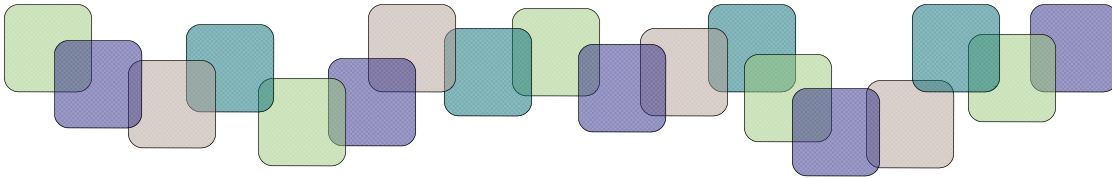


The PERIODIC PONDERANCE

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Honoring your worth/Taking care of your wealth



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ON MY HONOR I WILL TRY . . .

– Girl Scout Promise

A New Year's Resolution is a commitment that an individual makes to a personal goal, project, or the reforming of a habit. This lifestyle change is generally interpreted as advantageous. A New Year's Resolution is generally a goal someone sets out to accomplish in the coming year. Some examples include resolutions to donate to the poor more often, to become more assertive, or to become more environmentally responsible. A key element of a New Year's Resolution that sets it apart from other resolutions is that it is made in anticipation of the New Year, and new beginnings. The concept is to reflect upon self-improvement annually. Popular resolutions include such goals as: Lose weight/exercise more, manage money better, read more, learn a foreign language, volunteer more, quit smoking, etc.



Recent research shows that while 52% of participants in a resolution study were confident of success with their goals, only 12% actually achieved their goals. A separate study in 2007 by Richard Wiseman from the University of Bristol showed that 78% of those who set New Year's Resolutions fail. Men achieved their goal 22% more often when they engaged in goal setting (a system where small measurable goals are set; such as, a pound a week, instead of saying "lose weight:"), while women succeeded 10% more when they made their goals public and got support from their friends.

Personally, I don't believe in New Year's Resolutions, as I feel they invite failure. As anyone who's ever changed a habit knows, success is rarely attained without a personal conviction. The fact that New Year's Day is the popular time to start a self-improvement project doesn't necessarily mean that a strong personal commitment is present on that specific date. All that said, I made one New Year's Resolution anyway—I resolved to be a kinder, gentler commuter. In my case, that means not turning on my cruise control because for some reason, when it is on, I become this road demon, mentally railing at slower drivers to get out of my way and taking foolish chances to get around them. Do I have the power of my conviction to be successful? I don't know. I've read that it takes 21 days to change or create a habit. As I write this, I'm on day 13, hanging in, so far—and enjoying the ride!

~Barbara Denny

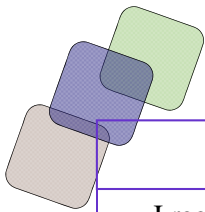
(The first two paragraphs are from Wikipedia®, New Year's Resolutions, used under the Creative Commons Attribution-ShareAlike License.)



TWC HAPPENINGS

Myra's new book, *Living Richly: Seizing the Potential of Inherited Wealth* has been published and is available in hardcopy on Amazon.com or by contacting us at twc@thewealthconservancy.com or by going to our website, thewealthconservancy.com. Electronic versions can be purchased from Amazon, BarnesandNoble.com, Borders.com bookstores and iTunes.

We have a Smart Board™! This new technology will allow us to conduct interactive meetings with individuals outside our office. Those interested in meeting this way will be able to see everything we can see, in real time, so diagrams, charts, etc., will be easier to understand, update and edit. For in-house meetings, the large size of the board will make it easier for everyone to be on the same page. Ask Jason for more information or to get set-up instructions.



BACK TO BASICS

I recently attended a continuing education webinar by Jim Grubman, a noted psychologist who specializes in working with financially related psychosis. The seminar gave me reason to pause and think about what we as financial advisors can accomplish and how we provide value to clients.

Some background: One common type of trust is an incentive trust. This trust has certain objectives that must be met (or not) for beneficiaries to receive distributions. For example, a trust might require the beneficiary to obtain a college degree, be employed and/or do volunteer work to get a distribution. In the alternative, it could withhold distributions if the beneficiary is party to a lawsuit or uses drugs.

