FINANCIAL DECISION PARTNERS
Financial Planning & Investment Management

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What Are Your Rights as the Beneficiary of a Trust?

If you have been named as a beneficiary of a trust, you probably have many questions about what comes next. Trust beneficiaries are usually entitled to income from the trust. The trustee who is in charge of the trust is responsible to make sure that assets from the trust are invested well and productively. The following are some of your rights.

- **The right to an accounting of investments:** Trustees typically decide how the principal of the trust will be used. As a result, the law requires that trustees act prudently with investments, diversifying so that all the assets of the trust are not in one place, which would put them at risk and could limit returns. If you have questions or concerns about the trustee's decisions for the investments, you have the right to request an accounting of investments. This accounting report will detail every investment and its gains and losses.
- **The right to receive annual trust reports:** Trust reports contain information that includes the income that was produced by the trust and expenses and commissions paid out. Traditionally, these reports should be mailed out annually.
- **The right to request a new trustee:** If a trustee is being difficult, uncooperative, or refusing to do the job, you can request a new trustee. This typically requires a legal filing and a ruling by the court. If the reason for the request is because of large losses of principal, the trustee also may be required to repay the trust if he/she was found to be liable.
- **The right to sue the trustee:** The trustee can be held liable for loss of trust assets and for income that would have been earned but for the wrongful conduct by the trustee. The trustee has a fiduciary duty to manage the trust with due care and caution and must be loyal and impartial to the beneficiaries.
- **The right to terminate the trust:** If all the beneficiaries on a trust are "adults of sound mind," the trust can be terminated if the court determines that the intent of the creator of the trust has either already been accomplished or cannot be accomplished for reasons such as impossibility. All the trust beneficiaries must agree, including those beneficiaries of the trust that are entitled to the remainder of the trust assets after the trust would have naturally ended. Some trusts are difficult to terminate, such as spendthrift trusts where the settlor clearly intended that the trust assets be withheld and protected from the beneficiaries and their creditors.

Being named as a beneficiary of a trust is indeed a welcome event, but not without its complications and, if handled improperly, unfortunate consequences. For help understanding your rights and protecting your inheritance, it may be wise to engage the services of an experienced trust attorney.

The information in this communication is not intended to be legal advice and should not be treated as such. Each individual's situation is different. You should contact your legal professional to discuss your personal situation.

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Divorcing Later in Life? What to Know

Divorce can be a complicated and challenging process in which details are easily overlooked. It is important to know the laws that shape divorce proceedings and to understand the impact they have on your assets. This is especially true for those aged 50 and older. Why? Because this group is getting divorced at a greater rate than other age groups. In fact, according to a recent study, the divorce rate for those aged 50 and older has doubled since 1990.[1]

Assets

Typically, everything you and your spouse acquired from the day you were married is subject to division. Exceptions include individual inheritances, gifts to an individual spouse, and assets acquired before marriage. When assets are divided, the court considers each spouse's earning potential, the length of the marriage, and each spouse's contribution to building household assets.

The exception to this is the nine community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Under the laws of these states, almost all assets are divided equally.

Debt

If you live in a community property state, debt, like your assets, will be divided with your former partner. You will be responsible for half of all debt in jointly held accounts and, in some cases, half of a former spouse's debt as well.

If you do not live in a community property state, you remain responsible for your individual debt (but not your spouse's) and any debt in jointly held accounts. Many couples include debt payment as part of the settlement.

If you and your spouse own a home that has appreciated in value, consider whether you want to sell it before the divorce is finalized. Federal tax rules offer an exclusion of up to $500,000 in realized capital gains for married taxpayers. This amount is cut in half for single filers. Be sure to consult a tax advisor for additional information about these rules.

Retirement Assets

Money in your defined contribution or pension plan may legally be divided during a divorce. The divisible amount begins to accumulate on the day you are married and ends on the day you are divorced.
To claim a share of a spouse's plan benefits, you need to obtain a court order called a Qualified Domestic Relations Order (QDRO) and provide it to your spouse's plan sponsor before distributions are completed. You and your spouse have the option of deciding to not divide retirement plan assets. Note that traditional and Roth IRAs do not have to be covered by a QDRO, but should be addressed in any settlement.

Estate Planning

You may want to review your will as it may be beneficial to review and amend your estate plan at the same time you commence a divorce proceeding. Also review beneficiary designations for pensions, retirement plans, and life insurance policies.

Social Security

A divorced person is eligible for Social Security benefits based on his/her ex's earnings record if he/she meets all of the following requirements:

- He/she is at least 62 years old.
- He/she was married for at least 10 years.
- He/she didn't marry someone else before age 60.

In order for a person to file for spousal benefits before his/her ex does, he/she must be at least 62 years old and they must have been divorced for at least two years.

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If you find yourself faced with divorce, it is essential to protect your financial future. Enlisting the help of an attorney and carefully monitoring the process can ensure that your interests are considered and that you will not need to revisit the proceeding at a later time.

The information in this communication is not intended to be legal or tax advice and should not be treated as such. Each individual's situation is different. You should contact your legal and/or tax professionals to discuss your personal situation.

Source/Disclaimer:
[1]Source: The National Center for Family and Marriage Research at Bowling Green State University, "Divorce in Middle and Later Life," March 2012.

Looking for Income? Consider REITs

For most Americans, an investment in real estate begins and ends with the purchase of a home. Yet investments in commercial real estate -- including shopping centers, office buildings, and hotels -- may be available to investors.

Real estate investment trusts (REITs) allow individuals to invest in large-scale, income-producing real estate. REIT performance has varied historically, with a total annualized return of 11.78% over the past 10 years, and a 19.70% return in 2012.[1]

Types of REITs
There are more than 100 publicly traded REITs, according to the National Association of REITs (NAREIT).

