estate.

Like any legal contract, a prenuptial agreement can be amended or modified to meet your or your spouse's needs as conditions change during marriage. As a precaution, review and update the agreement every few years or following significant events such as a change in economic circumstances or the birth of children.

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Wealth Wisdom

Inside this issue:

- Yours, mine and ours: The need for estate planning for blended families
- Wading through the hot and cold market volatility pool
- Majority of owners' estate plans are outdated

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