A Quarterly Newsletter Bringing you Financial Insights from the Leaders

March 2012
Volume 5, Issue 1

THE SEIA REPORT

Successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

What are some financial opportunities I should look for?

By Paul Taghibagi, CFP®, AIF®, ChFC

Every year brings some financial change, and 2012 is no exception. Here are some relevant changes relating to investment, tax and estate planning for this year.

Retirement Plans. Annual limits for 401(k), 403(b) and 457 contributions rise slightly to $17,000, and you can contribute an additional $5,500 to these accounts if you are 50 or older this year. IRA contribution levels are unchanged from 2011: The ceiling is $5,000, $6,000 if you will be 50 or older in 2012.

As you strive to contribute as much as you comfortably can to these accounts, you will probably notice some changes with the retirement plan at your workplace. In 2012, retirement plan sponsors (i.e., employers) will have to note all the fees and expenses linked to the funds in the plan to the plan participants. So if you have a 401(k) or 403(b), you may notice some differences in the disclosures on your statements, and you will probably notice more information coming your way about fees. There is also a push in Washington to have financial companies provide projections of your expected monthly benefit at retirement age.

Income Taxes. Wealthy Americans are set to face greater income tax burdens in 2013, so 2012 may be the last year to take advantage of certain factors. For example, the top tax bracket in 2013 is slated to be 39.6 percent instead of the current 35 percent. This year, capital gains and dividends will be taxed at 15 percent or less. In 2013, the qualified capital gains tax rate is scheduled to rise to 20 percent, and qualified dividends will be taxed as ordinary income. So taking a little more income in 2012 could be smart.

In 2013, the wealthiest Americans (those earning more than $200,000 as individuals or $250,000 as married couples) are supposed to be hit with new Medicare taxes: a 3.8 percent levy on unearned income (such as capital gains, income from real estate, dividends and interest) and a 0.9 percent tax on earned income. So next year high-income earners could effectively face taxes in the neighborhood of 45 percent on the federal level.

Additionally, the IRS is planning to limit itemized deductions for upper-income taxpayers in 2013. A phase-out will also apply for the personal exemption deduction.

Estate and Gift Taxes. At the end of 2012, some very nice estate tax breaks are also set to expire. Barring action by Congress, 2013 could see a large increase in the federal estate tax rate from 35 percent to 55 percent. The individual estate tax exclusion (currently $5.12 million) is scheduled to be reduced to $1 million.

These numbers and percentages also apply to gift taxes. For 2013 the top federal gift tax rate is set to go from 35 percent to 55 percent, and the lifetime gift tax exemption amount is scheduled to fall from $5.12 million to $1 million per individual.

Speaking of gifts, we said goodbye to

continued on page 2

SEIA

Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to meet the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to meet the client's goals.

What are some financial opportunities I should look for?

continued from page 1

charitable IRA gifts in 2011. The IRA charitable rollover, a boon to nonprofits and a handy tax deduction option for taxpayers older than 70½, was not extended into 2012.

Roth IRA Conversions. Thanks to legislation that took effect in 2010, investors at any level of income can convert a traditional IRA to a Roth IRA. A Roth IRA has the benefits of allowing your retirement account to grow tax free. A conversion does, however, trigger a tax bill on the amount of money converted. With federal taxes set to increase in the years ahead, this might be the year to consider a Roth conversion.

Given all these changes, it might be wise to meet with your financial professional at SEIA as you strive to make the most of your money.

Could Gas Prices Harm The Recovery?

What kind of drag are they exerting? Will they soon fall, or not?

Presented by Peter Montoya, Inc.

By March 16, retail gas prices were up 16.94% YTD. This major climb is leading some economists to wonder if the leap in gas prices is powerful enough to stall our economic momentum.

In February, energy costs rose 6% for the American consumer. Gasoline prices accounted for 100% of that gain. In fact, gasoline prices were behind 80% of the overall 0.4% rise in the Consumer Price Index for February, meaning that last month brought the most consumer inflation of any month since April.

We've seen $4 gas. What if $5 gas becomes common? If that happens during the summer driving season, the Federal Reserve may find itself weighing which move to make. Higher energy costs could hurt the broad economy, and if that happened, you would almost certainly hear clamor for some kind of stimulus. On the other hand, if Wall Street and Main Street both fret that inflation is rising, the Fed would hardly want to ease.

How does these price hikes affect consumer psychology? One possible consequence of all this is that Main Street may be projecting greater inflationary pressures than really exist. In the University of Michigan's mid-March consumer sentiment survey, the consensus one-year inflation expectation among respondents was 4.0%. Yet in February, actual yearly consumer inflation was just 2.9%.