Jim believes that incentive trusts, while often created with the best of intentions, can lead to poor results. Many beneficiaries harbor resentment about someone else trying to exercise control over their life choices. He also believes that trusts could be much more effective (and the relationships among grantors, beneficiaries, and their money could be much healthier) if rather than using incentives based on lifestyle choices, these trusts encouraged mastery of certain basic financial skills such as living within one's means; regularly saving; managing debt and credit; maintaining an accounting of one's net worth, income and spending; investing; and generating income for spending. (Jim's name for this trust is the Financial Skills Trust.)

This basic financial-skills-mastery requirement makes sense to me. Even people who have more than enough assets to meet their needs would be wise to practice savings and have at least a rough idea of their net worth and where they spend their money. These are basic skills that can help people determine whether their lives are aligned with their spending. Even if there is more than enough, it is important to set an example for children and extended family.

Jim's presentation was geared specifically toward trusts and what he believes are the shortcomings of in-

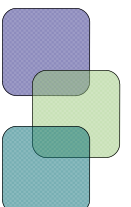
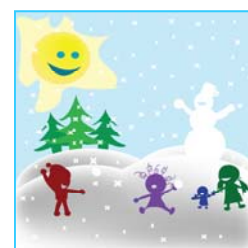
centive trusts: they are not effective tools to teach or enforce behaviors that should have been taught by parents. I'm not convinced, though, that trusts are the best tools to be teaching life skills, either. Corporate trustees often manage multiple relationships, and while they are well educated in legal and fiduciary responsibilities, they may not be good teachers and often are not interested in areas beyond their direct control. Individual trustees may not have the skills or interest to help beneficiaries develop, either. Financial professionals like myself, though, are perfectly suited to help guide clients in developing their skills.

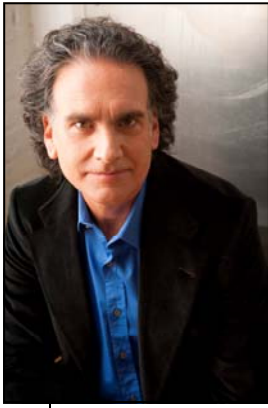
All of this got me to wondering how many clients of TWC have mastered these skills, and what do we do in our coaching to help them with this? The answer is that we do quite a bit, and the approach is tailored for each client. Part of our coaching work includes helping clients define their financial parameters: we determine current spending and satiation spending, or how much they would spend if there were no limits. We prepare capital projections to help clients determine the effect of spending levels, special purchases, earned income, market events, etc., on their portfolio. If clients are struggling with overspending or other issues, we help them understand the reasons behind their behavior so that they might be successful in changing their habits. We regularly assist clients in determining their "nut," or the portion of their portfolio needed to support their satiation spending. Additional assets can be used to benefit charity or family, and clients frequently ask for guidance in directing these assets. We also provide net worth reports, which tie together a client's entire financial picture, and in hiring Steve to manage their portfolios, clients are taking responsibility for their wealth without actually having to do it themselves.

If you have questions about any of the services I just mentioned, incentive trusts, or how we might help you with these basic financial skills, please feel free to contact your planner. We are always happy to help!

~ Raquel Hinman

"It's fitting that April 14 is National Pecan Day because that day we recognize nuts. And on April 15, we pay our taxes to support them."
-Craig Ferguson





PERIODIC PROFILES: Peter Buffett—Part II

Last quarter we introduced you to Peter Buffett, author, philanthropist, composer and Emmy Award-winning musician—and, one might venture to say, philosopher. In his book *Life Is What You Make It*, Peter tells of the strong values passed down by his mother and father, and how these values served him in forging his own path to personal success and fulfillment, in spite of being the son Warren Buffett.

In Myra's interview with Peter, his thoughtful and candid responses made for an interview so rich, we didn't want to condense it into the allotted space and so decided to offer it in two parts. In this edition of *The Periodic Ponderance*, we offer Part II.

Myra: With my clients and in my workshops, I use your father's philosophy about giving enough that you can do anything but not so much that you can do nothing. For someone who's inherited so much that they can do nothing, it's very hard to fathom not passing that legacy along; they don't know any different, and they don't have the tools to teach their children how to do on their own because they haven't learned it themselves. So, let's say your father died and surprised you by leaving you a billion dollars. And that if you weren't to survive him it would go to your daughters. How would you want that to come and be passed along to them?

Peter: First I will address the idea of the people who have been given enough to do nothing. I think one issue might be that they feel, in a sense so . . . guilty is the wrong word, but that they didn't have to do anything [and then] to have their children do something might feel disingenuous, or it would eat away at them a little bit psychologically—almost like some reversal of survivor's guilt.

