A Quarterly Newsletter Bringing you Financial Insights from the Leaders

December 2012
Volume 5, Issue 4

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.

ELECTION 2012: WINNERS AND LOSERS

Deron T. McCoy, CFA, CFP®, CAIA, AIF®
Director of Investment Strategy

One beneficiary of the result will be Federal Reserve chairman Ben Bernanke, who will have the continued support of the President, rather than face Mitt Romney, who announced he would not renew Bernanke's term. From this perspective, markets can relax as quantitative easing (QE) money printing is set to continue and interest rates should remain low. Other winners include:

<u>**Fixed Income:**</u> Had Romney won, Bernanke would have become a lame duck, undermining the credibility of the Fed's commitment to keep interest rates low. With this uncertainty removed, fixed-income markets have more clarity on the continuation of low interest rates and existing Fed policy, all of which remain positives for the bond market.

- **Mortgages / Housing:** With QE intact, the market for mortgage-backed securities is going to remain rich. Demand from the Fed is going to continue to contain mortgage rates—aiding mortgages as well as home buyers.

<u>**Inflation Adjusted Assets:**</u> Bernanke is rooting for inflation and has stated that he will not raise rates until the recovery is well entrenched. Inflation down the line, however, is likely.

- **Alternatives / Real Assets:** Such as Real Estate (REITs), Pipelines (MLPs), Gold, and other Commodities have historically done well in a rising inflation environment.

- **TIPS:** Assets with automatic inflation-adjusted payouts, such as Treasury Inflation-Adjusted Securities (TIPS), should provide a nice hedge if inflation ramps up. Other assets that offer inflation-adjusted income streams include REITs as well as MLPs.

<u>**Tax-Advantaged Investments:**</u> With taxes likely going up, tax-advantaged investments become much more attractive.

- **Municipal Bonds:** A likely increase in income taxes makes tax-free municipal bonds more attractive. Ironically, in an election that often focused on class warfare, Obama was favored over multimillionaire businessman Mitt Romney in eight of the nation's 10 wealthiest counties.

- **Real Estate Investment Trusts:** Dividends from Real Estate Investment Trusts do not get the favorable tax treatment that ordinary

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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.

ELECTION 2012

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stock dividends receive. A likely increase in dividend taxes will decrease some of the appeal that dividend-paying companies offer investors in this low yield environment. Thus, the appeal of REITs could increase relative to other high yielding equities.

- **Master Limited Partnerships:** Master Limited Partnerships offer investors attractive yields in this low interest rate environment. But unlike dividend paying equities, the distributions from MLPs are tax-advantaged. Any increase in taxes makes tax-advantaged investments much more attractive.

You will notice that some assets are listed here multiple times as they get multiple advantages in 2013 and beyond. Other losers include:

- **Earned Income:** Taxes are likely going up for those in upper income brackets, although congressional compromises will determine what defines "upper" ($250,000, $500,000, or $1 million/year).

- **Interest Income / Dividends:** With taxes heading higher, assets that kick off a taxable income become less attractive. However, with the Capital Gains tax, Income tax, and Dividend tax all heading higher, the net effect may be negligible.

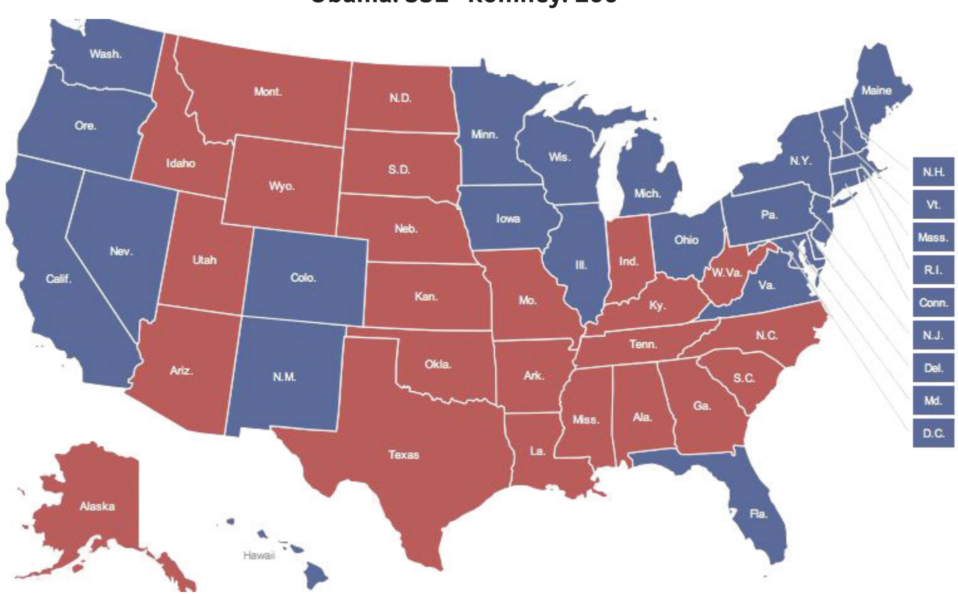
- **Inheritances:** Estate taxes are likely to head higher.

