



# OBSERVATIONS

Spring 2006

To: Clients and Friends of Moneta Group Investment Advisors, LLC

From:

## Passing the Bucks... The Transfer of Wealth

AARP tells us that 80% of all inherited wealth is gone within 18 months.

While that statistic seems staggering to many, as experienced practitioners in providing Family CFO Services, the numbers are not surprising to us. By and large, inheritors of wealth have no appreciation of what is required to build it.

While many of our clients have made provisions for a portion of their estate to go to charity, most plan on the majority being passed on to their family.

Below are some points you should consider:

- Should we have a family meeting with our children to discuss this issue?
- If we decide to have this meeting, at what point in our children's lives should it take place? *(Note: Generally we suggest that family members not be informed until they are well established in their careers. Remember, age is no measure of financial expertise or responsibility.)*
- At this meeting, how much detail should be divulged?
- Should our Moneta Principal and/or our attorney be involved in the meeting?

Reasons to have this meeting include:

- Providing proper guidance on the management of the assets.
- Creating a family mission statement. This could apply to charitable inclinations and preserving the inheritance for third and even fourth generations.

It's important that you are aware of the dangers of handing over large sums of money. Those dangers might include mismanagement of assets, reckless spending, or a dampened incentive to work.

As with most family issues, the key to managing the transfer of wealth is good communication. Should you need assistance preparing for these conversations, please speak to your Moneta Principal.

P.S. An excellent book on this subject is "Family Wealth: Keeping It in the Family" by James E. Hughes, Jr.

# Observations

## The Taxman Cometh!

It's that time of year when you have rekindled your relationship with your CPA. While this topic is an old standby, it's good to have a reminder of taxes and investments as the landscape changed a bit in 2005 and may continue on the same track in 2006.

Mutual funds are required to distribute dividends and capital gains each year. Capital losses do not flow through to shareholders, but remain on the books of the fund.

After the market declines in 2000 - 2002, many funds erased their pent up gains and actually carried a loss position. Therefore, capital gain distributions all but dried up in recent years.

In 2003 and 2004, the markets had substantial gains, but on a relative basis, very few capital gain distributions were made as these loss positions were used up. In 2005, while market gains were modest, taxable distributions increased as there were no more losses to offset.

When your tax return was completed for the 2005 tax year, you may have had a bit more tax to pay due to these higher distributions. If the market continues to rise, it is likely these distributions will rise too.

From a portfolio standpoint, as the markets have increased, you may have rebalanced the portfolio back to your target mix. This may have required selling something at a gain. While this may hurt a bit at tax time, it is important to not let the "tax tail wag the investment dog." Minimizing taxes is important, but keeping on track with your investment game plan is critical.

What's an investor to do? Hold your less tax efficient funds in your retirement account. Tax efficiency and performance do not go hand in hand. A tax inefficient fund can be a good performer and vice versa. Keep the good inefficient ones in your IRA.

Keep in mind that right now we are at an all time low regarding the tax rate on capital gains and qualified dividends. The federal rate is capped at 15%. This may not stay around forever as it is scheduled to "sunset" in 2008. While the rates are low, this may not be a bad time to pay some tax on those gains.

When selling a position, look for the shares with the highest cost basis. This will minimize the taxable gain.

Consider gifting appreciated shares to charity or a donor advised fund. You realize a tax deduction for the full value of the shares (*assuming you have held them for at least 12 months*) and avoid paying tax on the gain.

Shift appreciated assets to a child in a lower tax bracket and let them make the sale. Certain limitations may apply, but generally, the transfer can decrease the tax liability.

Finally, avoid making large mutual fund purchases near the end of the year. Capital gain distributions are hard to predict since they typically are made right near the end of the year. But if you buy the fund just before the dividend date, you are stuck paying the tax on a year's worth of gains even though you have only held the fund for a few days.

We will guide you through this complex web, but keep in mind, if you make money, sooner or later the IRS wants their share.

Moneta Group Investment Advisors, LLC is required by law to disclose all pertinent information on the firm's operation in an annual Summary Disclosure Statement. Free copies available to anyone upon request.

### PROXY VOTING POLICY

Moneta Group Investment Advisors, LLC has adopted proxy voting policies and procedures reasonably designed to ensure that proxies we are authorized to vote are voted in our client's best interests. As a brief summary our policy requires Moneta principals to review proxy issues on a company-by-company basis and to analyze the economic impact these issues may have on the client's investment objectives. Moneta will give great weight to the views of management only when the issue involved will not have a negative impact on investor values. Our policy also outlines specific factors that a Moneta principal will consider in deciding how to vote proxies relating to director elections, corporate governance, shareholder rights and social and environmental issues. Our policy provides methods of resolving potential conflicts of interests such as requiring a second review by Moneta's compliance officer or disclosing the conflict to the client and obtaining the clients consent.

Moneta principals generally exercise voting authority for client proxies only if specifically requested by the client. For clients who have requested that their Moneta principal vote proxies in their accounts, your Moneta principal will provide you with a written summary of how votes were cast in your accounts with respect to mutual fund and/or public company proxies voted by Moneta in the previous calendar year. You will be responsible for voting proxies in your account unless you notify your Moneta principal and your Moneta principal accepts proxy voting authority.

You may obtain a copy of Moneta's proxy voting policy online through our website at [www.monetagroup.com](http://www.monetagroup.com). You also may call us at 314-726-2300 to request a copy from the Compliance Officer, or write to us at 700 Corporate Park Drive, Suite 300, Clayton, MO 63105, Attn: Proxy Voting Compliance Officer.

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