*A Quarterly Newsletter Bringing you Financial Insights from the Leaders*

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# 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.*

## Soft Patch be Damned - Time to Get Patriotic.

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

I think we all know that the media tends to over analyze not only what is wrong but also what could go wrong. Although it is not the end of the world (that prophecy proved false on May 21st), this year is looking more and more like last year. Recall the 2010 summer doldrums and economic soft patch that caused downward pressure on equity prices. Goldman Sachs states that:

"Current patterns are consistent with the 'mid-cycle slowdown', a phase of the business cycle characterized by positive, but sequentially declining economic growth. Ultimately, there are two ways out of this state: the economy may turn back to the stable growth/acceleration phase, when growth no longer declines, or it may decelerate sufficiently to slip into negative-growth territory. Our current view is strongly tilted towards the first option."

Although a looming soft patch seems to be in the works, a resulting correction in equity prices may not necessarily be a sure thing—simply put the economy and jobs are in a much better place than they were a year ago. Although the media would have you think otherwise, I feel like concentrating on what could go right. Maybe it's the abundance of American flags around town over the Memorial Day weekend or perhaps it's the upcoming July 4th holiday. Whatever it is, I am feeling patriotic and feel it is time to focus on the juggernaut that is the American economy. But according to Jimmy Valvano, before you know where you are going, you must know where you've been and where you currently stand. We'll do the same.

### Where we started. Where we stand.

While the Great Recession had far reaching tentacles, some are still not feeling the recovery now three years after the fall of Bear Stearns. Society, and the media, are justifiably concerned about the pace and direction of the economic recovery. It is painfully slow for some, and simply non-existent to others. Current facts are undeniable.

- The unemployment rate is 9.1 and total jobs are 7 million below where they peaked in 2007
- The European debt crisis still looms
- The human tragedy of the Japanese earthquake has slowed the pace of global manufacturing
- Tension in the Middle East has caused a spike in oil prices which in turn has stoked fears of inflation and hurt U.S. consumer sentiment
- Nationwide, housing prices have double-dipped into new post-crisis lows
- Q1 GDP came in an anemic 1.8%

And keep in mind, all of this was with easy monetary policies—and these may be starting to come to an end with the end of QE2 in June.

The Quantitative Easing program (known as QE) was established by the Federal Reserve to attempt to stimulate demand (and therefore hiring) by injecting money into the system

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SEIA

*About the Firm: 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. Wealth management is the product of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.*



# Soft Patch be Damned -

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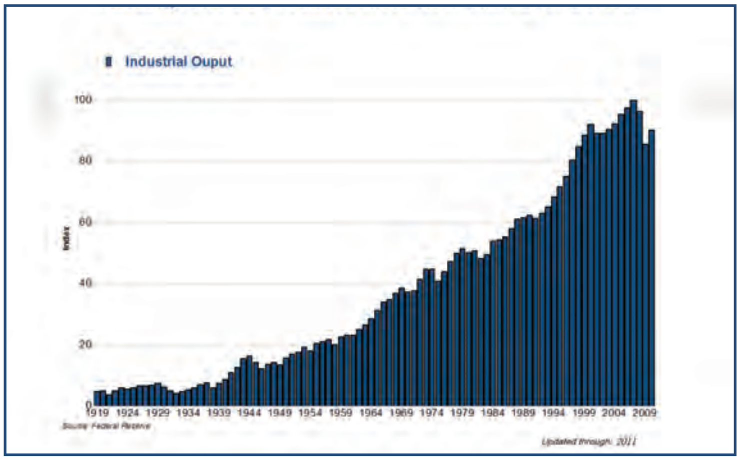
while keeping a lid on longer-term interest rates. But the crux of the problem with both rounds of Quantitative Easing (QE1: 11/2008-03/2010, QE2: 11/2010 – 06/2011) has been that the money pumped into the economy by the Fed has largely been horded by the banks instead of circulating throughout the economy via lending—otherwise known as weak velocity of money. Until that starts to turn up, improving the jobs outlook and the unemployment rate will continue to be difficult.

