

WEALTH MANAGEMENT

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A WEALTH OF OPTIONS FOR SMART PLANNING

Wealth management is about how you invest and grow your assets, but it's about more than that, encompassing vital tax services and important estate planning issues as well. On the eve of the elections and amid significant market uncertainty, the Portland Business Journal brought together experts from these complementary disciplines to offer fundamental guidance on how to manage your wealth and provide fresh insights and tips that can help you and your family get the most out of your portfolio.

Pete Danko, moderator: Managing ones wealth is important, obviously, but if I'm a reasonably smart person, in this day and age can't I do it on my own?

Reegan Rae, Certified Private Wealth Advisor, Arnerich Massena: JP Morgan put together some data points and what it shows is that an average investor trying to go it alone, annualized over the last 20 years, earned 2.1 percent. The S&P 500 over the same time period earned 8.2 percent. The bond market earned 5.3 percent. Your traditional stock and bond portfolio, a 60% stock and 40% bonds,

returned 7.2 percent. This shows you that individuals on their own are woefully underperforming the market and those trusted-advisor-type portfolios.

Karen Hobson, Council to the firm, Lane Powell: With the rise of the internet it's easy to do a simple search, find a form and think it's suitable for your situation. Oftentimes there are disastrous results, because people don't see the pitfalls in these documents. For wills, the documents may not waive bond, they may not name contingent beneficiaries, they may not be properly witnessed.

What we can offer as professionals is more than just a set of documents, but a relationship. We can grow with our clients and listen to their values, their legacy and prepare comprehensive documents based off their life philosophy.

Kripa Raguram, CPA, Senior Manager, DiLorenzo & Co.: Even for someone with just W-2 income, there may be simple strategies to consider for reducing taxes. For example, asking if they have a non-qualified deferred compensation plan and whether they are maximizing their contributions to cut taxes at source.

Building a relationship with a trusted tax advisor becomes invaluable for establishing and keeping track of both short and long-term tax planning goals (income, gift or estate taxes) as they grow and move through varying life circumstances.

Rae: The value of working with a trusted advisor is in having an objective and disciplined approach, staying committed to long-term goals and objectives. We accomplish this through an investment

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REEGAN RAE

CERTIFIED PRIVATE WEALTH ADVISOR, ARNERICH MASSENA

As a wealth management investment advisor, Reegan assists in the development, execution, and ongoing maintenance of client portfolio investment programs, working closely with advisors and portfolio administrators to coordinate client portfolio management and develop client relationships.

Reegan has earned her Certified Private Wealth Advisor® (CPWA®) designation, an advanced credential created specifically for wealth advisors who work with high-net-worth individuals and families that provides training in the development of strategies to minimize taxes, monetize and protect assets, maximize growth, and transfer wealth to the next generation strategically.

Reegan has more than 12 years of experience in the financial industry.



KRIPA RAGURAM

CPA, SENIOR MANAGER, DILorenZO & CO.

Kripa is a senior tax manager with DiLorenzo & Company, LLC, where her duties rotate among the varied tax aspects of trusts and estates, high net worth individuals, and small to mid-size closely held businesses. Notably, Kripa is a founding member of the firm's strategic initiative to excel at the U.S. tax aspects of International Tax. Kripa is also Dean of the firm's weekly in-house Tax School, an educational effort aimed at fostering accelerated learning and betterment.

Kripa was raised in India, where she received Masters in Accounting and Cost Accounting (AICWAI) Degrees. She later moved to the U.S. where she dedicated her life to raising a family of two wonderful boys, while finding time to acquire a CPA certificate and a U.S. MBA degree from the University of Portland. Soon after, Kripa joined DiLorenzo & Company and has prospered in the firm's mentor-successor culture for the past eight years. Kripa is a member of the American Institute of Certified Public Accountants and the OSCP.




KAREN HOBSON

COUNCIL TO THE FIRM, LANE POWELL

Karen Hobson focuses her law practice on estate planning and administration, as well as tax planning and business transactions. She is experienced in the preparation of wills, trusts and other estate planning documents for high net worth individuals, and provides strategic tax and legal advice to help her clients reach their business goals. Karen regularly assists clients in the creation and development of estate plans through the assessment of assets and goals, and understands complex tax and entity planning including the use of grantor trusts and family limited liability companies.

