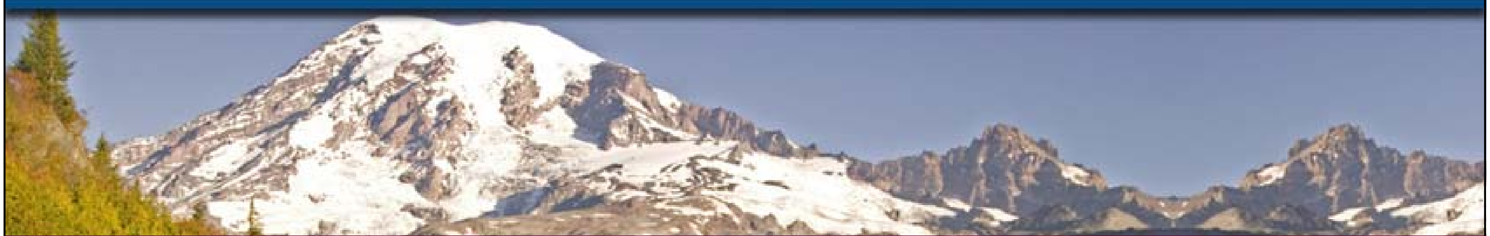
CLEARVIEW WEALTH MANAGEMENT

Investing with Clarity and Vision



# Clarion Newsletter

March 2013

## The Three-Legged Stool of Financial Stability

*Liquidity/Growth, Income & Security*

The basic premise of our investment strategy[1] at ClearView is pretty straight forward. We help our clients grow, protect and preserve their wealth while maintaining substantial liquidity and generating monthly income. The premise is the easy part because that is what most of our clients tell us they want us to do for them. The hard part is making it happen consistently, time after time[1].

We all know there are going to be bumps along the road. That is why they call it "investing", because results are uncertain, especially when trying to predict the future. History tells us that over the last 82 years there have been 13 recessions, roughly one every six years and four months, and none of them as tough and long as the "last/current" one since the Great Depression. The question is this: with another recession looming in a few years, and both bull and bear markets at play between now and then, what are you doing to prepare and prevail?

We can not predict the future, and we can not time the market. We do not know which investments over time will turn out to be the best, or the worst. But we do know our clients want liquidity (access to their money). Our clients want their money to work hard for them (they want growth). Our clients want monthly/quarterly income to re-invest and build wealth while they are working, and then to live on in retirement. And most of all, we know our clients want safety and security for their wealth, family and loved ones.

Our challenge is to accomplish these goals by creating investment strategies suitable for each individual client; tailored to their risk tolerance and investment horizon. We call the basic strategy that has evolved over the years, **"The Three-Legged Stool of Financial Stability"**. It provides **Liquidity and Growth** opportunities (stocks, bonds, mutual funds, bank accounts, CDs, etc.), **Income** (REITs, BDCs, Gas & Oil, equipment leasing, annuities, etc.), and **Security** (insurance company guaranteed income, life and death benefits)[2]. Allocations vary based upon the client's age and needs, but we generally start by allocating roughly equal portions of the assets to each category (liquidity/growth, income and security), spread out evenly over a broad number of non-correlated investments.

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### Product Spotlight

*Business Development Company (BDC)*

The BDC enables small investors to invest in the debt and/or equity of privately held companies. They combine many popular features of REITs and mutual funds. Contact us to learn more about the BDC.

### Portfolio Review

Call us today to make an in person or phone appointment to review your portfolio.

### Contact Us

866-557-1031

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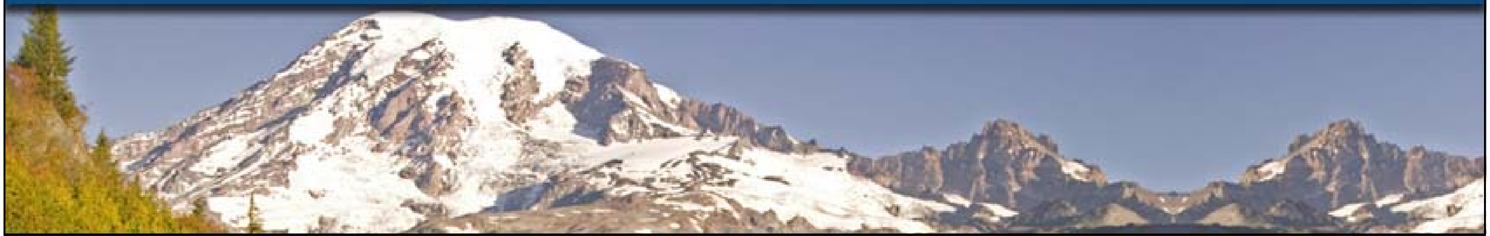

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This combination of diversification, asset allocation, non-correlation, safety and security allows each client's portfolio the opportunity to grow during the working years and turn into income during retirement [3]. The revolving cycle of this investment strategy helps to build wealth through compounding on-going savings and reinvested earnings, and by dollar cost averaging [4] back into the market place. It is designed to capture some growth on the upside when the economy is good, provide a predictable income stream during both good and bad times, while always protecting the downside with insurance guarantees.

