Second Quarter 2015 Client Letter

*"***I want to leave my children enough that they feel they can do *anything*, but not so much that they do *nothing*."** *~Warren Buffet*

As we close the books on Q2 of 2015 we celebrate the one year anniversary of Sheppard Wealth (June 5th). Anniversaries are often viewed as a time for personal reflection and resolutions, a "scorecard" so to speak on our progress, and a more serious consideration of the future. For us at Sheppard Wealth, the turn of the quarter requires us to reflect on the past, while considering the opportunities and risks that may lurk in the coming years. We read the news and see the charts, and we may even have some of the same fears as you about the global events we read about. However, we are stewards of not only our own capital, but yours as well. James and I have reviewed our current positions in the portfolios and we have continued confidence in our formulaic strategy.

Born in March 2009, today's bull market (although it seems to be a bit more bearish at the time of writing this) is the fourth longest in history. Although stocks have tripled since the lows of 2009, the ride has not been a walk in the park. Last fall we saw a selloff of over 7% and late December we rode a 3.5% drop as worries about a slowing global economy grabbed the headlines. Today it's Greece, Puerto Rico and China (the greatest concern) grabbing the headlines and causing a great deal of fear in the global markets. These drops lead investors to worry of a larger market correction looming, or as the media would suggest – a "market crash."

Today the range of expected returns are not as attractive as they were in 2009, yet the businesses we own (and continue to hunt for) represent compelling value. We continue to be bearish on bonds as the deflationary pressures of global deleveraging (not just a problem for the US) have kept interest rates at historic lows. Although Federal Reserve Chief, Janet Yellen, said last week she expects to raise interest rates sometime in 2015.

Estate planning - it's never too early or late!

I recently sat down with a family for their first family estate planning meeting. The main ideas were to review the existing plan documents, long term goals, and to make sure all parties (mom, kids and second husband) understood the current legal documents in place.

Here at Sheppard Wealth we prefer to be included early on to better help walk our clients through a few different scenarios, and provide some examples of what we have seen work well and what has not worked well. These meetings take an endless number of paths but the overall goal is the same — does our estate plan have any holes that need to be addressed?

Estate planning typically attempts to eliminate uncertainties over the administration of a probate, and maximize the value of the estate by reducing taxes and other expenses. However, the ultimate goal of an estate plan is determined by the specific goals of the client, and may be as simple or as complex as the client's needs dictate.

Income, gift, and estate tax planning plays a significant role in choosing the structure and vehicles used to create an estate plan. In the United States, assets left to a spouse or any qualified charity are not subject to estate tax. Assets left to anyone else—even the deceased's children— are taxed if the value of that part of the estate is greater than $5,430,000 in 2015.

One of the more common ways to avoid such estate taxes is to distribute an estate in incremental gifts during the person's lifetime. Individuals may give away as much as $14,000 per year (2015) without incurring gift tax. Other tax free alternatives include paying a grandchild's college tuition or medical insurance premiums free of gift tax—but only if the payments are made directly to the educational institution or medical provider. Other tax advantage alternatives to leaving property, outside of a will, include qualified or non-qualified retirement plans (e.g. 401(k) plans and IRAs) certain "trustee" bank accounts, transfer on death (or TOD) financial accounts, and life insurance proceeds. Because the United States tax code does not tax life insurance proceeds as income, a life insurance trust could be used to pay estate taxes. However, if the decedent holds any incidents of ownership like the ability to remove or change beneficiary, the proceeds will remain in his estate. For this reason, the trust vehicle is used to own the life insurance policy and it must be irrevocable to avoid inclusion in the estate.

Most of the decisions made during the planning exercise are based on what we know of the current tax and legal laws surrounding these issues. Federal estate tax laws can and have been changed throughout the years, so I thought it would be helpful to provide a few updates and things you need to know. Most importantly you should start to review your options **now** to determine the best strategy for you.

First, a warning — end of life planning is a tough conversation to have and not a fun topic to discuss with your family. When my wife and I went through it for the first time we ended up needing to leave the attorney's office due to emotions surrounding who would become custodian of our four children.

A good starting point is getting the discussion going and writing a few general ideas down on paper:

- List out your assets. (Sheppard Wealth should already have this as part of your overall Wealth Plan.)
- Think through what kind of life support you would like or not like administered in the event you cannot speak for yourself.
- Who do want to inherit various assets? (This helps to keep heirs on the same page.)
- Who do you want to be in charge of your estate if something should happen to you?
- Start a legacy letter — what do you want your heirs to know about you and your ethical values?

Next, you are going to need a good estate planning attorney who specializes in helping clients craft a plan that works for you and your family. Your estate plan should include:

1. **Living Will/Trust** — this provides instructions for:
    a. Distributing assets to your family and other beneficiaries.
    b. Medical staff of your wishes regarding the use of life-sustaining measures in the event of terminal illness. It allows you to specify what you want done and what you don't want done if something should happen.
    c. Appointment of someone to be an executor to pay final expenses, taxes, etc. then distribute any remaining assets.
    d. Designating a guardian for children and pets. This can be the same person as your executor but you may want to consider choosing separate individuals.
2. **Health Care Power of Attorney** - This legal document designates and authorizes an individual whom you choose to make medical decisions for you in the event you are unable to do so yourself. This document is complied with your legal will or trust.
3. **Durable Power of Attorney** - With a durable power of attorney for finances, you can give a trusted person authority to handle your finances and property if you become incapacitated and unable to handle your own affairs. The person you name to handle your finances is called your agent or attorney-in-fact (but this doesn't have to be an actual attorney).
4. **Beneficiary's** - Naming a beneficiary for bank accounts and retirement plans makes the account automatically "payable on death" to your beneficiary (or trust in some cases) and allows the funds to skip the probate process.

Sheppard Wealth works with you to define the clear objectives and solutions that accompany your estate and succession planning. The implementation of such a plan is a critical component to your financial map as well as to your overall peace of mind. Please let us know how we can help to get you started or to review what you currently have in place.

In Closing

As we celebrate our first year anniversary we are thrilled to be your choice for your wealth management needs and would like to thank you for your support and trust this past year. We don't take your trust lightly and we recognize the fiduciary role we play. As we continue to expand our firm, we would like to thank everyone who has consolidated their accounts as well as everyone who has referred us new clients over this past year. With referrals undeniably being the life-blood of any young practice, we appreciate you all for your never-ending support. Thank you once again for your trust and confidence in this pivotal first year, and we look forward to the opportunities that lie ahead.

Sincerely,

John Swanson, AAMS