Karen also has experience advising on pre-formation planning, entity formation, corporate governance, mergers and acquisitions, contractual interpretation issues and business succession planning. Karen is a member of the Estate Planning Council of Portland and the Society of Trust and Estate Practitioners. She received her J.D. from the University of Oregon School of Law and her LL.M. in Taxation from New York University School of Law.

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Top Registered Investment Advisor in the U.S., 2014 & 2015, *Registered Rep Magazine*

Top Money Management Firms, 2015 *Portland Business Journal*

Top Three Consultant Finalist for Research Acumen in the U.S., 2015 *E-vestment*

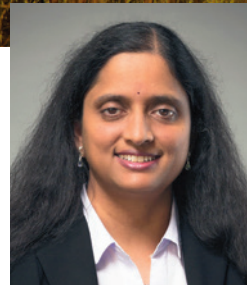
Top Corporate Philanthropists, 2015; Innovations in Philanthropy Award 2016 *Portland Business Journal*

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Kripa Raguram
Senior Manager



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policy statement, where you mutually agree upon a long-term target allocation. We hold everyone at the table accountable to that long-term, disciplined approach so that we don't end up like those individual investors with an annualized return of only 2.1 percent.

Danko: For each of your different disciplines, how would someone go about finding an advisor?

Rae: We appreciate prospective clients who are doing their due diligence. We encourage them to interview more than one investment advisor. It's a very personal choice. What we're looking for is an alignment of values and a shared investment philosophy. I also think the reputation of a firm is something to consider. We all work for very well established firms with high levels of expertise and multiple individuals within the firm that can serve each client's needs.

Hobson: If people aren't comfortable telling their planner about their family situation or their assets, then there's going to be a divide and it's not going to be a seamless process. Maybe they have children from other relationships and they think they will be judged in one way or another if they bring this to the attention of their advisor. But these are things that can't be left out in order to do the proper planning.

Danko: In addition to not being transparent, what are common mistakes that people make?

Hobson: One issue I see often is people naming minors as beneficiaries. Minors

can't take custody of significant assets outright and so the court will have to establish a conservatorship and a conservator will have to be appointed to take custody of those funds for the benefit of the minor until they turn 18. Then at 18 the individual gets those funds outright, which can be quite significant. What's an 18-year-old going to do with a million dollars? Maybe not act in the most responsible manner. With a little bit of planning and the appropriate follow-up, those types of situations can be avoided.

Rae: Often, we see incomplete implementation of planning in general; for example, clients who have not gone through a process of setting up wills and trusts because they don't want to pay the legal fees. We've also seen clients who go through the process of setting up trusts but fail to retitle their assets into the name of the trusts. So you can do all the planning in the world, but if you don't reregister your assets and actually fund those trusts, all of that good effort goes to waste.

Raguram: (1) Not involving a spouse in planning and decision making resulting in a surviving spouse being completely overwhelmed with what a decedent spouse had put in place. (2) From the tax compliance perspective, we see the aftermath of the mistakes; failure to give adequate consideration to complexity and administrative costs of the plan design. Bringing all trusted advisors to the table at the planning stage may, at times, prove to be a good cost-effective alternative.

Hobson: It's important to revisit your estate plan because circumstances change. People get married, people get divorced, there are deaths, there are

births, there are changes in tax laws and for all those reasons it's important every three to five years to reach out to your attorney and make sure that the decisions you made five years ago still encompass your overall goals.

Rae: We also stress to our clients the importance of communication to your beneficiaries around the planning that you have done – making sure the executor or administrator has copies of your documents, and that your children know who the trusted advisors are so they know who to call when something happens.

Danko: What are other keys to making sure heirs are prepared to manage their inheritance?

Rae: Because we work with families over multiple generations, education of the next generation is critical to meeting our clients' goals and objectives. How you bring that next generation into the conversation about investment management is a very sensitive subject with clients and we recognize how personal it can be. Some clients are apprehensive to have those conversations with their children, others are not, so it's customized from client to client but it is something that we have to begin to talk with them about at some point.

