



THE COMPASS ROSE

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

ESTATE AND FINANCIAL PLANNING UPDATE

Summer 2010

Volume 9



FOUNDING PARTNER

I. Mark Cohen, JD, LLM & CFP®

Summer has arrived and I am so happy to enjoy the long hours of daylight and balmy temperatures. We are excited about our upcoming family vacation to Yosemite in late June. We'll stay at Curry Village in the valley for six days, then Kathy and Rachel will fly home and Michael and I will backpack from Yosemite Valley to Mammoth Mountain, which will take us about a week. I have backpacked many times in the Sierra Mountains, including parts of this trail, but never the entire way. This will be Michael's first experience both in the Sierras and on such a long hike, but it fulfills a promise I made to him years ago.

Michael is back from Amman, Jordan now having had a wonderful experience. He won the Tang Research Scholarship which pays him to do a research paper over the course of this summer on a topic of his choice – Iraqi tribalism. He plans to spend the summer mostly at the Swem Library at William and Mary.

Rachel has finished her sophomore year and is spending the summer learning Spanish as fast as she can, having declared this language as a minor to accompany her Anthropology major. She surprised us both recently by announcing that she was hired to illustrate a children's book. Another Cohen to be published!

One of my greatest projects this spring was the Man of the Year Campaign for the Leukemia and Lymphoma Society (LLS). I couldn't have raised an incredible \$37,000+ without the generosity of our clients, friends, and corporate supporters. Although I didn't walk away with the top title, I came in second runner up out of eight other nominees. It wasn't about the title. What really matters is that we raised money and awareness for this most worthy cause.

NWM's spring Town Hall meeting was a grand success. Panelists from Manning & Napier, Behringer Securities, and Grubb & Ellis presented their views on the economy and looming inflation. This event, along with our June 3 book launch party served as charity events for LLS. We are grateful to all the attendees and supporters. ❖

Summer 2010

Financial Independence Is Possible Using Eleven Simple Life Lessons

I. Mark Cohen and Weston D. Burnett unveiled their new book, *Lessons to My Children: Simple Life Lessons for Financial Success, Wealth and Abundance* to an intimate group of friends and clients on June 3, 2010. The book showcases practical and simple financial guidance every parent should give their children, and the wisdom children of all ages should follow.

"In eleven simple lessons, in as little as five minutes per day, you might be able to affect the course of your child's or your own financial future for the better," said Mark.

Lessons to My Children (LTMC's) website and blog, as well as Twitter and Facebook pages will be unveiled in the coming weeks, followed by a major virtual book launch "party" in the fall. The website: www.lessonstomychildren.com will be updated regularly with exciting news about the progress of the book, as well as online and live events and a Weekly Wealth Lesson people can sign-up to receive.

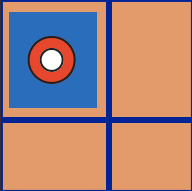
LTMC is now available in bookstores, on Amazon.com, at www.lessonstomychildren.com, or by contacting Nicci Yang at: (703)847-8900. ❖

George Washington University Recognizes Wes Burnett for Exemplary Leadership



Photo by Julie Woodford

On April 29, 2010, Wes Burnett received an Alumni Outstanding Service Award from George Washington University Law School Dean, Frederick Lawrence (left) for his exceptional service to the University community. ❖



THE NORTHWEST QUADRANT

Commercial Real Estate:
A Tale of Two Vintages

Larry Solomon, MBA, CFP®

Healthcare Reform and the Impact on Your Tax Return

Dan Frix, C.P.A.



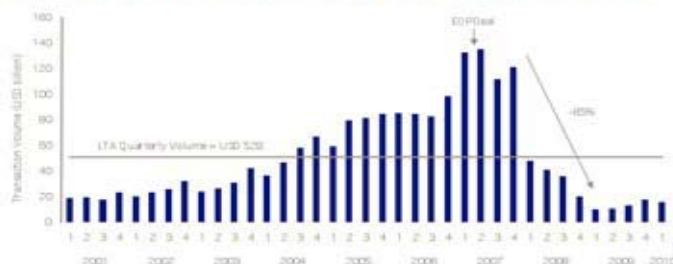
Investing is always a zero-sum game. Every time someone takes a profit or snaps up a bargain, there is always another party realizing a loss on the other side of the transaction. Nowhere is this immutable truth more apparent than in the current state of the U.S. commercial real estate market. At this point, real estate investments can be divided into two distinct categories: those that raised and deployed capital in 2004-2007 ("pre-bubble"), and those that have raised and invested cash from 2008 to the present ("post-bubble").

The pre-bubble vintage Real Estate Investment Trusts (REITs) face a myriad of problems. U.S. commercial property values are down approximately 40 percent since the peak in 2007 and currently, approximately 18 percent of all office, retail, and apartment space in the U.S. are now sitting vacant. Thousands of commercial mortgages valued at hundreds of billions of dollars are approaching their renewal dates in 2010-2013. By some estimates, two out of every three will no longer meet the original loan conditions and won't be able to refinance. Delinquencies on commercial-real-estate mortgages packaged and sold as bonds are still rising, soaring to 7.1% in March. According to Real Capital Analytics (RCA), distressed assets in the U.S. surged to \$234 billion as of March 2010. We expect the amount of distress to continue to grow as more loans mature over the next three years.