- Equity REITs, which directly own real estate assets, make up most of the market.
- Mortgage REITs loan money to real estate owners or invest in existing mortgages or mortgage-backed securities.
- Hybrid REITs combine the investing strategies of both equity and mortgage REITs.

REITs resemble closed-end mutual funds, with a fixed number of shares outstanding. REITs are also traded like closed-end funds, offering a price per share. Unlike a closed-end fund, however, REITs measure performance by funds from operations (FFO) rather than by net asset value. FFO is defined as net income plus depreciation and amortization, excluding gains or losses from debt restructurings and from sales of properties. REITs' growth benchmark is FFO growth, while valuation is reflected in an FFO multiple (share price divided by FFO) rather than in a price-to-earnings ratio.

The REIT Appeal
REITs offer a number of potential advantages, including the following.

- **Diversification:** REITs can help to diversify an equity portfolio weighted to stocks in other industries. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.
- **Built-in management:** Each REIT has a management team, sparing investors the effort of researching each property's management team.

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- **Liquidity:** Because REIT shares are traded on the major stock exchanges, they are more readily converted into cash than direct investments in properties. Like direct property investments, REITs may lose value.
- **Tax advantages:** REITs pay no federal corporate income tax and are legally required to distribute at least 90% of their annual taxable income as dividends, eliminating double taxation of income. Investors can also treat a portion of REIT dividends as a return of capital, although those classified as dividends are taxed at ordinary rates.

Weighing the REIT Risks
As with all investments, REITs have specific risks that are worth considering.

- **Lack of industry diversification.** Some REITs limit diversification even further by focusing specifically on niche developments such as golf courses or medical offices.
- **Potential changes in the value of underlying holdings.** These changes can potentially be influenced by cash flow of real estate assets, occupancy rates, zoning, and other issues.
- **Concern about performance metrics.** Critics contend that FFO could be misleading because it adds depreciation back into net income. NAREIT counters that real estate values fluctuate with the market rather than depreciate steadily over time, making FFO a realistic performance measure. Also, REITs may average the rent they will receive over a lease's lifetime rather than report actual rent received, which critics say can further cloud performance figures.
- **Interest rate sensitivity.** If rates and borrowing costs rise, construction projects with marginal funding may be shelved, potentially driving down prices across the REIT industry.
- **Environmental liability.** Companies in the real estate industry are subject to environmental and hazardous waste laws, which could negatively affect their value.

REITs can be a way to add total return potential to a diversified, long-term portfolio. Your financial advisor can help you decide whether an allocation to a REIT could help you pursue your financial goals.

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Source/Disclaimer:
[1]Source: NAREIT Equity REIT Index, for the period ended December 31, 2012. Past performance is not a guarantee of future results. Individuals cannot invest directly in an index.

Six Simple Ways to Value a Stock

Investors are always searching for methods to help them determine whether a company is worth investing in. There are many means of stock valuation, some simple, some more complex.[1]

Why is stock valuation so important? If the market price of the company's stock is greater than the company's intrinsic value, an investor might choose to stay away. If the market price of the company's stock is less than the company's intrinsic value, the investor may choose to buy the stock.

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Here are six key valuation methods:

Price-to-Earnings Ratio (P/E)
The price-to-earnings ratio (P/E) is a valuation method used to compare a company's current share price with its per-share earnings. Its formula is calculated by dividing its market value per share by its earnings per share. The P/E is one of the most widely used ratios, and it is used to compare the financial performance of different companies, industries, and markets. The company's forecast P/E (its P/E for the upcoming year) is generally considered more important than its historical P/E.

Price-to-Earnings Growth Ratio (PEG)
The P/E ratio is a snapshot of where a company is, and the PEG ratio is a graph plotting where it has been. The PEG ratio incorporates the historical growth rate of the company's earnings. This ratio also tells you how your stock stacks up against another stock. The PEG ratio is calculated by taking the P/E ratio of a company and dividing it by the year-over-year growth rate of its earnings.

Price-to-Book Ratio (P/B)
The price-to-book ratio measures a company's market price in relation to its book value. Its formula is calculated by dividing the company's stock by its book value per share. Book value can be found in the company's balance sheet, usually listed as "stockholder equity." It represents the value of a company's total assets subtracted by its total liabilities. The P/B does not consider the actual value of the assets, only the nondepreciated portion of the assets. Like most ratios, it's best to compare P/B ratios within industries. For example, tech stocks often trade above book value, while financial stocks often trade below book value.

Price-to-Sales Ratio (P/S)
The price-to-sales ratio helps determine a stock's relative valuation. Its formula is calculated by dividing the company's price per share by its annual net sales per share. Price-to-sales ratio is considered a relative valuation measure because it's only useful when it's compared with the P/S ratio of other firms. The P/S ratio varies dramatically by industry, so when comparing P/S ratios, make sure the firms are within the same industry.

Return on Equity (ROE)
The ROE is calculated by dividing a company's earnings per share by its book values per share. The ROE is a measure of how well the company is utilizing its assets to make money. Understanding the trend of ROE is important because it indicates whether the company is improving its financial position or not.

Dividend Payout Ratio
This ratio is calculated by dividing the dividends paid by a company by its earnings. The dividend payout ratio can also be calculated as dividends per share divided by earnings per share. A high dividend payout ratio indicates that the company is returning a large percentage of company profits back to the shareholders. A low dividend payout ratio indicates that the company is retaining most of its profits for internal growth.

Source/Disclaimer:
[1]Investing in stock involves risk, including loss of principal.

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