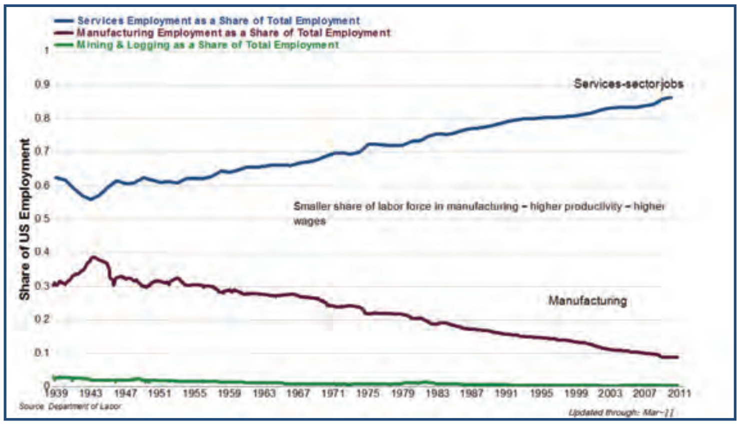
**Where we're going.**

Financial: There are some glimmers of hope as banks' are starting to see the first signs of loan demand. As banks lend more, consumers and businesses will put that money to work in the economy and a perpetuating cycle can take hold and thereby increasing the velocity of money and making the Fed's program much more effective. Fears arise that such easy monetary policies will ultimately lead to inflation, but truth be told, we need a little inflation. The previous battles of inflation have been fought and won and those battle plans could be used once again. The black hole is deflation—the current Japanese battle with deflation will soon enter its 3rd decade. Inflation will coincide with an improving economy and wage gains—this will reignite the animal spirits. It is what the economy wants and what capitalism needs.

Manufacturing: The media frets over the perceived fact that the U.S. manufacturing is being shipped overseas—specifically to China. But Payden & Rygel says that's simply not so. According to the Federal Reserve, U.S. Industrial Output is near all time highs. Although it is true that Manufacturing as a



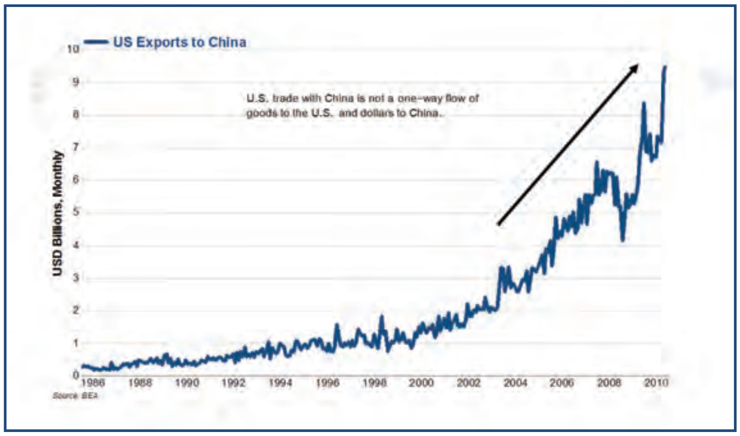

percentage of the overall workforce is declining, it is not due to China. Thirty percent of our workforce was manufacturing in 1955, and that dropped to 20% in 1980 crossing 10% in 2005. The half




century long decline in manufacturing jobs is not due to the rise of China or NAFTA for that matter. Our economy is a service-based economy with higher productivity and higher wages. Even with the

# Time to Get Patriotic.

rise of China, we still lead the world in manufactured goods and exports to China are actually at an all time high.




Technology, Healthcare, Entertainment: Our economy is the envy of the world. Not because we can make cheaper washing machines and televisions but because we can innovate. We will make faster semiconductors, better pharmaceuticals, more efficient jet engines, and bigger mining/farming equipment. We will create movies, iPods, SmartPhones, and tablets. We will invent web search and social media.

