

Investor Insights and Outlook

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Beneficiary Designations Deserve Your Attention

Charitable bequests made by will are by far the greatest source of funds from planned gifts. One reason is that they occur after the donor no longer needs the assets to meet her own needs. In addition, a donor has the flexibility to change the terms of a charitable bequest, or revoke it entirely, at any time for any reason, although they rarely do.

Gifts at Death That Are Not Bequests—There are several other ways for donors to make charitable gifts upon death, known collectively as gifts by beneficiary designation. These gifts boast the same attractive attributes noted above for bequests by will, but are even simpler for a donor to put in place.

IRA and Qualified Plan Designations—a donor can designate a charity to receive all or a portion of what remains in an IRA (regardless of the type of IRA) or in most qualified retirement plans, such as 401(k) and 403(b) plans. Typically, there are additional tax benefits to donating these sorts of assets that are discussed in more detail below.

Insurance Product Beneficiary Designations—These types of products include life

insurance policies of various kinds and commercial annuity contracts.

Pay on Death and Transfer on Death Accounts—With a “pay on death” account, the donor instructs a bank to pay a charity all or a portion of what remains in an account when the donor dies. With a “transfer on death” account, the donor gives the same instruction to a brokerage firm with regard to investments held in the account at the time of the donor’s death.

Give IRD Assets to Charity First—Donations of IRA and qualified retirement plan assets feature a special tax benefit. Most distributions made after the plan owner has died are examples of Income in Respect of a Decedent (IRD) on which income tax will be owed when distributed to individuals. When distributed to your tax-exempt charity, however, no income tax will be due. Hence, if a donor’s estate plan calls for benefiting both individuals and charities upon death, it is most efficient from a tax standpoint to use IRD assets to make charitable gifts and to earmark other assets for individuals.

Note: Donors usually designate a charity to receive a percentage of the assets remaining in the IRA, rather than a specific sum, as there’s no guarantee a specific sum will remain when the owner dies.

Inside this issue:

Looking for Income? Consider REITs	2
When Should You Collect Social Security?	3
Three Tips for Surviving Market Turbulence	4

Beneficiary designations offer all the flexibility of a bequest, but are even simpler (and cheaper) for a donor to put in place.

Advisor Corner



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James D. Hallett, MSFP CFP AIFA
jim@hallettadvisors.us
360-457-6000

Looking for Income? Consider REITs

For most Americans, an investment in real estate begins and ends with the purchase of a home. Yet investments in commercial real estate – including shopping centers, office buildings, and hotels – may be available to investors.

Real estate investment trusts (REITs) allow individuals to invest in large-scale, income-producing real estate. REIT performance has varied historically, with a total annualized return of 11.78% over the past 10 years, and a 19.70% return in 2012.¹

Types of REITs

There are more than 100 publicly traded REITs, according to the National Association of REITs (NAREIT). **Equity REITs**, which directly own real estate assets, make up most of the market. **Mortgage REITs** loan money to real estate owners or invest in existing mortgages or mortgage-backed securities. **Hybrid REITs** combine the investing strategies of both equity and mortgage REITs.

REITs resemble closed-end mutual funds, with a fixed number of shares outstanding. REITs are also traded like closed-end funds, offering a price per share. Unlike a closed-end fund, however, REITs measure performance by funds from operations (FFO) rather than by net asset value. FFO is defined as net income plus depreciation and amortization, excluding gains or losses from debt restructurings and from sales of properties. REITs' growth benchmark is FFO growth, while valuation is reflected in an FFO multiple (share price divided by FFO) rather than in a price-to-earnings ratio.

The REIT Appeal

REITs offer a number of potential advantages, including the following.

Diversification: REITs can help to diversify an equity portfolio weighted to stocks in other industries. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

Built-in management: Each REIT has a management team, sparing investors the effort of researching each property's management team.

Liquidity: Because REIT shares are traded on the major stock exchanges, they are more readily converted into cash than direct investments in properties. Like direct property investments, REITs may lose value.

Tax advantages: REITs pay no federal corporate income tax and are legally required to distribute at least 90% of their annual taxable income as dividends, eliminating double taxation of income. Investors can also treat a portion of REIT dividends as a return of capital, although those classified as dividends are taxed at ordinary rates.

Weighing the REIT Risks

As with all investments, REITs have specific risks that are worth considering.

Lack of industry diversification. Some REITs limit diversification even further by focusing specifically on niche developments such as golf courses or medical offices.

Potential changes in the value of underlying holdings. These changes can potentially be influenced by cash flow of real estate assets, occupancy rates, zoning, and other issues.

Concern about performance metrics. Critics contend that FFO could be misleading because it adds depreciation back into net income. NAREIT counters that real estate values fluctuate with the market rather than depreciate steadily over time, making FFO a realistic performance measure. Also, REITs may average the rent they will receive over a lease's lifetime rather than report actual rent received, which critics say can further cloud performance figures.

Interest rate sensitivity. If rates and borrowing costs rise, construction projects with marginal funding may be shelved, potentially driving down prices across the REIT industry.

Environmental liability. Companies in the real estate industry are subject to environmental and hazardous waste laws, which could negatively affect their value.

REITs can be a way to add total return potential to a diversified, long-term portfolio. Your financial advisor can help you decide whether an allocation to a REIT could help you pursue your financial goals.