Give us a call today to discuss the health and condition of your financial three-legged stool. Let's talk about what steps you should take next to increase liquidity, and lower the volatility (ups and downs) to help reduce the overall risk of your investment portfolio, while generating monthly income. We have the strategies and products to help you!

*[1] Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.*

*[2] Any guarantees express or implied are based on the claims-paying ability of the insurance company which issues the underlying contract.*

*[3] Asset Allocation and Diversification does not guarantee profit nor is it guaranteed to protect assets.*
*Dollar cost averaging (DCA) is an investment strategy of investing equal monetary amounts regularly and periodically over specific time periods in a particular investment or portfolio. By doing so, more shares are purchased when prices are low and fewer shares are purchased when prices are high. Investors should consider their ability to continue investment during periods when prices are declining.*

## Retirement Planning for Property Owners

### It's Never Too Early to Retire!

The vast majority of the investment property owners I know are millionaires. They have all labored diligently for many years to create their net worth. The problem is they don't feel like millionaires and they don't live like millionaires because their "money" is actually equity trapped in their properties. The old expression "dirt rich and cash poor" describes their situation. They've worked hard for their money but their money is not working hard for them.

There are many benefits to owning investment property including tax deductions provided by the government, the freedom and independence of being self-employed, the opportunity to create wealth for retirement and generational wealth for heirs and beneficiaries.

But, there comes a time when you no longer want the burdens of day-to-day property management. It's time to stop dealing with the Terrible Ts: Tenants, Turnover, Trash, Toilets and the Termites! The problem is investors can't retire without selling their property and sometimes that can be a difficult thing to do. Maybe there's a lot of deferred maintenance, high vacancies or a bad local economy. Maybe interest rates are high, money is tight or it's a buyer's market and you can't get a fair price for the property. Maybe you're scared of selling because you don't know what to do with the money, you don't want to pay all those taxes to the government, you can't let go of the

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property or you just don't know what you'd do with yourself if you had all that free time. These are the dilemmas that all investment property owners have to resolve at some point in their lives if they wish to retire.

I have some good news for you. There are many options for you to consider and some excellent solutions from which you can choose to deal with this dilemma. They include doing nothing, sell and do an IRS Section 1031 exchange into a local property, sell and pay the taxes, sell and do a 1031 exchange into a Delaware Statutory Trust (DST) property, sell and do a 1031 exchange into a gas and oil royalties program, and sell and open a Charitable Remainder Trust (CRT).

Let's start with the obvious, the easiest and maybe the least satisfying. You can do nothing. This option benefits the procrastinators, those who can't make up their minds and people who don't like change. They don't have to go through the process of selling their property and they get to keep an investment they know and understand. Maybe they still enjoy managing rental properties and are not ready to sell. When they die, their heirs and beneficiaries will get a step up in basis and no taxes will be due, except possibly inheritance tax if they haven't done adequate estate planning or they have a large estate. The problems with this strategy are they never get to retire, they never get to enjoy the fruits (money) of their labor, and their heirs and beneficiaries will probably sell the property soon after probate has closed.

A second option is to sell the property and do an IRS Section 1031 exchange into another local property. In this case, an investor can defer the taxes due at the time of sale and look to buy a larger property that will provide potentially more income and appreciation. For those who want to keep working and enjoy control, this gives them the opportunity to remain in charge of their investment. But they still have the burden of property management (or paying and managing the manager), their equity remains trapped in the property, the return on their equity continues to decrease and their quality of life has not improved. They have swapped one burden for another, possibly larger, burden.

The third option is to sell and pay the taxes. This option may require the seller to pay the government capital gains tax (currently 15%, possibly going up in the near future), 25% depreciation recapture tax, and up to 9% state income tax where applicable. They can invest the sale proceeds in the stock market, the bank, various alternative products, etc. This option creates liquidity and provides access to the equity after the sale and it may be the most suitable choice for many property owners. This option puts cash in the bank and enables the seller to diversify away from real estate into multiple investments. However, it doesn't take a mathematician to figure out this option may not be a preferable alternative, depending upon how long the property has been held. Many people are not willing to pay one fourth to one third of their "sweat equity" to the government just to retire, especially after working so hard all their lives to earn their money. They also may not be comfortable investing the cash proceeds in the stock market and other investments, especially if they have built their net worth investing in real estate.