Employment: There is no denying that the Great Recession caused a massive amount of job losses as companies very quickly became lean and mean. And the first Friday of every month, we are reminded of the anemic pace of job growth. But keep in mind, those numbers are net numbers. According to Payden & Rygel, quarterly job losses are lower than they were in 2007 and the "roaring" late 90's. To repeat: we lose fewer jobs every quarter than we did in arguably the best economic period of a generation. The problem is the same can be said about job gains—we create fewer jobs each quarter than at anytime in the last 20 years. A dynamic economy that can innovate will find a way. The jobs are coming.


### How do we get there?

Business cycles take time and it is easy to get frustrated. There are big issues to deal with and according to Pimco, the global economy can get to a better equilibrium if three items fall into place.

1) The U.S. could have a "sputnik moment" where serious structural reforms – focused on re-aligning balance sheets over the medium term, enhancing employment creation, and improving international economic competitiveness – result from a sense of national unity, common purpose, and shared sacrifice.

2) Europe confronts its "moment of truth" and course-corrects the setup of the Euro-zone to enable both debt sustainability and high economic growth.

3) Emerging economies actively unleash their consumers, thus ensuring that their systemic impact is felt through both production and consumption.

Time heals all wounds. The Great Recession was the biggest wound of a generation and it will take longer than usual for the masses to start feeling good again. But it can and it probably will. It is possible because of the nature of the beast of capitalism. It is possible because our economy is dynamic. It is possible because our work ethic and quality of output is second-to-none. Hey media! Why don't you commentate on what would happen if the above falls into place, on what would happen if the normal business cycle takes shape. Commentate on what would happen if things go right.

## *Did You Know?*

*Did You Know?*

**On June 1, 2011 Brian D. Holmes, Gary K. Liska and Chad E. Bates received their Accredited Investment Fiduciary® (AIF®) designation. Having completed a specialized program on investment fiduciary standards, the AIF® designation can be an invaluable resource to investment management clients, private foundations and ERISA retirement plans. The AIF® designation represents Brian, Gary and Chad's knowledge of Global Fiduciary Standard of Excellence and their application of the global standard into their own practices.**

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# Effective Decision Making When Financing Long Term Care Costs

**By Thomas C. West, ChFC, CLU**
**Financial Advisor**

As financial professionals we're committed to providing our clients the best possible counsel so they can be prepared for nearly any life contingency. But what happens when our clients no longer make financial decisions the way they used to, and sometimes are no longer the people we've come to know?

Strange as it may sound, this is often an appropriate description of what happens when a family finds itself facing financial decisions involving long-term care of a loved one. Far from being a rarity, the need for long-term care is now considered a normal life experience. Long-term care challenges do not represent a new normal. It's the now normal. Most of our clients recognize the need to plan ahead for the possibility of care, but what happens when our clients are living right now through the financial morass of possibly the most vulnerable times of their lives?

There are few experiences more emotionally devastating than having to move Dad into a nursing home or assisted-living facility or dealing with the repercussions of a family member who's suffered a debilitating accident. Even if there is no immediate need for care—if a family is merely looking ahead to prepare for some future eventuality—contemplating long-term care options brings them directly into territory most of us would prefer to avoid. In the midst of such emotionally challenging and financially complex circumstances, it comes as no surprise that normal financial decision-making ability is regularly affected and sometimes significantly impaired.

We have learned as professionals that families simply don't make financial decisions about the long-term care of loved ones the same way they make other financial decisions about, say, how to save for retirement, refinance a house, etc. In addition to the pressure of negotiating all the physical, emotional and financial realities precipitated by a health challenge, there are numerous factors that can adversely affect families' decision-making process. They include:

- cognitive impairment challenges affecting the primary financial decision maker
- extended or immediate family being unwilling or unable to accept new financial decision-making responsibilities
- the natural impulse to procrastinate necessary financial decisions because of uncertainty or fear regarding mortality or morbidity
- guilt associated with financial planning for the rest of the family while the focal energy remains centered on a family member in need of care
- the difficulties of dealing with shifting fiduciary capacity and willingness among family members and / or professionals
- the difficulty or inability to deal with new financial realities that significantly impact one's standard of living
- immediate or extended family members complicating financial decisions while second-guessing choices in long term care.

