Helping the affluent weather the financial storm

Given the economic implosion where trillions have been lost in personal investments and wire houses are boarding up like ice cream shops in January, high-net-worth clients are looking to their accountants and wealth management advisors to help preserve their investments amidst rollercoaster swings in the markets.

Compounding their concern over the economic malaise, high-net-worth individuals now also have to worry about the potential affects of President Barack Obama’s tax and economic policies.

Obama is expected to take a more regulated, Clinton-esqueview on family limited partnerships and close any perceived ‘loopholes’ that currently allow clients to transfer assets to minimize their tax burden. Despite the formidable challenges, many financial experts are asking their clients to be patient and not to act on impulse. Many people are concerned about the market dropping and what do you do in an environment like this

Many firms are receiving more frantic calls from clients looking for advice on what to do and whether to pull out from the market altogether. Many people are extremely concerned, and the reason they are concerned is because the assets that are deemed to be safe, such as municipal and corporate bonds, have diminished pretty significantly.

The two fundamental questions to look at are: (1) whether capitalism still works and (2) if there’s a risk premium for investing in equities.

For the ultra-affluent, this is a great time to consider wealth-transfer strategies. Values are low and interest rates are low, making GRATs [grantor retained annuity trusts], installment sales and charitable lead trusts attractive. Act before year-end, since the laws may well change next year. For affluent individuals, updating their financial plans and assessing their retirement plans.

GRATs, charitable remainder trusts and charitable lead trusts, if is not handled right, or if the investments don't' perform like you would expect them to, may not win. You may not get anything, but you may in some cases be no worse off than in you did nothing. But if invested properly, there are major savings for people and a passing of wealth for the next generation with a minimization of transfer taxes. Many people should consider a Roth IRA.

The beauty of the Roth IRA is that if you let it run for five years and once those five years are done [any time after turning 59-1/2], you can take money out of the Roth IRA and there is no income tax. Only people who earn under $100,000 can convert a regular IRA to a Roth IRA. But for 2009 and 2010, there are new regulations out that allow a conversion from a regular IRA to a Roth IRA regardless of your gross income. You have to pay the tax, however, on the money that is rolled over to the Roth IRA.

Let's assume I have a regular IRA that has $1 million but it is now down to $650,000. I can take the $650,000, but roll it into a Roth IRA. I'm going to pay tax on the $650,000, but I'm going to be able to pay the tax over two years. Then the Roth IRA will continue to run for a very long time. There is a significant benefit. It's the silver side of the cloud of the decline in the markets.

The economic environment offers some unique estate-planning opportunities with closely held businesses or real estate.

The lower valuation allows for more effective gifting or sales to younger family members. There are techniques from everything such as a direct gift, to using limited partnership interest, to using a qualified personal residential trust a device from transferring a home or vacation home to the next generation. All of these devices are dependent on getting someone to appraise something that is not liquid. It's challenging: Because people feel poorer, they are not inclined to be generous from a gift point of view, but from an estate-planning point of view, this might be a good time.

Investing in long-term care is another strategy, even for individuals with cash on hand who may think it's not needed.

The higher costs of long-term care, coupled with depressed stock portfolios, make long-term care insurance seem far more attractive. The odds of nursing care destroying a portfolio are statistically higher than the bear market doing it. "Even the affluent are realizing that shifting the risk to an insurance carrier makes more sense.

Investors' major concerns are to decrease that volatility and preserve their capital.

The No. 1 strategy used among many investors is having a disciplined stop-loss price or order that will protect profits that have already been made or prevent further losses, on a portion of the more aggressive stock in a client's portfolio.