With my own daughters, I would not give them all that money, absolutely, and it's because I've learned the value of not having enough to do nothing. So, in other words, if I was somehow given a billion dollars, which is definitely a hypothetical, by the way (*Peter and Myra share a laugh.*), I would give \$990 million of it or more away, and give [my daughters] something in the neighborhood of a few million dollars each. That would be my recommendation.

Myra: Do you think you would give it away in a form in which your daughters could control it like your foundation?

I might give them some of it that they could control, and the reason is because my parents created our foundation over a long period of time. If I had that kind of money now, I might give them a small amount now to see if they even liked it and wanted to do it, because not everyone is interested, necessarily. My parents started us out with \$100,000 to give away and then that increased over time to what it is today, which, of course, is a huge number—it's a billion dollars. So, if it happened relatively soon, I would give them some to give away but not all of it, because I wouldn't want to essentially shoulder them with that responsibility if they didn't want it or weren't prepared to take it. I joke with my dad about how he didn't ask if we wanted the billion-dollar foundation, but at the same time, he did. My parents both, over the course of six or seven years or more, got us thinking about philanthropy. It started with smaller numbers and then they grew it over the time that they saw that we were really interested and engaged in it.

Myra: How would you say you divided your time between your philanthropic work and your Concert & Conversation [shows], and your book tours and your business?

It's been an interesting few years, for sure, because I was composing music for most of my life and then this happened with the foundation, and for about two and a half years, [my wife] Jennifer and I were solely focused on that. I was still working in music because that just comes out of me whether I like it or not, so I was still creating music on the evenings and weekends. But when my dad made his announcement, he asked if this would affect my music, and I really didn't know what he was talking about. I thought that seemed like such a strange question, and in fact, he was exactly right: it affected my music tremendously because since I could walk over to the piano, my experiences informed what was coming out of my fingers and on to the piano. So, of course, I was getting a lot more experiences in different ways once we started doing the philanthropic work.

So my music took a turn. In some ways it led to the book, and so what I've now been trying to find is the balance of staying close to the ground as much as I can with the foundation work while being out with the show talking a lot about some of the things we've been talking about here and doing advocacy, to some extent, on behalf of some of the work we do.

While my Concert & Conversations show is really in a lot of ways based on the book, there's a good chunk of it that talks very much about the philanthropic work that we do and the experiences I've had, so I feel like I'm the best advocate for our

(Continued on page 5, see Buffett)

WHO ARE THE LUXURY SPENDERS?

With luxury spending on the rise again, companies are focused on studying who is the “luxury consumer.” BCG Research recently did a study on luxury consumers that the Wall Street Journal reported on in the December 23, 2010 issue. BCG identified five groups of luxury consumers across six markets – U.S., Brazil, China, Japan, Russia and Europe. The groups are:



The Aspirational - \$85,000 or more in annual income, together they account for 1/3 of all luxury spending.

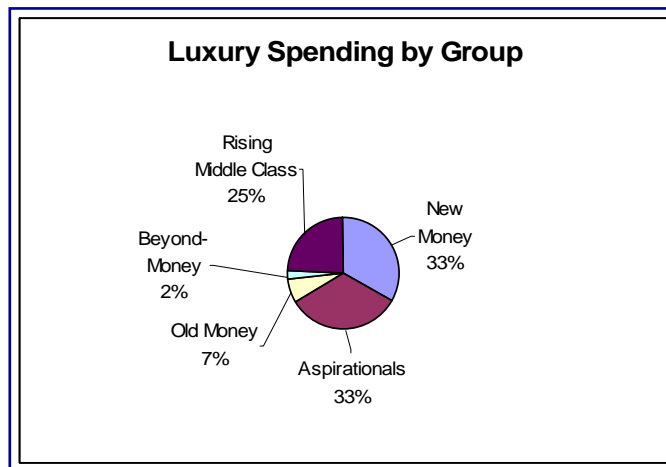
Rising Middle Class - \$170,000 or more in annual income, accounting for 25% of luxury spending, especially cosmetics, fragrances and leather goods.

New Money Households – Investible assets of \$1 million or more, they account for 1/3 of the luxury spending market, and prefer fashion and clothing.

Old Money Households – Inheritors are frugal, and account for 7% of luxury sales.

Beyond-Money Households - Perhaps self-made, but shun status spending. When they do spend, it is on watches, jewelry and furniture decorations.

