

THE NORTHWEST QUADRANT

Protecting Your Portfolio From the Specter of Inflation and Rising Rates

Larry Solomon, MBA, CFP®

As Jason Zweig at the *Wall Street Journal* has repeatedly reminded us, for every \$1 in debt that Americans have paid off since they started de-leveraging their balance sheets in mid-2008, the U.S. government has borrowed more than \$7. All the hard work by consumers to build cash reserves may be for naught if big government budget deficits play havoc with the economy. The Obama administration projects that the federal debt could double over the next decade, prompting Moody's Investors Service to warn that the U.S. Treasury could lose its AAA credit rating. The Federal borrowing binge could set off a surge in inflation and push down the dollar, both of which would erode the value of savings. It could also push interest rates higher, reducing the value of trillions in bonds owned by households directly or through mutual funds and managed accounts.

Whether and when inflation may become a problem remains an open question at the moment. One measure of inflation expectations, the U.S. Future Inflation Gauge (USFIG), rose for the tenth straight month in January, indicating a steady rise in prices in the coming months. For investors, now may be a good time to consider one or more of the following strategies for hedging against the specter of rising interest rates and inflation.

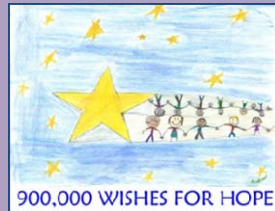
◆ **Treasury Inflation-Protected Securities (TIPS):** For income oriented investors, one way to help insulate a portfolio against potential inflation concerns is through Treasury Inflation-Protected Securities (TIPS). TIPS are issued by the U.S. treasury, and like other treasury bonds, their principal is guaranteed by the full faith and credit of the U.S. government. Where they differ from Treasuries is that the principal and interest in TIPS is adjusted to changes in the Consumer Price Index. The principal of a TIPS bond increases (decreases) with inflation (deflation). The fixed interest rate of the TIPS is applied to the adjusted principal, so like the principal, interest payments rise with inflation or fall with deflation. At maturity, the investor is paid either the inflation-adjusted principal or the original principal, whichever amount is greater. Investors can buy individual TIPS bonds through the Treasury directly, in brokerage accounts, or access them via TIPS funds, which are available from Fidelity, Vanguard, T. Rowe Price, PIMCO and other managers.

◆ **Commodities:** For investors looking to guard against inflation, commodities are another valuable tool. When prices of goods climb, gold, copper, crude oil, and other basic building blocks of our economy tend to rise also. Fortunately, you don't need to store barrels of oil or gold bars in your basement to access this asset class. Numerous Exchange-Traded Funds (ETFs) and mutual funds focusing on commodities provide exposure to individual commodities and broadly diversified commodities baskets or indexes.

◆ **International Investments:** Domestic inflation is also likely to put downward pressure on the dollar. This makes international investments attractive because, as the value of the dollar falls, the value of assets priced in foreign currencies rises, thus protecting your spending power and helping to offset inflation. But most large foreign companies like Nestle or Toyota derive much of their revenue from dollar denominated sales in the U.S. To really insulate your portfolio from the effects of a declining dollar, consider allocating to strategies investing in smaller foreign stocks or emerging markets, which earn their revenues in local currencies, not greenbacks. ♦

Mark Cohen Accepts Man of the Year Nomination by LLS

Susan Greco and Nicci Yang



Mark Cohen was recently nominated as a candidate for **The Leukemia & Lymphoma Society's (LLS) Man & Woman of the Year** campaign. It is a national ten-week campaign to raise funds to help find cures for blood cancers. The campaign includes individuals in the community who agree to use their leadership abilities and resources to conduct their own fundraising campaigns to help.

"It is a great honor to be nominated and to participate in the Man of the Year campaign," said Mark.

"Losing my mother-in-law to leukemia twenty-five years ago makes this cause very near and dear to me and my family. Like many of you, I have witnessed first-hand the debilitating effects that leukemia, lymphoma, Hodgkin's disease and myeloma can have on those who suffer from these blood diseases and on the friends and family who

care for and nurture their loved ones. In fact, leukemia still causes more deaths among children than any other cancer."



The male and female candidates who raise the most funds during the campaign will be awarded the title of the chapter's Man & Woman of the Year, respectively. Candidates are judged solely on their success in raising money, each dollar counting as one vote. Their totals are then considered for the national title.

