

Perspectives - On Business

Volume 3, Issue 16

February 15, 2005

Normally I don't like to comment on proposed legislation for two reasons. First, because the final result seldom resembles the initial draft; second, it saves us from the process of unlearning what did not get enacted. I am making an exception with the Joint Committee Report issued the 27th of January.

There are four areas of the proposed transfer tax legislation that could potentially affect you. In the attempts to "improve tax compliance," some of the better legitimate methods of reducing your estate taxes may be removed.

Four financial planning techniques, currently under threat, could adversely affect your present or proposed estate plan:

1. **Trusts** benefiting multiple generations, such as the Dynasty Trust.
2. **Valuation** discounts for minority interest in a family partnership or LLC.
3. **Crummey** Powers used to fund trusts with annual exclusion gifting.
4. **Donor** retained ownership of college savings plans (529 plans).

These techniques may help you pass your hard-earned estate onto your selected heirs and keep the IRS from becoming the chief benefactor of your life's work. The fact that they are under attack sounds a call to action. Give us a call to discuss what you should be doing now to protect your assets for your business and family. It may behoove you to act now.

Please don't be lulled into thinking these are of little concern. While there is talk, the estate tax is still due to be re-activated. If the estate tax relief is extended, losing these four techniques will unravel the relief that repeal provided you. If the estate tax is reinstated and these four techniques are additionally removed, we could be headed for some of the worst transfer tax scenarios we have seen in years.

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Future Finances' Market Update

By Max Larsen

Monday, February 14, 2005

I want to wish everyone a Happy Valentine! Today's the day when we can unabashedly eat chocolates, cookies and cakes all in the name of love - without feeling guilt. Well, the diet will start tomorrow...

It certainly seems investors are giving valentines to stocks with the Dow and S&P 500 indices up for the third straight week (the NASDAQ had a thorn in its rose since it was down 1/2%). In fact, this was one of the themes in a *Wall Street Journal* article entitled: "Stock Investors Fall in Love Again": "A lot of investors suddenly seemed to lose their passion for stocks last month, but now they may be putting some love back into the relationship."

Is this the start of a good thing? After all, for the first three weeks of January we saw investors closing their wallets - after pumping tons of cash into stocks late in 2004. That's unusual, since January typically is a time when retirement money and other new cash flood in. The media picked up on this mantra and persisted in repeating the myth that "as goes January so goes the year, and as goes the first week of January so goes the whole month." Rubbish, as I have mentioned in past *Updates* this particular statistic only has minor predictive value - but it certainly makes for great headlines.

Still, it's nice seeing investors becoming more bullish and cracking open their wallets in the last few weeks - helping the Dow post a modest gain for the year. But, I doubt if this passion will continue long-term if we don't see the hedge funds and institutions follow suit - which they haven't been.

The big news of the week was the narrowing of the trade gap and the jobless claims falling to a 4-year low. The jobless claims number was certainly positive news since more people working means more consumers. But, before I get overly excited by headlines like: "Trade Gap Narrows" let's take a closer look.

Let's put the Trade Deficit into the right perspective. According to the Commerce Department, it "narrowed" from a record \$59.3 Billion in November to \$56.4 Billion. I know the "glass is half full" camp is touting this as some great shift - but I'm not. At \$56.4 Billion a month, we still have an annual \$675 Billion added to the red side of the ledger, which, by the way, equals \$1.85 Billion a day that we need to attract in foreign investments to finance this "narrowing" number!

There's the rub. I'm wondering how long foreigners are willing to buy our Treasuries. If they stop we could see interest rates rising quickly, which will of course put a damper on future growth. An interesting article I read over the weekend by economist Eric J. Fry said it best:

"China's unwavering willingness to help plug America's growing current account deficit is not a big problem," Donald Straszheim declared yesterday during a panel discussion at the Money Show. "The Chinese understand what they are doing and they are doing it willingly. This is an arrangement between consenting adults."

"Nothing matters more to the Chinese than jobs," the former Merrill Lynch chief economist continued, "and they understand that providing capital to the U.S. helps the American consumer to walk into Wal-mart and buy Chinese products, which helps create jobs back in China... Surely it must end sometime, but who knows when or how."

I think he hit it right on the head when he said "Surely it must end sometime, but who knows when or how." With the Dow less than 100 points short of the 3-1/2 year high of 10854.54 hit in December and the valuations on the high side (the S&P 500's P/E or price to earnings ratio at 20.68 is above the top of its historical range of 10 to 20) I don't see a lot up upside potential for most of the U.S. stocks. Some sectors yes, but not the overall market.

When investing, it's important to know if you are on offense (buying like mad) or defense. Right now I think it's time to get the defense ready to take the field. This doesn't mean hunkering down in a bomb shelter and putting everything under your mattress - that's giving up the ship. Rather, take a close look at your portfolio and do a major re-evaluation.

I've gone over my allotted time for today. Have a wonderful Valentine's Day and a great week my friends.

Thanks to friends like you who refer new business to us, our practice continues to grow.

As always, your comments and reactions are welcome. Please feel free to share this newsletter with others you think may find it interesting or useful. We respect your privacy and will not share your address with others. Click [here](#) to send a comment, to subscribe, or unsubscribe.

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