Kipp Brant Drummond & ASSOCIATES

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Financial Freedom by Design

The Carefree Solution

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Leave A Legacy To Future Generations—On Video

Iris Wagner is not a therapist, though she asks lots of questions, and the parents, grandparents, and children she works with almost always gain insight about themselves and each other. And while she helps families plan and ensure their legacies, she's not a financial advisor. Wagner's job—or, she'll assure you, her passion—is making films about her peoples' lives to preserve forever the stories that made them who they are.

Wagner's company, Memoirs Productions (www.memoirs.ca), based in Montreal, produces personal and corporate video biographies. Some are lavish, 90-minute videos, entailing months of research and filmed by a large crew on multiple locations over several days—at a cost that begins in the six figures and may go, well, much higher. One client thought it might be nice to have Barbara Walters interview family members, and Wagner said, sure, we can probably get her—"she's retired now, and she must have a day rate."

But other Memoirs Productions videos, which can be commissioned for $10,000 or so, are less involved, though no less meaningful to the families for whom they're produced. These are what have become known as ethical wills—"a record for posterity," Wagner says. The subjects of these films talk about their lives, their mentors, the lessons they've learned, their hopes for the future. "It says, 'This is me,'" says Wagner.

The idea behind creating an ethical will isn't new, of course. Families have always looked to older members for wisdom and guidance, and family values—often enshrined in old photographs, letters, home movies, newspaper clippings, awards—get passed from generation to generation. In today's hectic world, though, it's easy to lose track of all that. You remember hearing a wonderful story from your grandmother about the day she met your grandfather, but you can't quite recall where they were at the time, or what she told you he promised her, that very afternoon, when he proposed. Or maybe you had a great time recently with your mom, going through a shirt box full of photos from the 1940s; a picture of your dad got her started on a story you'd never heard, about his first job after the war, when he was desperate to get on with his life and put in 80-hour weeks on a construction crew to save the seed money for the family business you run today. But how much of that will you remember when she, too, is gone? Will you be able to tell the story to your kids, or the grandchildren?

Wagner's goal, in crafting family biographies, is to make sure the past isn't lost. "This is not an exercise in ego," she says, but rather an act of preservation—"the most unselfish thing you can do." Often, a client will make a gift of Wagner's "Legacy of Values" service to an elderly parent or grandparent, inviting the family matriarch, for example, to go through the process of remembering,

(Continued on page 4)

Keeping Life Simple

Schools are back in session, summer is over, and before you know it the holidays will be upon us. These realizations (along with a demanding work schedule) got me to thinking about how complex our lives can get at times. As I was pondering this situation, I was reminded of the K.I.S.S. principle.

K.I.S.S. stands for "Keep It Simple, Stupid," which basically means that simplicity should be a key goal and unnecessary complexity avoided. Simple living has about as many definitions as there are individuals who practice it, but to me it's not about living in poverty or self-inflicted deprivation. Rather, it is about an examined life, in which you have determined what is important or "enough" for you.

I have already shared this concept with many of you and your feedback, as well as my own experience, have shown me that life is indeed less stressful and more enjoyable when we are able to limit its complexity. Our goal is to take on the task of analyzing the complex information and issues that affect your financial affairs, so that together we can make informed decisions that give you the best chance to achieve and maintain financial independence. That way, you can focus your attention on the things that truly matter to you.

Darrell Drummond
Regional Vice President

Are You An Investment News Junkie?

It's called market noise, and you know better than to let it distract you from your long-term financial plan. But it never hurts to stay informed, so you bookmark your favorite market news sites, never skip the paper's money section, and tune in TV's financial pundits. Use this quiz to gauge how well you paid attention last year.

1. Which currency did not gain ground against the dollar in 2006?

a. yen
b. euro
c. pound
d. Swiss franc

2. During 2006, the price of a barrel of light sweet crude oil peaked during what month:

a. January
b. May
c. July
d. November

3. In 2006, margin debt (funds borrowed against securities) reached $270.53 billion. When was the only other time margin debt exceeded $270 billion?

a. 1987
b. 2000
c. 2003
d. None of the above

4. A radio network, a casino, and a supermarket chain were in the top 10 for 2006 in which category?

a. initial public offerings
b. stock market gainers
c. private equity buyouts
d. all of the above

5. Incidents involving CNBC star Maria Bartiromo spelled trouble for:

a. former Citigroup executive Todd Thompson
b. Federal Reserve chair Ben Bernanke
c. both of the above
d. neither of the above

6. True or false: In 2006, the housing boom faltered, with a decline in both the number and median price of existing home sales.