Consumer expectations can have powerful influence. If consumers think inflation is rising, they may be inclined to ask employers for raises. The stores where they shop may try to take advantage of their perception by subtly raising prices. The assumption of inflation can actually have the power to foster inflation.

The Fed thinks the increase is temporary. If prices get too high, a point will come when demand for gas will lessen – and correspondingly, prices could decrease. On March 16, a gallon of regular unleaded was averaging $3.83 nationally – prices had risen $.08 in a week and about 9% in a month. Still, the Federal Reserve sees this wave of $4 retail gas as another short-term price fluctuation, ultimately unsustainable when drivers throw in the towel regardless of lingering worries over Iran's budding nuclear program and oil supply concerns.

How will this year's presidential election influence the financial markets?

By Brian D. Holmes, MS, CFP®, AIF®

Every presidential election produces discussions about stock market performance as a function of whichever party is in office at the time. Contrary to popular belief, the market has historically fared better during Democratic administrations. In fact since 1940, the worst-performing years have occurred during a GOP-controlled presidency, House, and Senate (3.3 percent annually). Alternatively, the best-performing years have correlated with split control, especially when there was a Democratic president and a Republican-controlled House and Senate (15.3 percent annually).

Many prognosticators believe the 2012 elections will bring what the markets historically like best: namely, a Democrat, President Barak Obama, will be re-elected and Republicans will take over the Senate. There are 33 Senate races up for grabs this fall: seven of the 23 Democratic seats are "open" due to retiring incumbents; and the Republicans have only three open seats. The Democrats did not win a single seat in the South or in Midwest in the 2010 election. So Republicans stand to pick up as many as six seats, giving them a 53–46–1 majority with one independent.

The House, which currently is solidly under GOP control, 242–192, will likely not change much. Redistricting favors the Democrats in California and Illinois, but favors the Republicans in Texas, North Carolina, Indiana and Georgia.

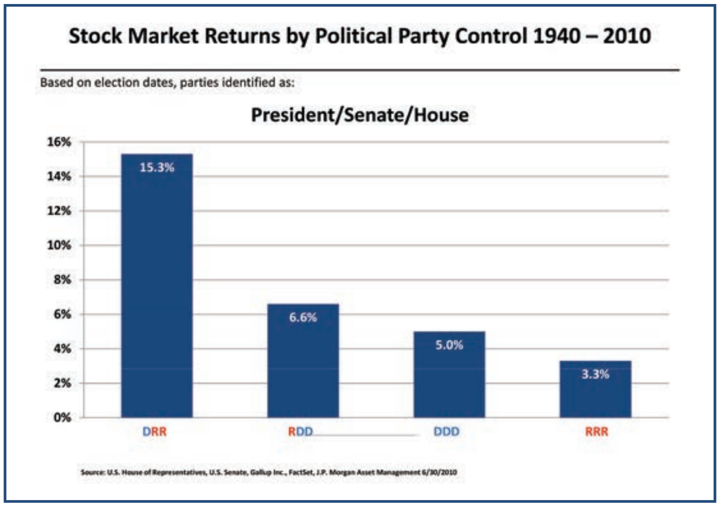
If the stars align with the above scenario, additional good news is likely for the markets. Since World War II, whenever an incumbent has won the White House, the markets have averaged over 9 percent, versus 2 percent when the incumbent has lost. Perhaps even more astonishing, market bottoms have occurred only once during the fourth year of the presidential term (the 2008 financial collapse). The market bottom has averaged 1 year 6 months into the presidential term, and 13 out of 18 times during the president's second year in office.

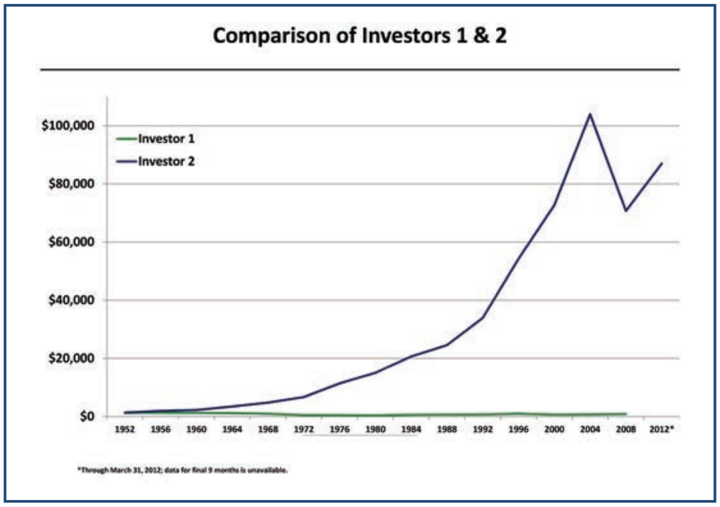
There could, however, be storm clouds on the horizon in 2013–2014, regardless of who gets elected. Since 1952 (when the modern Fed began to influence the national economy), if Investor #1 invested in the S&P 500 on the first trading day of an inaugural year and liquidated on September 30 of the second year (21 months later), his/her portfolio would have earned a total minus 13%. If Investor #2 bought over the next 27 months, from October 1 of the second year through December 31 of the fourth year, he/she would earned over a total 8,595%.*