So, what are the options, viable alternatives and attractive solutions for the people who don't want to pay capital gains, depreciation recapture and income taxes at the time of the sale of their property? What alternatives will let them stay in control of their money without investing their retirement funds in the stock market? Which options will allow them to stay in real estate but relieve them from personally managing their property? There is no one option that can accomplish all of the above, but there are choices.

For many people, the best alternative for accredited investors is to sell their local property and do a 1031 ex-

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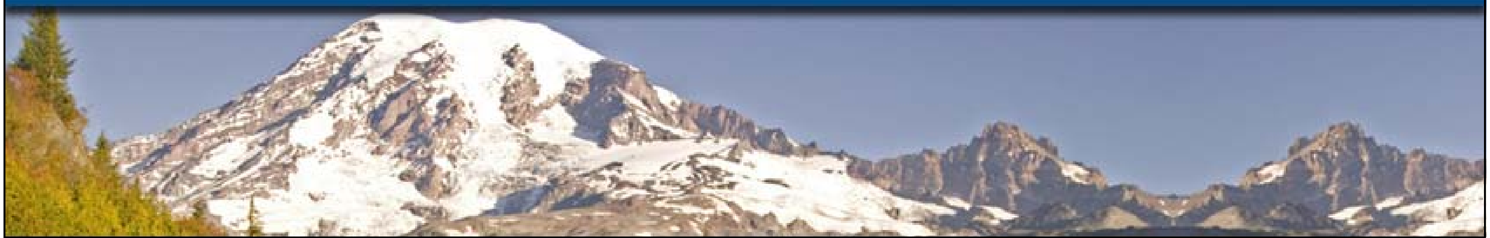

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change into a DST. This may enable them to defer taxes due at the time of sale, leverage up to institutional grade investment property with potentially higher returns on investment and appreciation, and then retire from active property management. It allows them to stay invested in real estate which they know and understand. It enables them to enjoy their retirement by providing potential income each month instead of working hard managing their local rental properties. History has demonstrated to us that most investment property owners we have met are netting between 2% to 3% annual return after taxes on their equity in their local rental properties. All investments carry an element of risk. 1031/DST offerings are illiquid and have the usual risks of most real estate transactions such as possible loss of principal or economic risk due to vacancy rates and market conditions.

Another viable alternative for some accredited investors is to sell their local property and do a 1031 exchange into a gas and oil royalties program. This investment is often done in concert with a 1031/DST exchange transaction and is intended to diversify the investor's portfolio. Modern portfolio management theory contends that diversification and asset allocation are important components to a successful investment strategy. Many investors don't realize that Section 1031 of the Internal Revenue Code enables them to sell local rental/investment property, raw land and/or business property and exchange it for certain gas and oil royalties. These programs often provide tax and income benefits that contribute nicely to rounding out an investment portfolio. Gas & oil programs are illiquid and carry an element of risk that must be carefully considered by the investor to determine if they are suitable and appropriate.

For investors with an inclination toward charitable giving, the Charitable Remainder Trust has often been the vehicle of choice to reduce the tax burden and provide a substantial contribution to the charity of their choosing. It is a time-tested method of charitable giving that is often preferred by many charities. The CRT does have some disadvantages which have decreased its popularity in recent years. If the grantor dies early, the balance transfers immediately to the charity, bypassing the family/heirs. Additionally, investment choices are limited since the CRT is a qualified plan regulated by the IRS.

The key to having a great life in retirement is to be proactive in the planning process. Start early and don't procrastinate. Pay attention to your assets. Select a qualified financial advisor in whom you have confidence and develop a plan. Revisit the plan annually to ensure it's on target and amend it if it fails to achieve your goals. Remember – "It's never too early to retire!"

*Disclosures*

*The hypothetical example is for illustrative purposes only and is based on mathematical principles and the topics/examples covered have been checked with sources believed to be reliable. They do not portray actual investment results and your experience may differ.*

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*Asset Allocation and Diversification does not guarantee profit nor is it guaranteed to protect assets.*

*The opinions express herein are those of Bob Cannon of ClearView Wealth Management and are not necessarily those of Centaurus Financial, Inc.*

**Thought for the Day**

Money is better than poverty, if only for financial reasons. -- *Woody Allen*