7. Commercial real estate in 2006 saw a decrease in vacancy rates and a rise in the average per square foot cost for:

a. offices
b. retail space
c. industrial space
d. all of the above

8. Drawn by the promise of big returns, investors poured a net $92 billion into hedge funds during the first nine months of 2006. For the year, the Credit Suisse/Tremont Hedge Fund Index outperformed:

a. the Standard & Poor's 500 Stock Index
b. the Dow Jones World Index
c. the Lehman Brothers U.S. Aggregate Bond Index
d. all of the above.

9. In 2006, measured in U.S. dollar terms, how did international market regions fare (from best to worst)?

a. Latin America, Europe, Asia/Pacific
b. Asia/Pacific, Europe, Latin America
c. Europe, Asia/Pacific, Latin America
d. Latin America, Asia/Pacific, Europe

10. Art prices soared in 2006 as new investors and collectors flooded into the market. Which artist's work brought the highest price at auction?

a. Pablo Picasso
b. Willem de Kooning
c. Andy Warhol
d. Rembrandt

11. True or false: At year's end, bond investors, apparently worried about the long-term health of the economy, were paying higher prices for 2-year U.S. Treasuries than for 10-year Treasuries.

12. The best and worst performing U.S. market sectors, respectively, in 2006 (as tracked by Dow Jones Indexes) were:

a. telecommunications; retail
b. oil and natural gas; construction materials
c. media; chemicals
d. food and beverage; travel and leisure. ●

Answers:
1a; 2c; 3b; 4c; 5c; 6 true; 7d; 8c; 9a; 10b; 11 false; 12a.

Tax Law Now Allows Those Inheriting Retirement Plan Assets

Most 401(k)s and other employer-sponsored retirement plans are bequeathed to spouses, and with good reason. Until a recent change in rules, only a spouse could inherit a retirement plan other than an IRA and avoid immediate taxes. Now, although the process must be handled carefully, any beneficiary should be able to receive a retirement plan and enjoy the same tax-postponing benefits that a husband or wife always could.

Under the old rules, if your husband got the money, fine; he could roll over the windfall into his own IRA and make withdrawals over the course of his expected lifespan. Though each year's required distribution would add to his taxable income, the rest of the account would continue to compound, and there might be a sizable balance left at his death.

But your daughter? Most employer plans require an account to be emptied within five years of an employee's death. She would have had to take the money and, not being allowed to move it into an IRA, would have been stuck paying income tax immediately—and likely would have lost a third or more of her inheritance to taxes in the process.

The new rules are much kinder to non-spouse beneficiaries. Now, should you choose to leave your 401(k) to a child, a same-sex partner, or anyone else, that person may roll over the inherited plan to an IRA. But the law is prickly about the process. To make a successful rollover, your heir must:

- Open an inherited IRA to take the money. A spouse who inherits a 401(k) can merge the account with her own IRA, but others must set up a new account specifically created to receive funds transferred from the deceased's retirement plan.
- Be sure to title the new account correctly. For instance, Dad IRA (Deceased) FBO Daughter.
- Make sure the money goes directly from the company plan to the

Retirement Spending Just Isn't The Same

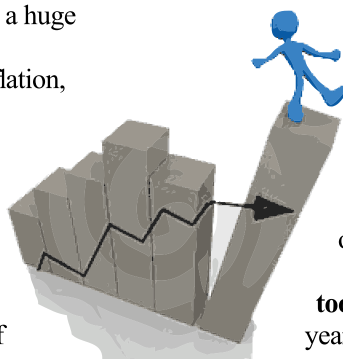
Since the Depression, most Americans have been guided by a simple retirement spending strategy: Don't touch your principal, and sell stocks only as a last resort. The approach worked well for many generations, when retirement seldom lasted more than a decade and people could live comfortably on bond interest, stock dividends, and a monthly pension payment. But times have changed. Today's retirees live longer and bear much more of the responsibility of paying for retirement, and simply depending on income spun off by investments may not work.