This pie chart summarizes the above at a glance:



The report also noted that as a result of the financial crisis, luxury spending has lost its mystique. In fact, according to the July 21, 2010, Reuters article, *U.S. Luxury Spending Grows, Wealthy are Happy Survey*, while luxury spending was predicted to rise among wealthy Americans (households with an average income of more than \$235,000), wealthy Americans report being happier now than before the recession. Spending less money on purchases and spending more time with family gave people confidence that they could successfully survive a recession, and profoundly shifted people’s attitude that the life they lead is what is important.

~Melissa Hoyer

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“... And on Wall Street, the markets generated another exciting day’s worth of meaningless white noise.”

(Buffett, continued from page 3)

work by doing my shows. The trick is how to balance that so I stay connected and grounded with the work, but I can still be out there performing as well. And I'm still finding that balance.

Myra: Where are you going to be in 10 years?

Peter: I sure didn't know I was going to be here 10 years ago. So I will tell you that my life has been full of surprises. Because I didn't have expectations of an outcome, I would do things because I was driven to do things more from an artistic tendency, and they led me places I never could have predicted. So I'm sure I will be surprised at where I am in 10 years, and at the same time, if I'm doing exactly the same thing, I'll be very happy.

Myra: What can you tell us about you that we wouldn't read about, we wouldn't know about, that would be kind of a surprise?

Peter: Being an artist (although that's not my favorite term), but being someone who creates things and puts their insides out into the world, people know pretty much everything about me. If you read into the songs enough, you pretty much get a picture of where I'm at, what I'm thinking, how I'm feeling. One reason I wrote the book is that the surprises are how simple I live, how **simply** I grew up. [The book] illustrates that the outside assumption around who I am or who my dad is or what it was like growing up or what it's like now are mostly false, and it tries to recalibrate that. So, because I'm the kind of person that is putting everything in my head out in some form, there aren't very many surprises.

Myra: So you're pretty satisfied.

Peter: I am very satisfied. I have to say that. And it's not because I set out to say this is what I want to do, and I've gotten there—it's because I've been led by my music and my intuition and my gut feeling, and it's taken me places that some sort of planned trajectory never could have gotten me. Ever. And that's, I think, the most satisfying. I challenge myself and then I'm surprised at where that takes me, pretty consistently.

(For information about Peter's book, including how to order, and a list of his upcoming performances, "A Concert & Conversation with Peter Buffett," visit his website, perterbuffett.com.)

NEW YEAR, OLD TAX LAW?

Happy New Year! Everything I'm about to tell you regarding the legislation that was passed in December 2010 currently applies to tax years 2011 and 2012 ONLY. Beyond that . . . who knows???

By now, you've probably heard that income tax rates will remain the same. Additionally, capital-gains and dividend tax rates won't change. What you may not have heard is that the estate, gift, and GST (Generation-Skipping Tax) exemption will be \$5 million per person (\$10 million per couple) with a top tax rate of 35%. Any unused exemption amounts from the estate of the first spouse to die may be transferred (by the executor) to the surviving spouse without the use of complex estate planning tools like trusts. For example, if John Doe dies having only used \$3 million of his \$5 million exemption (and his executor makes the appropriate election), the remaining \$2 million can be used by his surviving wife. She would have a total exemption amount of \$7 million available for use.

Two other beneficial pieces of the legislation include the following:

- (1) The repeal of the personal exemption phase-out and the itemized deduction limit has been continued. This means that a taxpayer's income will not prohibit his or her ability to use either one.
- (2) The allowance of tax-free distributions of up to \$100,000 from IRAs for charitable purposes has also been continued.

Please let us know if you have any questions about the new legislation and/or how it might affect your particular situation. With that said, your BEST source of information on tax law is always your CPA or tax attorney. Don't be afraid to get in touch with him or her, especially this time of year!

~Brian Littlejohn

Here's my proposal, which is based on the TV show Survivor: We put the entire Congress on an island. All the food on this island is locked inside a vault, which can be opened only by an ordinary American taxpayer named Bob. Every day, the congresspersons are given a section of the Tax Code, which they must rewrite so that Bob can understand it. If he can, he lets them eat that day; if he can't, he doesn't.

~Dave Barry

5

And ye, who have met with Adversity's blast,
And been bow'd to the earth by its fury;
To whom the Twelve Months, that have recently pass'd
Were as harsh as a prejudiced jury –
Still, fill to the Future! and join in our chime,
The regrets of remembrance to cozen,
And having obtained a New Trial of Time,
Shout in hopes of a kindlier dozen.

~Thomas Hood