The information in this communication is not intended to be financial or tax advice and should not be treated as such. Each individual's situation is different. You should contact your financial and/or tax professionals to discuss your personal situation.

¹Source: NAREIT Equity REIT Index, for the period ended December 31, 2012. Past performance is not a guarantee of future results. Individuals cannot invest directly in an index.

When Should You Collect Social Security?

A growing number of Americans have been forced to delay their planned retirement date due to job and savings losses suffered during the most recent recession. According to a survey, nearly one-quarter of workers said they have resolved to retire later due to concerns about outliving their savings and fears of rising health care costs.¹

Postponing retirement not only means working longer, but also delaying when you start collecting Social Security. Currently, workers can begin collecting Social Security as early as age 62 and as late as age 70. The longer you wait to start collecting, the higher your monthly payment will be. Your Social Security monthly payment is based on your earnings history and the age at which you begin collecting compared with your "normal retirement age." This normal retirement age depends on the year you were born.

Normal Retirement Age

Year Born	Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Those choosing to collect before their normal retirement age face a reduction in monthly payments by as much as 30%. What's more, there is a stiff penalty for anyone who collects early and earns wages in excess of an annual earnings limit (\$15,120 in 2013).

For those opting to delay collecting until after their normal retirement age, monthly payments increase by an

amount that varies based on the year you were born. For each month you delay retirement past your normal retirement age, your monthly benefit will increase between 0.29% per month for someone born in 1925, to 0.67% for someone born after 1942.

Which is right for you will depend upon your financial situation as well as your anticipated life expectancy. Consider postponing taking your Social Security benefits if:

You are in good health and can continue working. Taking Social Security later results in fewer checks during your lifetime, but the credit for waiting means each check will be larger.

You make enough to impact the taxability of your benefits. If you take Social Security before your normal retirement age, earning a wage (or even self-employment income) could reduce your benefit.

You earn more than your spouse and want to ensure that spouse receives the highest possible benefit in the event that you die before he or she does. The amount of survivor benefits for a spouse who hasn't earned much during his or her working years could depend on the deceased, higher-earning spouse's benefit ~ the bigger the higher-earning spouse's benefit, the better for the surviving spouse.

Consider taking your benefits earlier if:

- You are in poor health.
- You are no longer working and need the benefit to help make ends meet.
- You earn less than your spouse and your spouse has decided to continue working to help earn a better benefit.

Whenever you decide to begin taking your benefit, keep in mind that Social Security represents only 36% of the average retiree's income.² So you'll need to save and plan ahead - regardless of whether you collect sooner or later.

Source/Disclaimer:

¹Source: Employee Benefit Resource Institute, *2013 Retirement Confidence Survey*, March 2013.

²Source: Social Security Administration, "Fast Facts & Figures About Social Security, 2013."

Three Tips for Surviving Market Turbulence

Most stock market investors are looking for the same result: strong and steady gains of their investments. Dealing with a period of sustained falling stock prices is not easy. All too often, investors react to a sharp drop in prices by panic selling or digging in their heels despite deteriorating fundamentals. But more thoughtful investors see a correction or downturn as an opportunity to review the risks in their portfolios and make adjustments where necessary.

When confronted with any adverse market event ~ whether it is a one-day blip, a more lengthy market correction (a decline of between 10% to 20%), or a prolonged bear market (a decline of more than 20%) ~ take time to review your portfolio. Dealing with volatility can be difficult. Here are some suggestions to help you and your portfolio survive market turbulence.

Tip 1: Keep a long-term perspective. The only certainty about the stock market is this: It will always experience ups and downs. That's why it's important to keep emotions in check and stay focused on your financial goals. A buy-and-hold strategy ~ making an investment and then holding on to it despite short-term market moves ~ can help. The opposite of buy-and-hold investing is market timing ~ buying and selling investments based on what you think the market will do next. Market timing, as most investment professionals will tell you, is risky. If your predictions are wrong, you could invest when the market is on its way down or sell when it's on its way up. In other words, you risk locking in a loss or missing the market's best days.

Tip 2: Maintain your balance. Over time, your asset allocation is likely to shift as your assets appreciate and depreciate.¹ Rebalance regularly to help ensure your assets are properly allocated. Also periodically reexamine your risk tolerance. Has anything changed in your life that has made you more or less risk averse?

Tip 3: Talk with a professional. A financial professional can help you separate emotionally driven decisions from those based on your goals, time horizon, and risk tolerance. Researchers in the field of behavioral finance have found that emotions often lead investors to read too much into recent events even though those events may not reflect long-term realities. With the aid of a financial professional, you can sort through these distinctions, and you'll likely find that if your investment strategy made sense before the crisis, it will still make sense afterward.

It's important to remember that periods of falling prices are a natural part of investing in the stock market. While some investors will use a variety of trading tools, including individual stock and stock index options, to hedge their portfolios against a sudden drop in the market, perhaps the best move you can make is reevaluating and limiting your overall risk position.

Source/Disclaimer:

¹Asset allocation does not ensure a profit or protect against a loss.



James D. Hallett, MSFP, CFP®, ChFC, CLU, CDEA™, AIFA®
321 E First Street
P.O. Box 3050
Port Angeles, WA 98362



Discover the difference with a
Registered Investment Advisor.

www.HallettAdvisors.us
jim@hallettadvisors.us
Tel: 360-457-6000