- **Financial / Banks Companies:** (Notice here that we did not say stocks). Dodd-Frank legislation, which imparts more regulation on the financial industry, seems a certainty now. The net effect on stocks in this sector, however, likely will be small as few investors prior to the election thought that Republicans would sweep all three political bodies.

Some have said that American society was a loser as the total spending on the presidential and congressional races this year reached a record $5.8 billion (a 7% jump from $5.4 billion four years ago), especially as SuperPACs took over. With schools and roads in disrepair, many people are asking whether $6 billion for a status quo election is morally justified. But let's wait a minute and try to remove ourselves from the emotion of a long fought battle. To compare, spending for Halloween 2012 added between $8 and $10 billion to the gross domestic product. Perhaps $6 billion for the right to lead the sole superpower of the world is not that extravagant. Or perhaps we should all buy less candy.

Electoral College Results

Obama: 332 Romney: 206



What are the best ways to diversify and spread out risk in today's market?

By Theodore E. Saade, CFP®, AIF®, CMFC

What is the right mix of stocks, bonds and domestic and international investments, as well as real estate, commodities and alternative investments? When investing in the stock market, you need to take into account two types of risk: systematic risk and unsystematic risk. It is important to understand the differences between them. Systematic risk refers to the risk that affects the whole stock market and, therefore, cannot be eliminated. For example, any global turmoil will impact the whole stock market, not just any single company stock; similarly, any change in interest rates will affect the whole market, though some sectors will be more impacted than others. This type of risk is called nondiversifiable risk. Unsystematic risk is the extent of variability in the stock or security's return on account of factors that are unique to a specific company. For example, it may be possible that the management of a company may be poor, or some other company-specific issue may lead to losses. Since such factors are company specific, this type of risk can be diversified away by investing in multiple companies; that is why this risk is also called diversifiable risk.

To sum up, systematic risk affects the entire market as a whole, while unsystematic risk may affect only one particular company or sector. Therefore, the latter is avoidable, while the former is not. To address the question of the "right mix" of investments, it is important to identify your overall personal wealth management needs. Let us break this down into a three-pronged approach. First, take a step back and examine the following, for guidance:

- Determine your needs and objectives.

- Assess your risk tolerance and what is suitable for you.

After going through the following steps, you will arrive at a strategic allocation that will match your stated goals and objectives. The second part of the approach is:

- Review a resulting asset allocation including specific classes and styles.

- Implement the strategic plan.

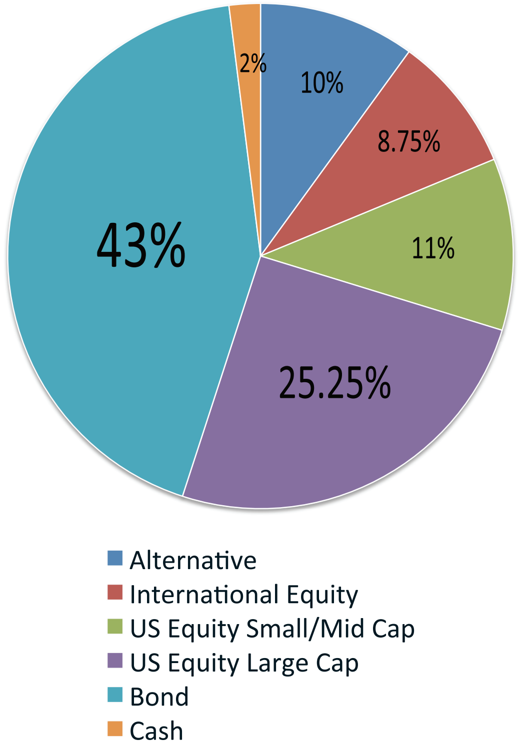
By following this comprehensive approach, you can rest assured that you will be getting high quality advice, specifically tailored to your goals and objectives. The third and most important step in achieving this desired "right mix" is:

- Rebalance and monitor.

The right mix will allow for the proper implementation of tactical allocation, to complement your strategic allocation. Tactical allocation is the process by which a prudent investor can take advantage of changes in investment outlook as micro trends present themselves within a business cycle. By implementing a successful tactical management strategy, an investor can take advantage of certain market anomalies and create value within a business cycle.