Raguram: In situations where we are aware that our clients' young children are going to have a sizeable inheritance, for example from grandparents or trusts set up by them, we advise and encourage clients to reach out to the younger generation to start building long-term relationships with their trusted advisors team. It will be important to establish goals, not only for growing their

investments, but also for efficient tax planning so as to minimize tax impacts, thereby retaining more of the inherited wealth.

Hobson: It can be a sensitive topic. There are some people that don't want to tell their children what they're going to get and when they're going to get it. They want their children to live out their lives, to go to school, to be successful. You have to assess what the client wants and how they want to proceed, but to the extent that they're willing to do family meetings, meetings can be quite helpful.

Raguram: In instances where the millennial generation is anticipated to build their own wealth through good earnings, apart from wealth inheritance, educating them regarding the importance of establishing investment and tax planning goals to manage, grow and protect their investment, becomes key.

Danko: Many also have debt from college.

Raguram: Exactly. Efficient debt management and payoff also have to be factored in the above planning process.

Danko: Staying on estate planning, how do gifts fit into the picture – what techniques do you see that can be successful?

Raguram: Different techniques will work better for different client profiles – say, a closely held business owner; a person with heavy concentration in real estate; somebody with a concentration in securities; and then maybe somebody who is, say, a professional practice owner, or an executive who has a large retirement fund

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as their significant asset. We see different strategies that have been employed for each of these profiles. Maybe there's an income tax focus for a client, maybe there's a gift and estate tax focus for another client. A handful of examples of techniques to consider might include: S-Corporation recapitalizations, family limited partnerships, GRATs, Intentionally Defective Trusts and estate taxes vs. stepped-up income tax savings.

Hobson: I think some of the things I've seen work well include building flexibility into the planning process. Often a client has a strong desire to name somebody as their successor trustee, maybe their neighbor or a best friend, a corporate trustee, maybe they've had a long-term relationship with a particular company, but then in practice the relationship with the successor trustee does not work out. So a good removal and replacement mechanism built into your documents can be very important.

Danko: How do you help people who are charitably inclined zero in on where they want their money to go?

Rae: We are helping clients identify charities that align with their values as part of our service model. We have a specialist who works to identify local charities, analyzing and categorizing them and assigning benchmark metrics to measure various success points. The idea is to treat charitable giving planning like we treat due diligence on the money managers we choose to put in client portfolios.

Hobson: Some of the charitable-giving techniques can be daunting to clients. I'm working with clients now who are considering charitable remainder trusts. They may have highly appreciated assets, thinking about a liquidation event, and they have charitable inclinations, which makes that particular planning vehicle a good one. But when you walk your client through all the component pieces and the mechanics of undertaking this estate planning technique their eyes glaze over and they're not necessarily ready to pull the trigger. So again I think it comes back to talking with your client often [about these strategies].

Raguram: Basically, there are two types of giving, lifetime giving and specific bequest at death. From a tax efficiency stand point, life-time giving is far superior to a gift at death. Though gifting at death may be easy and support non-tax reasons, it could also come as a surprise to children and heirs, since they probably didn't know that inheritance money was set aside for charitable purposes.

Rae: Parents really have to be the role model for the children; if the children see the parents gifting, then it becomes ingrained in their behavior and in their investment philosophy. I think this is one of the most rewarding parts of my job. We can help them see how the charity is benefiting from those dollars, which then opens the conversation for how assets will flow on the death of the matriarch and patriarch. I think that really helps take away the surprise factor.

Hobson: I see some clients meeting with their children when they're young on an

annual basis, talking about family values, charities that are important to them, and then they come up with a handful of charities that they want to make gifts to each year. If you do this year by year, when the kids get older and maybe a larger gift is made or maybe a gift is made at death to offset some of the estate tax exposure, there's less of a surprise.

Raguram: When clients have a charitable intent but they don't know where to start, what to do, or who to give it to, setting up a private foundation can work well. They could contribute X dollars today, take the dollars and appreciation out of their taxable estate, get a current charitable deduction, and generally have up to 20 years to select their specific charities. If your client is the type who runs a business, who likes to manage everything, then private foundation is a great hands-on approach to donating. They can even have family members involved, such as providing a younger person with business or management experience. Alternatively, hands-off people may want to take a look at donor-advised funds.