"Dividends, Social Security checks, and clipping coupons aren't enough for most people," says Moshe A. Milevsky, who teaches retirement income planning and risk management at York University in Toronto. "It's unavoidable that you're going to have to consume capital. The question then becomes how to do it intelligently." Finding a way to use your nest egg wisely—drawing it down gradually without depleting it during your lifetime—means taking into account many facts of retirement life.

Inflation can be a game-breaker. "Most people don't understand inflation," observes Mitch Anthony, author of The New Retirementality. "But to see what it will do in the future, look backwards. Consider the cost of a gallon of gas or a postage stamp 30 years ago. Remember your first paycheck? What kind of life would you have living on that paycheck today? Well, that's what you'll be facing 30 years from now. If you don't get your arms around inflation, you're in trouble."

Retirement spending needs may be higher than you expect. Future levels of spending, too, may be hard to gauge. It's easy to underestimate what you'll need. Health care costs are rising faster than the general inflation rate. Your family could experience an unexpected problem, such as a child needing support. Separating your expenses into discrete goals with specific timelines and then factoring in the appropriate inflation rate is wise. You can't take one lump sum and inflate it for 30 years. Do it in pieces, because different costs rise at different rates. That didn't matter when people lived just five or 10 years after retirement. But it can make a huge difference today.

Taxes matter. Like inflation, taxes eat into retirement income, and it's essential to have a retirement plan that minimizes their impact. One major tax-related question involves which source of capital to tap first. The general rule of thumb is to sell from taxable accounts first, tax-deferred accounts next, and tax-free accounts last. Redeeming investments in taxable accounts may result in capital gains, but those are taxed at a much lower rate than income from a 401(k) or IRA. "There's a delicate balance between trying to keep assets tax sheltered and the risk of pushing yourself into a higher tax bracket and losing more of your Social Security benefits," warns Milevsky.



Risk isn't always a four-letter word. Living into your 90s means taking investment risks. But longer retirement time spans also mean weighing different kinds of risk. Bonds, long a favorite retirement asset, generate income and tend to be less risky than stocks. Over three decades or more, however, bonds have barely kept up with inflation, and that poses another risk—of running out of money. "The whole 'don't tap the principal' idea can be damaging if it leads you to hold the wrong assets," says Milevsky. "If you're 57, say, and have 30 years to live, you can afford the risk of owning stocks."

Real estate is an asset, too. "During the past 10 to 15 years, our homes have been excellent investments, and our income planning should reflect that, says Bob Curtis, whose company makes MoneyGuidePro, software for wealth managers. Today, real estate is part of your overall available assets." You don't want to treat your home like other investments, but tapping your home's equity through a home equity loan, reverse mortgage or by downsizing to a smaller house is worthy of consideration.

A cash cushion creates comfort. Whereas during your working years you may need to set aside enough cash to cover six months of expenses, during retirement a cushion of one to two years may be better. "This is about meeting emotional needs," Curtis says. "Cash gives you an anchor. If the market turns bad, you'll be more comfortable sticking with your financial plan if you know you have that cash buffer." ●

To Retain Tax Deferral Much Longer

heir's new IRA. If your beneficiary touches the money, he or she will be immediately taxed.

Keep in mind that it doesn't matter when the account owner dies as long as the beneficiary postpones the rollover until 2007. So if the account owner died in 2006, an heir can benefit from the new rules as long as the rollover is made in 2007.

If you've ever changed jobs, you may already have transferred retirement funds from your former employer to an IRA. Until the rules changed, that was the only way to ensure favorable tax treatment for a non-spousal heir. And even now, a rollover is often advisable. IRAs tend to offer a wider range of investment options than you get in a typical 401(k), and it's easier to monitor investments in a single account.