In conclusion, this so-called "right mix" is a moving target that requires constant due diligence utilizing a disciplined investment process to add long-term value through all economic cycles.

SEIA TARGET BALANCED MODEL ALLOCATION*
(As of Q2, 2012)



**Actual investor portfolio allocation may differ. We work with each investor to achieve the target allocation within a reasonable timeframe, based on each investor's current holdings, tax situations and other factors relevant to the investor's individual needs. Target allocations may vary overtime and should be reviewed periodically.*

Why you should keep contributing to your 401(k)

Save for retirement consistently, regardless of how the market behaves.

Presented by Paul Taghibagi, CFP®, AIF®, ChFC

There is seldom a dull moment on Wall Street. Stocks may rise or fall dramatically over the course of a year or a decade. Sometimes, breaking news may tempt you to pull money out of your 401(k) or greatly reduce your contributions. If you're considering such a move, think twice.

Don't stop saving for retirement. Even if you think you're wealthy enough to forego putting money in your 401(k) for a while, you could end up seriously shortchanging your retirement savings potential by reducing your retirement plan balance or elective salary deferrals.

A 401(k) plan is a terrific retirement savings vehicle – and the fact is that most Americans have not saved enough for their retirement years. Additionally, if you withdraw money from a 401(k) plan before age 59½, you'll face a 10% tax penalty (with few exceptions) and you may end up spending money today that could have enjoyed tax-deferred compounding in the future.

Don't lose out on the power of tax deferral & compounding. Together, these factors have the potential to exponentially grow your retirement savings. As an example, let's say you enroll in a 401(k) plan at age 25 and contribute $2,000 a year for 40 years with an annual return of 10%. At age 65, your $80,000 of contributions will be worth $973,684 thanks to compounding and a consistent inflow of new money.

Contributions to a traditional 401(k) also reduce the amount of taxable income listed on your W-2 form. They may lower your initial tax hit on your state return as well; most states exempt traditional 401(k) contributions from tax. Self-employed individuals can actually deduct 401(k) plan contributions.

The 2012 401(k) contribution limit is $17,000, with $5,500 in additional "catch-up" contributions permitted for workers 50 and older. These limits may rise slightly in 2013.

Don't lose out on a match. Will your employer match your contributions – say, a dollar-for-dollar match on the first 3% of salary? If you make $60,000 per year, 3% is $1,800. Would you throw away $1,800 worth of free money each year? You shouldn't, especially given that this money will grow tax-deferred.

Do keep contributing steadily. It's a good idea to keep up the dollar cost averaging and continue to make steady month-to-month or paycheck-to-paycheck salary deferrals. In all probability, this is central to your financial plan - and how will you amass the retirement savings you need if you stop contributing? Sure, there are other ways to build retirement savings, but dollar-cost-averaged contributions to a 401(k) represent a consistent, recurring way to get that job done.

If you contribute to your 401(k) plan through a dollar cost averaging approach, your investment dollar buys shares at a lower price in a bear market – and it also buys more shares for your money. So when a bull market cycle resumes, you may end up in a really good position.

It's a good idea to keep contributing even if you are falling behind financially. Should you pay down debts with your 401(k) assets? Only as a last resort. In fact, if you are looking at a bankruptcy you should know that 401(k) assets are protected in Chapter 7 bankruptcies under federal law.

Do review your goals with your financial advisor. Look at your time horizon. Look at your overall financial plan. Whether you are nearing retirement or far away from it, you will see that your 401(k) is a vital tool for pursuing your financial objectives. Whatever this or that website may proclaim, don't be discouraged by short-term headlines; abide by the long-term plan created personally for you.

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What will I need to protect my standard of living in retirement?

By Jennifer Kim, CFP®, CMFC, ChFC®, CLU®

Every investor's situation is different, so what you will need to protect your standard of living depends on a variety of factors beginning with your financial situation, followed closely by what you consider an acceptable lifestyle. That said, it may help to know that the traditional approach to retirement planning assumes your spending will have to increase consistently to keep pace with inflation. Another assumption: To avoid progressively higher withdrawals from your "nest egg," you should save as much you can during retirement.

But the reality of retirement spending calls for a more realistic calculation of future retirement benefits and investment strategies. For example, most retired couples do their biggest spending between the ages of 65 and 75. They spend heavily on travel, on items purchased for pleasure and on "doing all the things we've always wanted to do." From 75 to 85 this type of spending throttles back. Most individuals want and need less, and the physical realities of aging limit what retirees can do. One financial planning approach, the "age-banded model," employs a more realistic age-based retirement spending pattern that protects your standard of living by acknowledging that your way of living is going to change. This method separates your retirement funds into three separate accounts that can be withdrawn during the three different 10-year time periods—age bands—of your retirement. Your planner estimates the projected retirement savings you would need, then determines suitable investment allocations and strategies for your age-specific portfolios.