Although some of the loans will be restructured and extended, savvy buyers can expect to continue seeing good debt and equity opportunities for well-priced and/or distressed real estate investments in 2010 and 2011. The average capitalization rate, the initial income to investors based on purchase price, which historically has averaged 6.0%-7.0% for all property types, stood at 7.8% in the first quarter of 2010, up 40 basis points from the same period a year ago. The property sector with the highest average capitalization rates, which are inversely related to prices, was industrial, increasing by 10 basis points to an unprecedented 8.9% at the end of Q1 2010.

Newer vintage REITs that have access to cash and lending are beginning to leverage these opportunities. Our review of a wide variety of market metrics suggests that commercial real estate transaction volume may have bottomed out over the past few months. National transaction volume across all five property sectors totaled \$15.6 billion in the first quarter of 2010, improving from \$10.5 billion during the same period a year ago (see Figure 1). We expect to see more transactions over the next several months as an increasing number of investors look for distressed or undervalued opportunities in commercial real estate, and an increasing number of owners bring properties to market. ♦

Figure 1: Transaction Volumes Appear to Have Bottomed



Source: Real Capital Analytics, April 2010

We've all heard daily reports about two new laws: the Patient Protection and Affordable Care Act and the Health Care and the Education Reconciliation Act of 2010. No other legislation has reformed health care in this country so significantly since Medicare. While much has been said about the costs and benefits of the health care plan, very little has been said about its changes to the tax code.

Below is a brief summary of changes we believe you would want to know about. These changes each take effect starting in 2013:

- ◆ Individuals earning over \$200,000 annually (\$250,000 for married persons filing jointly), the "threshold amount", will pay a 3.8% "Medicare contribution" tax on unearned income. Unearned income consists of passive income including interest, dividends, capital gains, rental income, royalty income and passive trade or business income. The new tax is computed on the lesser of the total unearned income or Adjusted Gross Income (AGI), with certain adjustments, above the threshold amount.
- ◆ These same individuals and families will also pay an additional 0.9% payroll surtax for the Medicare Hospital Insurance on wages that exceed the previously mentioned threshold amounts.
- ◆ For those under age 65, itemized deductions for qualified medical expenses will decrease from amounts over 7.5% of AGI to amounts over 10.0%. For those over age 65, the current AGI minimum rate of 7.5% remains through 2016. After 2016, the 10.0% minimum rate applies to everyone.
- ◆ The maximum contribution to a Medical Flexible Spending Account is reduced to \$2,500 annually. The current limit is \$5,000 per year.

These points are by no means a complete listing of all changes that will result from this legislation. We've provided only a very brief overview at this time. We will periodically inform you of additional changes. If you would like further information about this legislation and how it may affect you, please do not hesitate to contact us. ♦



MANAGING PARTNER

Weston D. Burnett, JD, LLM & CFP®

The tax season is behind us. We are pleased that in a year, when there were a lot of financial transactions and upheaval for our tax clients, we believe each of them did an excellent job of getting us all of the information necessary to complete their 2009 returns with only occasional requests for additional information. Please keep using those tax organizers we mail you, as they are great reminders for all of the tax-related information we need to prepare your returns. Of special note, our turn-around time from when a client dropped their information off to completion was down by five days on average from 2008 to 2009.

Each month brings some new regulations from the SEC and other regulatory organizations concerning safeguarding clients and their investments. So far, these changes appear to add real value for clients. With financial reform going the way it is expected, more of these regulations can be expected in the months and years ahead. We will keep you apprised of these updates on a continuing basis.

In January, we asked our Navigator clients to participate in our bi-annual client satisfaction survey. The results gave us continuing good grades, some very-appreciated corrective criticisms, and a few great suggestions on moving forward. Our strong suit remains the level of trust and confidence we instill in our clients.

In the near future, I will be writing to our Navigator clients about a "Week in the Life of Navigator" to share a snapshot of what we do in a typical week and how those activities translate into direct benefits to our clients. If you're not a NWM client but are interested in the survey results and/or a copy of our "Week in the Life" letter, please contact Susan Greco for more information.

We extend our heartfelt condolences to the family of General William Ginn who was not only a client for many years, but an instrumental member of our Investment Committee. We will miss him tremendously.

His position on the committee has been filled with Janet Frank, a client of almost 20 years whose passion for investment decision-making runs so deep that she reads each prospectus cover-to-cover. Janet is a very gifted educator who recently retired from full-time teaching. Janet's husband, Richard Frank, is a world-renowned World War II historian.