Mark is not only interested in raising awareness about this type of cancer, but more importantly, to raise money for research. "My campaign slogan '900,000 Wishes for Hope' is motivated by the 900,000 Americans living with blood cancers today. New hope to find a cure for blood cancers has never been greater. My personal campaign goal is to raise \$900,000 in ten weeks—that's one dollar for each and every American dealing with blood cancers. With your support of a tax-deductible donation, LLS can continue funding critical research in the fight against blood cancers as well as provide outstanding patient services. How many people do you want to help?"

Please support Mark's campaign to help people with blood cancers by donating on his website: www.cohenandburnett.com/900kwishes, and/or sending us the pledge form on page 3 via mail, fax or email before June 1. Thank you in advance for your support! ♦



MANAGING PARTNER

Weston D. Burnett, JD, LLM & CFP®

The Tax Season is in full swing. By the time you read this we will have done over 400 returns and will have many more in process. Dan Frix, Jo Anna Young and our other accountants are going full bore. Of note, this may be the last tax season in which we can do a paper return. Next year it may be required by law for us to file your return electronically. We will keep you apprised of this development.

Navigator recently passed two financial-industry tests: one being a Technology Adoption Scorecard with Schwab, and a Schwab benchmarking study for financial advisory firms. On technology, we scored well, but we continuously look for ways to harness still more technology for quicker, more reliable services for our clients. As for the benchmarking study, we find ourselves on the cutting-edge with our fee-based service, but we will let you know more when we see the actual report results later on.

Our Investment Committee is honored to report the addition of a new member, Peter Behr, a journalist with ClimateWire, an online news service published by E&E Publishing LLC, covering energy, climate and environmental issues. He was an editor and reporter for 24 years with *The Washington Post*, serving at various times as Assistant Managing Editor for business and financial news, a business columnist, and reporter. He co-authored a *Washington Post* special report on Enron Corp. that was included in the anthology, *The Best Business Crime Writings of the Year (2002)*, and which was part of a *Washington Post* Pulitzer Prize nomination. He is a graduate of Colgate University and was a Nieman Fellow at Harvard University and a public policy scholar at the Woodrow Wilson International Center for Scholars in Washington.

On the family side, Barb's father, Colonel Edward R. Feicht, USAF (Retired) passed away at age 90 in Pensacola, FL, on February 3, 2010. We celebrated his life with his wife, Gene, all of his children, grandchildren and fiancés together for President's Day weekend where he was interred at the National Cemetery at the Naval Air Station, Pensacola. A week earlier during the giant snow storm of February 4, extended family converged on our home (while Barb was in Pensacola) to celebrate February birthdays for my son, my daughter, my daughter's fiancé, and myself. I hosted 14 guests for dinner, of whom 11 stayed the next two nights, snowbound, occupying all the beds and air mattresses in the house. Thankfully, Barb stocked the pantry and refrigerator just before she left so I was able to fuel ten twenty-something-year olds as they helped me dig out our neighborhood. Our clan is looking forward to my daughter's and my son's weddings over the summer. ♦



Pledge Form

"There are about 900,000 Americans with blood cancers. I want to raise one dollar for each one. How many do you want to help?" -Mark Cohen

Please mail to Cohen & Burnett, P.C. or fax to Nicci: 703-847-8902

Donor Information (please print or type)

Name	
Address	
Telephone (home)	
Telephone (mobile)	
E-Mail	

Pledge Information (Pledges will be collected between April 8th and June 12th. We will be contacting you once the campaign begins to fulfill your pledge.)

I (we) pledge a total of ___ \$20 ___ \$40 ___ \$100 ___ Other\$ _____

Make an Auction Item Donation

Another way that you or your company can give to this cause is by making an auction item donation for the LLS Grand Finale Gala on June 12th or a donation to be raffled at one of Mark's campaign events. Think of something spectacular to give...you are helping to make a difference in someone's life.

Some auction item ideas are:

- ___ Time share's or vacation homes
- ___ Companies that can donate a service (i.e. spa, florist, restaurant, landscaping, etc)
- ___ Venues to host a party/book signing (individual homes, church, etc.)
- ___ Restaurants
- ___ Memorabilia
- ___ Other _____

Raffle Tickets (Detailed information on the prizes to come.)