By using the forecasted retirement income from your personal savings and other assets, a realistic expected income stream can be formulated. Life insurance and annuity products may also be purchased to replace any loss or shortage of income, should one spouse pass away. Health-care and long-term care expenses can substantially reduce any retirement savings. An advanced health-care directive and trust should be established early in your retirement to help with future decisions regarding your health and estate issues. The first step in utilizing the age-banded method is to make a realistic appraisal of several factors that will affect your plan. You can do this by asking and answering several questions. For example, are the mortgages on your primary and secondary residences paid off? If you answer yes, literally everything else, as the saying goes, is icing on the cake. If not, you have to include mortgages as part of your overall expenses. The next question to consider is, what are your current overall expenses, including upkeep of homes, your daily living expenses, etc.? Will any decrease or disappear when you reach retirement age? A prime example: underage children becoming independent adults. What are "all those things you have always wanted to do"? Again, you will most likely do most of them in your first "age band" of 65 to 75, so you need to make the resources available. If you engage in philanthropy, will you increase or decrease it as you age, and if so, during which of your age bands? Or, if philanthropy is one of the things you have longed to do, in which age band will you initiate it?

Have you planned for health care in each age band? After 75 and certainly after 85, there are numerous considerations, from assisted living to daycare to prescription drugs. If the "standard of living" you want in the latter stages of your life, includes exclusive facilities, private nurses, etc., $20,000-plus per month is not even on the high end of what care may cost. In sum, what you will need to protect your standard of living is a method that plans realistically for the very different needs of each stage and age of your retirement.

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.

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

Signature Fund for Giving

By Marshall Smith

It has been an amazing year which got off to a great start with the Signature Fund for Giving. Since our inception just over a year ago, on October 1, 2011 we have raised close to $70,000 for both local and national nonprofits.

To contribute to the Signature Fund for Giving by giving time or donations, see a list of upcoming events with our three Signature charitiesbelow that you can be a part of.

Thank you for your ongoing support and if you have any questions or suggestions please contact Marshall Smith or Allison Crandall at 310-712-2323.

Happy Holidays from SFFG!

Upcoming Events

A Place Called Home

APCH Gala for the Children
Wednesday December 5th, 2012 6:00PM
Honorees: Robert Israel and Nick Cannon
The Beverly Wilshire Hotel – 9500 Wilshire Blvd. Beverly HIlls Ca 90212
For ticket info please email: Rebecca@grantevents.com or call 323.904.4400

APCH Holiday Toy, Book and Clothing Drive Party
Tuesday December 11th, 2012 8pm-1am
Featuring: The hippest early holiday party in town – all to provide an abundant giving season for youngsters in need
A new $20 toy, book or article of clothing, or $20 gets you in
Sky Bar at the Mondrian Hotel in Hollywood
8440 Sunset Boulevard West Hollywood, CA 90069
For more info about this event please email us at: info@apch.org

Miracles for Kids

Holiday Basket of Miracles Drive 2012

Miracles for Kids Holiday Drive- December 14th-19th, 2012
Each year Miracles for Kids delivers fruit, vegetables, meat, eggs, dairy, bread, and gift bags filled with toys, household necessities, and much more to our CHOC families as part of our Basket of Miracles Program. This year we are bringing joy to over 160 families throughout Southern California.
There are 3 ways you can help:

1. Donate toys, games, or books
2. Help assemble packages and gifts
3. Help deliver the baskets to our CHOC families

Volunteer Dates:
Set Up: Thursday, December 13th from 9am-2pm
Assembly of Holiday Baskets: Friday & Saturday, December 14th and 15th from 9am-2pm
Delivery to CHOC Families: Monday-Wednesday, December 17th-19th from 9am-2pm

If you would like to contribute or volunteer please contact:
Sarah Mancinelli, Community Relations Coordinator
714.730.3040 or smancinelli@miraclesforkids.org.

Toberman Neighborhood Center

2011 Holiday Toy Drive
For Harbor Area Children Ages 5-18
Holiday Donations are accepted at Toberman's Food Pantry
Sep 15 thru Dec 16 Mon, Tue, Thur, Fri, 8 a.m. — 3 p.m.
Toberman Neighborhood Center
131 North Grand Avenue, San Pedro
Your donation of an unwrapped toy (ages 5 — 12) or a gift card for older youth) will benefit Harbor Area families. For information or to make arrangements please call: Levi Wade Program Manager 310-832- 1145 Extension 111