My experience as a wealth manager has taught me that each of these psychological factors can derail effective financial decision-making in unique ways, and often, multiple factors are at work simultaneously.

We know that it is our responsibility as your advisors to recognize that even our most financially sophisticated clients may not be equipped to act in their own best financial interest when it comes to long-term care decisions. To help them do so, we work to be sensitive to the non-financial complexities influencing such decisions. Most of us are familiar with the utility of good legal documents in such circumstances; durable powers of attorney, advanced medical directives, and well drafted trusts provide a foundation for more effective financial decisions. However, I've learned through my years serving clients that it's foolish to think that legal documents are a panacea for the financial decision-making challenges regarding long-term care that families are confronting in greater numbers every day. We need to be fluent in the latest exigencies affecting the cost of long-term care and how clients can best meet those expenses.

Many of the techniques that we use, though conceptually simple, are not part of the conventional wisdom of investors and (unfortunately) many professionals. To improve this state of affairs in some small way, I'll highlight some of the tactical and strategic wealth management techniques that we use effectively when serving our clients in their most needy circumstances.

Many investors have become better sensitized to the challenge of portfolio sequence of returns in distributing wealth during retirement, and our SEIA newsletters have pointed this out in the past. In a nutshell, withdrawing static percentages of a variable portfolio in down performance cycles can unwind wealth just as dollar cost averaging can accelerate the accumulation of wealth. Consider, then, the additional challenge that sequence of returns imposes on portfolios subjected to extremely high withdrawal rates. In my practice area of Northern Virginia, long-term care costs average around $96,000 per year. Using generally accepted sustainable withdrawal rate projections (which typically range from 2.5 to 5%, depending on who you talk to and under what appreciation and inflation assumptions), these percentages usually represents an unsustainable withdrawal rate from portfolios valued inside of a few million dollars.

This situation has the unwelcome effect of forcing many families and their advisors to manage their portfolios as sinking funds that shrink at an accelerating rate. When my practice team looks at client portfolios

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# SEIA Continues to Expand, Irvine Moves into Larger Office

Mark E. Copeland, CFP®
Senior Partner

Signature Estate & Investment Advisors, LLC (SEIA) is excited to announce that the company is continuing to grow. The Irvine location is expanding into a larger office space. On July 18th, 2011 SEIA Irvine will open its doors to a new office, located at 2010 Main Street, Suite 220, Irvine, CA 92614, to increase space and service capacity to their clients. Mark Copeland, CFP®, the Senior Partner in Irvine, says "One of the fastest growing markets of SEIA is Orange County. To keep us competitive in the market we are expanding in size by adding two positions as we continue to grow while maintaining a high level of customer service".

The Irvine office will be providing more space for our research department. "We've added an analyst position and have provided more space for the research department", says Copeland. "In addition, we will be adding an Associate Advisor to help focus on client and portfolio services".

As of June 1, 2011, SEIA manages over $2.1 billion in assets under management. The move to a larger office reflects the overall growth of the company and their growing market share of wealth management in Orange County. Irvine is the perfect presence for SEIA among the wealth management community in Orange County. Copeland agrees, "I am excited to be able to grow and raise the focus on what we do best, serve our clients and their financial needs".

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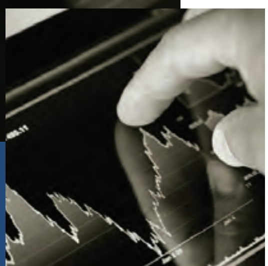

*SEIA believes that investment management and prudent portfolio allocation can be accomplished with an overall wealth management strategy.*


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**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.**

# Effective Decision Making When Financing Long Term Care Costs

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in these circumstances, the first priority is often to reallocate to greatly increase liquidity and reduce volatility. However, for many portfolios, this reallocation can appear drastic given implicit sensitivities to realizing embedded capital gains or accelerating distributions from IRAs or qualified plans.