Rae: That is a trend we are starting to see. The barriers to entry aren't as big as they used to be, but it is definitely its own business that needs to be administered properly. I think what we see is sometimes families are setting up these family foundations without adequate assets to keep it going in perpetuity.

Danko: Is there a number that you see as necessary?

Hobson: You ask 10 people and you'll get 10 different answers.

Rae: I hate to put a number on it. It seems to be somewhere in the ballpark of \$10 to \$20 million. Some families use the foundation structure as a way to think through charitable gifting. Other families realize the cost it takes to maintain a private foundation and seek a donor-advised fund structure, which is easier to maintain operationally.

Raguram: There is nothing wrong with taking a test drive and starting a foundation with smaller funding and growing it either over a lifetime, at death or not at all.

Hobson: They just continue to fund it over time?

Raguram: Everything is possible, large funding upfront, serial funding over time, and large funding at death or any combination of the above.

Danko: We mentioned the internet opening the door to people doing things on their own, which can sometimes be risky. What are other ways in which technology is changing wealth management?

Rae: One thing that has happened in the

investment management industry is the emergence of robo-advisors. This idea is that you don't need an individual to provide a customized approach, you just need access to the funds and an off-the-shelf portfolio to save on fees. That's forced a massive movement from active management to the passive ETF (exchange-traded fund) world. While we believe passive investing can play a role in a portfolio, there are tremendous advantages to using active managers thoughtfully; it can provide a meaningful long-term performance premium. Eliminating the option of active management altogether can put investors at a disadvantage.

Raguram: Safe guarding wealth against identity theft and related cyber thefts is a necessary cost in response to today's technology risks.

Hobson: The rise of technology makes modeling easier so you can give your clients a visual representation of the plan that you're putting in place. Also, clients come to you a lot more prepared, with an understanding of certain techniques because they've done the research ahead of time.

Danko: What are some investment themes for the future that you see?

Rae: What do we think will play a significant role over the next five to 10 years – we talk about this all the time with our clients and it's a big differentiator for Arnerich Massena and how we build portfolios. We believe in investing in the things that the population needs in order to survive. So with population growth and the rise of the middle class – on a global scale, not just here in the U.S. – we're looking at water, health care, clean energy, and agriculture. There are multiple ways that you can invest in these themes. Depending on the client, investment vehicles may range from publicly traded mutual funds all the way up to private equity markets

Hobson: There's a lot of uncertainty out there. I think with the uncertainty about what Congress will look like, it's premature to be advising clients to go out and plan for this potential. Be vigilant and if and when changes are implemented, reach out to your estate-planning attorney and your trusted advisors to discuss how this affects you.

Raguram: No matter what happens in Congress, we always worry about

techniques going away. We worry about GRATs (grantor retained annuity trusts) going away. We worry about minority discounts, or the valuation discounts, going away. We really appreciate a technique after it's gone. There are so many things out there that any new administration and Congress could take away.

Danko: Are there planning issues to keep in mind for people whose families are scattered around the world?

Raguram: I think I'm an example of that situation, where I'm part of a global family. I'll start off with a simple example: If I own a bank account in the U.S., there's no asset reporting requirement to the IRS. However, if I'm a U.S. resident or citizen, holding an offshore bank account that exceeds a certain dollar threshold, suddenly, there is a foreign asset reporting requirement. Another example: When a U.S. person receives a larger gift from their U.S. parents or grandparents, it is generally the donor who has the gift-tax return filing requirement, not the donee. But, on the other hand, if I, as a U.S. resident or citizen, receive a large gift from my foreign parent, either directly or through trust, or receive a distribution from a foreign trust, I, as donee/recipient, have the foreign information reporting requirement. Failure to file these reports may result in large penalties.

Hobson: One trap or issue I see a lot is with nonresident aliens who have significant real property in the United States. When we are doing a will for their U.S. situs assets, they do not realize that the exemption is only \$60,000 as opposed to \$5.45 million. When there is no applicable treaty, nonresident aliens can hit that exemption pretty quick and the resulting estate tax exposure can be huge. Another trap we see that we have to plan for is the fact you can't make unlimited gifts or bequests to noncitizen spouses.



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