There is at least one advantage to keeping money in a 401(k), however. If you retire, you may begin taking distributions from an employer plan at age 55 without incurring the 10% early withdrawal penalty you would owe for withdrawing assets from an IRA before age 59½. Under the new rules, you can have the penalty-free early access of a 401(k) while also accommodating non-spousal heirs. ●

Why To Consider Selling Assets Before 2011

If you're wavering about whether to sell your grandmother's home or an investment that may still be gaining value, now you can take your time making the decision. Congress recently extended the 15% maximum tax rate on long-term capital gains, a move that is expected to bring a total of $149.7 billion in tax savings to investors. The provision had been set to expire at the end of 2008, but now will remain in effect through 2010.

A long-term capital gain is the profit you earn selling an asset you own for at least one year. If, for instance, you purchased stock for $1,000 and sold it years later for $1,000,000, taxes are calculated based on a $999,000 gain. Until 2003, you'd have owed Uncle Sam as much as 20%—$199,800 in this example. At a 15% rate, you pocket an extra $49,950, owing taxes of only $149,850.

Homeowners who sell enjoy an additional tax break. You can exclude from capital gains up to $250,000 ($500,000 for married couples) of profit on the sale of your home. To qualify, your home must have been your principal residence for at least two of the five years prior to the sale.

What about assets I own for less than a year? When you sell these "short-term" assets, profits are taxed as ordinary income, at a rate of up to 35%. The same rule applies to collectibles such as coins or art regardless of how long you own them.

An extension of lower tax rates on long-term capital gains could save taxpayers a total of $149.7 billion

What if I lose money on a sale? Losses on the sale of long-term assets can offset capital gains, plus you can deduct up to $3,000 in losses from your income each year. Excess losses can be carried forward to future tax returns.

Things may get trickier if you sell inherited assets. Currently, the value of assets you inherit is stepped up to the market value at the death of their owner. When you sell, you're taxed only on profits exceeding what the assets were worth when you received them. For example, if your Uncle leaves you $5 million in stock for which he originally paid $100,000, you're taxed only on sale proceeds exceeding $5 million.

But that tax break ends in 2010, along with the estate tax. If you inherit and sell assets that year, your tax bill will take into account the assets' purchase price. But inheritors will be able to increase the tax basis of total inherited assets by a maximum of $1.3 million. (Surviving spouses can further inflate the basis by up to $3 million.) So if you inherit that $5 million stock your uncle purchased for $100,000, your capital gains will be based on a new tax basis of $1.4 million ($100,000 original basis + $1,300,000 step-up).

If you've hesitated to sell certain assets whose value may still be rising, remember to factor in the new rules on capital gains, which could affect your ultimate tax bill. ●

Leaving A Legacy

(Continued from page 1)

recording, and transmitting her life story. To begin, Wagner asks the film subject to fill out a long questionnaire, then she interviews the person off-camera. "It tends to be a very emotional experience," she says. Next there's a one-day shoot at a place the client chooses. It might be a living room or study, the back yard, a porch at the family summer place overlooking the sea. Usually Wagner herself questions the client during three to four hours of filming. Finally, the digital footage is edited down to 30 to 45 minutes of the subject looking directly into the camera and telling her story. The final version, as well as the longer filmed interview, is transferred to a gold-plated archival DVD.

What families choose to preserve, of course, varies widely. In some videos, people simply discuss where they've been and what they've done, describing friendships, accomplishments, and values. Others may be more directly instructive, such as the client who talked about her time-management skills, explaining that "if you take a project and do a little bit of this and a little bit of that, every single day, after five days of doing a little bit of project A, you've done a lot on project A by Friday."

With the high-ticket productions, Wagner does a private screening, complete with champagne and popcorn, at a venue of the client's choosing. For the ethical wills, the showing is up to you, though with virtually every video Wagner has produced, clients have immediately shared the finished product with their families. While the ultimate goal is to preserve family history, it's inevitably illuminating to listen to an 80-year-old grandparent talk about all he has seen and done in eight decades on the planet. "These screenings are highly charged, extremely loving occasions," Wagner says.

Recently, Wagner lost her first client; she had been 99 during the filming, and 101 when she died. Wagner worried that the family would find it too painful to watch the video, but in fact within a few hours of the death, everyone was gathered around a television, watching, laughing, crying—and remembering. That, Wagner says, is exactly the point. ●

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