On the family side, our daughter, Jennifer Blair Burnett, and James David Beard married on May 30 in Charlottesville with the Shenandoahs as a backdrop before all of her living relatives, including my mother, and a host of friends. I loved the father-daughter dance to Billy Joel's "Lullaby to An Angel." We look forward to our son, Edward's marriage to Alka at the New Jersey Botanical Gardens on August 6. ♦

Is Residential Real Estate on the Rebound?

By Kelly Olafsson,
Realtor, NVAR Lifetime Top Producer



Mark and Wes asked me to comment on the state of the residential real estate market due to frequent questions from their clients. I'm happy to report that despite what the newspapers, radio and television reports say, real estate is great in the Mid-Atlantic region! Our opinion is that sellers have become very realistic in pricing their homes. When buyers are out looking at properties, they realize and see the value in comparison to the 2004-5 bubble, when homes were overpriced and competition was challenging. The current fantastic interest rates are a huge help in motivating buyers to jump on opportunities now, before they increase again.

The first quarter of 2010 saw an increase in sales prices in Northern Virginia of 11.7% over the first quarter of 2009, and a significantly shorter time to sell.

	2009	2010
Home Value	\$500,000	\$558,500
Days on the Market	110	71 (35% faster)

Current interest rates are strong. As interest rates begin to rise, as forecasted, buying power will decrease. History shows interest rates of 15% in 1984, and 9% in 1995. Currently, buyers are trying to take advantage of the going rate of 5%. On a \$500,000 home, an increase over the next year of 2%, would mean \$368/month more in monthly pay-

\$500K Mortgage	2010	2009	1995	1984
Interest rates	5.0%	4.75%	9%	15%
Monthly Payment	\$3413	\$3337	\$4752	\$7453

ments.

The inventory of homes is at a 30-year low, which also makes this an attractive time for sellers to get their homes ready for sale. It is expected that there will be 100,000 foreclosures over the next year in the DC-metro area alone. The sooner a seller can list their home, the less likely that a foreclosure will lower the home sale prices in their neighborhood.

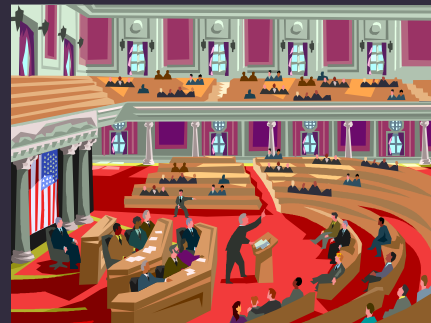
In summary, real estate in the Mid-Atlantic region is experiencing strong sales. Many factors are making this a time of great opportunity for both sellers and buyers. There is a need for more homes on the market, making for some competition among buyers. Buyers can afford a better house, because the interest rates are low and the monthly payment is more attractive. Now is a great time to sell your home!

Kelly Olafsson leads The Kelly Cares Team of Century 21 New Millennium, McLean, VA. Kelly has helped dozens of Cohen & Burnett clients and staff sell their homes and buy new ones. You can reach Kelly by email: kellycares@c21nm.com.

Virginia Legislation Scores Three Home Runs

The Commonwealth Leads by Example

I. Mark Cohen, JD, LLM & CFP®



This has been a banner year for our Legislative Committee. We were able to get three major pieces of legislation enacted this year. Perhaps the most significant change is the enactment of the Uniform Power of Attorney Act. I wrote about this Act a couple of years ago in this newsletter and you will find details there, but the essence of the Act is that banks and other third parties must honor a power of attorney (POA) or face legal sanctions. On the other hand, they have no liability for honoring the POA. This makes the POA more useful and more dangerous at the same time.

The second piece of legislation is a temporary fix to the problems of construing a document that makes reference to the estate tax provisions (as most of our documents do) for a person who dies at a time when there is no estate tax, such as this year. The new rule of construction is that we deem the person to die on the last day of 2009 for purposes of making sense of the tax language. This is a good generic solution to most of the problems, but if you are concerned about your own documents, I encourage you to make an appointment to discuss specific solutions that will fill your needs.

The final piece of legislation is one I am very pleased to have enacted – the new Small Estates Act, of which I was the principal author. This Act consolidates about 27 different small estate provisions spread throughout the Virginia Statutes into one simple, comprehensive approach for any asset under \$15,000 and for estates under \$50,000. It provides a simplified procedure to avoid the necessity of a probate since, in many cases, the cost would exceed the value of the asset to be probated. The passage of this Act culminates a three-year effort by my subcommittee, which included ten of the finest trust and estates attorneys, law professors, and commissioners of probate in the Commonwealth. The passage of this law will greatly simplify the administration of small estates.

Please feel free to contact our office if you think any of these changes in legislation may apply to you or if you realize after reading this article that you haven't looked at your estate plan for more than eight years—it might be time to update it to reflect changes in the aforementioned and other laws. ❖

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The Compass Rose newsletter is published quarterly by:

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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.

If you prefer not to receive our quarterly newsletter or if you have any feedback or ideas for topics, please email Susan Greco: susang@cohenandburnett.com.

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