___ \$20 for one ticket or ___ \$100 for a book of six

Acknowledgement Information

Please use the following name(s) in all public acknowledgements, i.e. campaign website:

___ I (we) would rather not have name(s) acknowledged publicly.

Please note my contribution is in memory or honor of:

Signature(s) _____ Date _____

Thank you for your support and donation.

Your donations, except for raffle tickets, are 100% tax deductible. All proceeds of Mark's Man of the Year Campaign directly support LLS. No donation is used to cover costs associated with fundraising or overhead. All donations will be earmarked for research.

To Die or Not to Die in 2010: That is the Question

How a So-Called "Reprieve" to Estate Taxes Can Have Long-term Effects on Your Estate Plans

Andrew M. Vanderhoof, JD, LLM and J. Daniel Frix, CPA



Quite unexpectedly, Congress failed to extend the federal estate tax at the end of 2009. Thus, beginning January 1, 2010, the estate tax is repealed through the end of 2010. However, as the law is currently written, the federal estate tax is scheduled to be reinstated in 2011 with only a \$1,000,000 exemption amount and maximum tax rate of 55% (compare that to the \$3,500,000 exemption amount for 2009 with a 45% maximum tax rate). Although we expect Congress to reinstate the estate tax with an exemption amount of at least \$3,500,000 (perhaps retroactively to January 1, 2010), nothing is certain.

The upside to the repeal of the federal estate tax for 2010 is that now you can leave an unlimited amount to your beneficiaries without tax. The downside is that for 2010, there is no longer a stepped-up basis for your assets to fair market value at the time of death. Instead, there is now a carryover basis with limited stepped-up basis provisions. See the carryover basis analysis in the box to the right.

In addition, the federal generation-skipping transfer (GST) tax has also been repealed for 2010. In 2009, the federal GST tax provided for a \$3,500,000 exclusion and maximum tax rate of 45%. However, as the law is currently written, the federal GST tax is scheduled to be reinstated in 2011 with only a \$1,000,000 exemption amount and tax rate of 55%.

The federal gift tax has not been repealed and remains in effect. For 2010, the federal gift tax keeps a \$1,000,000 lifetime exclusion but lowers the maximum tax rate to 35% rate (from 45%). The federal gift tax in 2011 will retain the \$1,000,000 exemption amount, but the maximum tax rate will increase to 55%.

The changes and issues in the federal transfer tax regimes are so dramatic and so different from prior law, that all clients should have their wills and revocable trusts reviewed to determine whether their estate planning documents need to be revised. Many estate plans contain language providing that upon death certain actions need to be taken, based upon the federal estate and GST tax systems. Thus, confusion may arise if there are no federal estate and GST tax systems. We can revise your estate planning documents to avoid this potential confusion.

While it is possible that Congress will retroactively reinstate the federal estate and GST tax using the 2009 rules, we cannot predict it with any kind of accuracy. We can, however, draft for the status quo and give your Trustees and Executors added leeway in making tax decisions.

Please feel free to call and make an appointment to review and discuss the impact this change can have on your current estate plans. ♦

CARRY OVER BASIS: WHAT'S IMPORTANT

So, there is no estate tax on the estates of decedents who die on or after January 1, 2010. That's a good thing, right? Not necessarily. The reason is the new rules regarding carryover basis.

Under the new carryover basis rules, the value of each asset in the estate is the **LOWER** of the fair value of the asset at the decedent's date of death or the decedent's adjusted basis in the asset. These estate values will become the values which the inheritors will need to use upon their later sale or other disposition of the asset.

To value an estate now for tax purposes, the executor of the estate must know, not only the fair market value of the asset at the date of the decedent's death, but also the basis of the asset in the hands of the decedent. To know the basis of the asset, the executor must generally know whether: the asset was purchased by the decedent and how much was paid; the asset was acquired by gift or inheritance; the decedent made any capital improvements to the asset; the asset was used for business purposes and, if so, was any depreciation claimed.

Thus, even though there are new rules which provide a "step-up" in basis of up to \$1.3 million, to apply these rules, the executor must still know the fair market value and adjusted basis of the assets in the estate. For larger estates, this exception will not defray the potential additional costs of gathering records. The documentation supporting the basis of assets acquired over a lifetime can be many, many years old. Unless these records are gathered in one place now, the executor of an estate may face an almost impossible and very expensive job of gathering these records so that estate can be properly valued. ♦

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A compass rose is a figure displaying the orientation of the cardinal directions, north, south, east and west on a map or nautical chart. We found it fitting to name our newsletter after this recognizable symbol of navigation and direction.