Here is where proactive tax and cash flow planning comes in. Most investors are familiar with the concept of itemizing medical expense deductions once the totals exceed 7.5% of the taxpayer's AGI. Those of us paying attention to the latest tax reform know that except for those over age 65, the threshold was increased to 10%. Anticipating the rolling effect of these deductions can have a huge impact on a family's wealth. Itemizing (again, in my area) potentially $96,000 of allowable medical expense deductions dramatically reshapes the tax circumstance for the families. In my practice we engage a tax professional to help estimate how many months' worth of care would be necessary to wipe out the net tax liability for the family. For example, many families paying $7K+ per month will find that their typical tax liability is fully offset by medical expenses realized in the first 4-6 months of paying for care. Tax projections can then be made to see how much future withdrawals can be taken from qualified plans to pay for care with no additional net tax effect. Hypothetically, if a family's care expenses through late spring have wiped out the realistic tax liability for the rest of the year, we can then project that, for instance, 27 cents of every dollar from that point forward might be distributed from qualified money without a net tax effect. Of course, every family's situation will be different, and I've learned to take the time to have a tax professional create a pro forma return for precision's sake.

The implications of this approach are significant, given the reticence of many families to continue to defer withdrawals or distributions from investments that would trigger a tax effect. Anticipating tax deductions can give a well-advised investor a freer hand in reallocating a portfolio to reduce volatility while minimizing the net tax effect. I do regularly remind my clients that the conventional rules of money might no longer apply to families facing catastrophic long-term care expenses. We as professionals need to remember that while a health challenge might impact one family member more than others, the financial implications of long-term care expenses can impact the whole family, sometimes across generations. Many of the goals and assumptions that clients have about their retirement as well as their expectations of lifestyle, health care, and housing sometimes have to be re-examined given their new circumstances.

Our practice has worked hard to master the technical nuances of managing wealth through a prolonged dependency. If you or your family are challenged with a long term care expense and are uncertain on how to proceed, call your financial advisor. We are here to listen and to help.

## Summary of 2011 Findings

| | Service | National Median Rate | Six-Year Annual Growth |
|---|---|---|---|
| HOME | **Homemaker Services (Licensed)**<br>Provides "hands-off" care such as helping with cooking and running errands. Often referred to as "Personal Care Assistants" or "Companions." This is the rate charged by a non-Medicare certified, licensed agency. | NATIONAL MEDIAN HOURLY RATE **$18** | SIX-YEAR ANNUAL GROWTH **1.98%** |
| HOME | **Home Health Aide Services (Licensed)**<br>Provides "hands-on" personal care, but not medical care, in the home, with activities such as bathing, dressing and transferring. This is the rate charged by a non-Medicare certified, licensed agency. | NATIONAL MEDIAN HOURLY RATE **$19** | SIX-YEAR ANNUAL GROWTH **1.38%** |
| HOME | **Adult Day Health Care**<br>Provides social and other related support services in a community-based, protective setting during any part of a day, but less than 24-hour care. | NATIONAL MEDIAN DAILY RATE **$60** | SIX-YEAR ANNUAL GROWTH N/A |
| FACILITY | **Assisted Living Facility (One Bedroom/Single Occupancy)**<br>Provides "hands-on" personal care as well as medical care for those who are not able to live by themselves, but do not require constant care provided by a nursing home. | NATIONAL MEDIAN MONTHLY RATE **$3,261** | SIX-YEAR ANNUAL GROWTH **5.99%** |
| FACILITY | **Nursing Home (Semi-Private Room)**<br>Provides skilled nursing care 24 hours a day. | NATIONAL MEDIAN DAILY RATE **$193** | SIX-YEAR ANNUAL GROWTH **4.52%** |
| FACILITY | **Nursing Home (Private Room)**<br>Provides skilled nursing care 24 hours a day. | NATIONAL MEDIAN DAILY RATE **$213** | SIX-YEAR ANNUAL GROWTH **4.35%** |

SOURCE: Genworth 2011 Cost of Care Survey. Available at www.genworth.com