In other words virtually all the gains in the S&P 500 have been earned over the past 60 years during the last 27 months of the various presidential cycles.

It is extremely difficult to properly gauge the singular effect one party's policies can have on the market over the short term. One thing is for certain, though: History has favored a Democrat in the White House and Republicans in the House and Senate, even though the first 21 months of any presidential cycle have been treacherous. Government policy may have a short-term positive or negative psychological effect, but in reality several years and a couple of business cycles must occur for a full-blown effect on the economy, and thus the markets. As long as investor sentiment continues to slowly improve, barring unforeseen headwinds (i.e., the European crisis), we could be in store for yet another positive fourth year of the election cycle.

**Calculated through March 2012, missing the final nine months of the current presidential cycle.*





Ways to Put a Refund to Work

What could that money do for you?

Presented by Peter Montoya, Inc.

Is a tax refund coming your way? If you have already received your refund for 2012 or are about to receive it, you might want to think about the destiny of that money. Here are some possibilities.

- **Start (or add to) an emergency fund.** Many people don't have a dedicated rainy day fund, only the presumption that they might have enough cash in case of a financial tight spot.

- **Invest in yourself.** You could put the money toward education, career training, personal improvement, or some sort of personal experience with the potential to enhance your life.

- **Use it for a down payment on a car or truck or real property.** Real property represents the better financial choice, but updating your vehicle may have merit - cars do wear out, and while a truck also ages, it can help you make money.

- **Put it into an IRA or workplace retirement account.** If you haven't maxed out your IRA this year or have a chance to get an employer match, why not?

- **Help your child open up a Roth IRA.** Has your under-18 son or daughter worked and earned money this year? He or she can open a Roth IRA. Your child's contribution limit is $5,000 or the amount of his or her earned income for 2012 (whichever is lower). You can actually make this Roth IRA contribution with your own money if your child has spent his or her earnings.

- **Pay for that trip in advance.** Instead of racking up a bigger credit card bill, consider pre-paying some costs or taking an all-inclusive trip.

- **Get your home ready for the market.** A four-figure refund may give you the cash to spruce up the yard and/or exterior of your residence. Or, it could help you pay a professional who can assist you with staging it.

- **Improve your home with energy-saving appliances.** Or windows, or weatherstripping, or solar panels – just to name a few options.

- **Create your own food bank.** What if a hurricane or an earthquake hits? Where would your food and water come from? Worth thinking about.

- **Give yourself a de facto raise.** Adjust your withholding to boost your take-home pay.

- **Pick up some more insurance coverage for cheap.** The typical flood insurance policy in a low-to-medium risk area costs less than $1,000 (and sometimes less than $500). A $1 million personal liability umbrella policy can usually be bought for $400 or less.

- **Pay it forward.** Your refund could turn into a charitable contribution (deductible on your 2012 federal tax return if you itemize deductions).

In the past two years, federal tax refunds have averaged about $3,000. That's a nice chunk of change – and it could be used to bring some positive change to your financial life and the lives of others.

The Big Estate Planning Question of 2012

Should you exploit the $5.12 million lifetime gift exemption?

Presented by Peter Montoya, Inc.

An unprecedented gift. In late 2010, Congress gave wealthy taxpayers a remarkable short-term opportunity to shift assets out of their estates tax-free during their lifetimes. This opportunity is available through the end of 2012 – and it could vanish after that.

Two important things happened at the end of 2010:

- Congress reunified the estate tax, gift tax and generation-skipping tax (GST), giving each top rates of 35% with $5 million lifetime individual exemptions. (In 2012, these exemptions are actually set at $5.12 million, as they are indexed for inflation.)

- In addition, **the estate and gift tax exemptions became portable** between married couples. So currently, an executor of an estate can elect to transfer any unused portion of a deceased spouse's $5 million individual exemption to a surviving spouse.

With these changes, a whole new horizon emerged in terms of estate planning – one that may sunset in 2013.