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CORRECTION: In the Winter 2009/2010 issue of Compass Rose, Mark's column, *Founding Partner*, there was a misstatement about futures funds. It should have said: *Collectively, they have managed or are managing \$12 billion in real estate, \$25 billion in stocks and bonds, and \$1.4 billion in futures funds.*



THE COMPASS ROSE

COHEN & BURNETT, P.C. NAVIGATOR WEALTH MANAGEMENT, LLC

ESTATE AND FINANCIAL PLANNING UPDATE

Spring 2010

Volume 8



FOUNDING PARTNER

I. Mark Cohen, JD, LLM & CFP®

Is it spring yet? This has been a long, cold and snowy winter and we are ready for some warmth and color. Just before New Year's Eve, Kathy slipped on the ice while walking near our house and broke her arm. She is fully mended now thanks to expert care and physical therapy. But the injury has made our winter that much longer.

Michael is doing a semester abroad in Amman, Jordan, studying Arabic. So far he has visited Petra, the Dead Sea, the mountains to the north, and even Jerusalem, now that the two countries have a peace treaty. He is learning a lot of Arabic, both the classic dialect (which is used in print, broadcast, and movies) as well as the local dialect which he says is remarkably different. He is having a great time but said he will be happy to come home in late April. The more he travels, the more he appreciates being an American.

Rachel is very busy in her sophomore year at William and Mary taking a full load of classes, volunteering to lead a student tutoring program for local schools, working as a paid tutor for local students, and taking leadership positions in her sorority.

This winter I have been busy shuttling back and forth to the General Assembly in Richmond testifying before the Courts of Justice Committee on the Small Estate Act. I am the principal drafter of this act which seeks to consolidate some 27 different small estate provisions into one comprehensive act that will allow small assets (under \$50,000) to avoid probate and be recovered by the successors with an affidavit. It has taken us three years to get this far and I will be very happy should the Governor sign it into law in April.

In early February, between snow storms, we held our first "To Sail on a Dream" banquet for the 90+ families we represent at both Navigator and C&B, our "full service" clients. It was held at the Tower Club and was a grand success. We were entertained by the Glenn Dewey Quintet, whose members are all part of the "President's Own" United States Marine Band, with their tribute to Gershwin that they arranged for this occasion. Wes emceed the event in a style that is all his own and we used the occasion to announce my Man of the Year campaign for The Leukemia & Lymphoma Society, and to announce our new book "Lessons to My Children" which will be in print very soon. Learn more about these two initiatives in this newsletter. ♦

Lessons To My Children Promises Wise, Practical Financial Advice

Mark Cohen and Wes Burnett found themselves faced with a recurring sensitive subject over the years in many client meetings: many people were not ready for their children to assume control of their estates and even fewer were confident that they would invest and spend their inheritance responsibly and smartly. Many confided their regret in not raising more financially savvy children, and others regretted not raising financially independent children! Over a decade, Mark and Wes have successfully advised thousands of clients and their beneficiaries. After such a track record of success, they decided to document their best advice in a book entitled: **Lessons To My Children: Passing On Wisdom and Advice For Financial Health and Abundance.**

Due in book stores and on Amazon in mid-to-late May, 2010, the book will teach 14 simple lessons on creating and keeping wealth, including

chapters such as: "Understanding Risk and Reward" and "Live Within Your Budget."

The authors take a refreshing approach, speaking to (not down to) young adults (ages 18 – 35) about matters that can make or break their financial future.

In penning the first few chapters, they found that some of their best success stories lie with their very own children's financial security, which they each attribute to having instilled practical lessons from childhood. To come full circle, their children agreed to contribute vignettes throughout the book about the impact those lessons had on them through the years

and the different milestones of their lives.

Lessons' publisher, Steve Eunpu of LINX, Corporations based in Great Falls, VA, commented that *Lessons* is "refreshingly down-to-earth advice from the best of the best." He goes on to say "...[the book] is extremely accessible not only for the kids, but their parents as well. In fact, I'm giving a copy to my daughter when it's in print."

To learn more about the progress of the book or to reserve your