The big news: the $5 million lifetime gift tax exemption. For married couples, the lifetime gift tax exemption is actually $10.24 million at the moment thanks to the portability factor. Back in 2010, the lifetime gift tax exemption was at $1 million and it wasn't portable.

If you used up the prior $1 million lifetime gift tax exemption before 2011, you now have the opportunity to gift up to $4.12 million more before 2013 given the new $5.12 million limit.

So considering all this, the big question is: should you gift as much as you can to your children before 2013 with the intent of reducing inheritance taxes down the road?

After all, lifetime gifts reduce your taxable estate. Additionally, if you give your children appreciated securities, the long-term capital gains of those securities will be taxed at their capital gains rates rather than yours. If your children's income puts them in the 10% or 15% tax bracket, their capital gains tax rate is 0% through 2012.

Portability means great flexibility – provided you play by the rules. Let's illustrate how this works. Dad doesn't gift up to $5.12 million during his lifetime – he only ends up gifting $3 million. Well, Mom can subsequently gift up to $7.24 million after he passes thanks to the portability rules, as there would still be $7.24 million to go toward the present $10.24 million lifetime gift tax exemption for a married couple.

There is an important rule you must follow to realize this portability: when the first spouse passes away, the executor of his or her estate must file an estate tax return even if no estate tax is owed. That estate tax return formally notifies the IRS that you are transferring the unused or partially used gift tax exemption.

Incidentally, this estate tax return is due nine months after the death of said spouse, with a six-month extension permissible.

Is there still a need for bypass trusts? We can't say goodbye to them, because 15 states still levy their own estate taxes with exemptions commonly at $1 million or under. Moreover, what if portable exemptions aren't retained in the future?

The potential for savings could be great. When you look at this remarkably generous lifetime gift tax exemption allowance in light of certain estate planning techniques that might leverage it – such as the grantor-retained annuity trust and the family limited partnership – the potential is intriguing. Parents can potentially forgive millions of dollars of low-interest, intra-family loans and possibly arbitrage state tax rates if their children live in different states.

The problem: we don't yet know what 2013 will bring. Congress could elect to retain the increased lifetime individual exemption (and portability) for 2013 and beyond, but the massive federal deficit would seem to render this a longshot.

If Congress lets the 2010 law governing gift and estate taxes sunset, it will be 2001 all over again – the individual lifetime gift tax exemption will reset from $5.12 million to $1 million (with no portability) and estate taxes will top out at 55% instead of 35%.

Once more, estate and tax planning professionals must again weigh the degrees of opportunity and ambiguity presented by our shifting estate tax laws.

SEIA

Signature Estate & Investment Advisors, LLC®
www.SEIA.com

SEIA believes that investment management and prudent portfolio allocation can be accomplished with an overall wealth management strategy.

2121 Avenue of the Stars, Suite 1600
Los Angeles, California 90067
telephone 310.712.2323
facsimile 310.712.2345

2010 Main Street, Suite 220
Irvine, California 92614
telephone 949.705.5188
facsimile 949.705.5199

3452 East Foothill Blvd., Suite 1140
Pasadena, California 91107
telephone 626.795.2944
facsimile 626.795.2994

1815 Via El Prado, Suite 100
Redondo Beach, California 90277
telephone 310.712.2320
facsimile 310.712.2377

8607 Westwood Center Dr., 3rd Floor
Vienna, Virginia 22182
telephone 877.301.7342
facsimile 703.564.0153

The Signature Fund For Giving Helps Raise Money for A Place Called Home

By Allison Crandall

On March 14th the 6th Annual Stars & Strikes Celebrity Bowling and Poker Tournament to benefit A Place Called Home (APCH) was held at Pinz in Studio City. Stars & Strikes featured 34 lanes of bowling action, an exciting, No-Limit All-In Texas Hold'em professional-level poker tournament, DJs, the excitement of the red carpet and more. Over the past five years, proceeds from the event have raised over $500,000.00 and gone on to support APCH's Bridge to the Future program, providing recreation, field trips, academic tutoring, college preparation and college tours for hundreds of South Central teens, many of whom have gone on to break negative cycles and be the first in their families to attend college.

Many SEIA employees came out to support the event by volunteering, playing poker and helping to raise and donate funds to the event.

SEIA also continues to support Toberman Neighborhood Center (San Pedro) and Miracles for Kids (Tustin) as part of the SFFG initiative.

If you would like more information on the Signature Fund For Giving and the charities we support, please contact Marshall Smith at 310-712-2336 or msmith@seia.com.

Would you prefer to receive our quarterly newsletter electronically? Do you have friends or family that you would like to add to our quarterly distribution list? E-mail us at: contactus@seia.com.