

January 6, 2006

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## **Preparing to Plan: The Elephant in the Living Room**

Anyone will tell you that estate planning, succession planning and retirement planning are important elements for protecting, growing and preserving family wealth. Yet, many professionals in law, financial planning, accounting, business consulting and the like, can tell countless tales of people who avoid digging in and doing these tasks well. Not creating and working such plans is dangerous business. Still we all know people who, though otherwise responsible, never get around to doing it. Perhaps you are one of those people. Have you ever wondered why?

A major reason for such lapses is the simple fact that many of these issues are emotionally laden. They are fraught with potentially unpleasant pitfalls. Like the elephant in the living room we'd rather not deal with them. We pretend they aren't there. We walk around them, avoid them, and hope that somehow they'll just go away on their own. They seldom do. Just like an elephant in the living room, the longer they are there the more damage they'll do.

What causes prudent, sensible people to tolerate such risks? Usually their reticence stems from the fact that they don't have confidence that, if they put their delicate issues on the table, they'll be able to successfully resolve them...

As readers of my newsletters well know, wealth management is the ultimate goal of all that we do at Hoffman, White and Kaelber. Yes, we promote our services; yet, you will find that we always seek to present thought provoking topics that are relevant to our wide audience.

This month's newsletter, courtesy of Dr. Dan Elash, will discuss one of the most significant obstacles in undertaking to do effective planning. In fact, it may very well explain why some people choose to abandon the decision to plan for the future altogether. Although, those that do, and do it well, can often see immediate measurable results.

Speaking of immediate measurable results, our year end statements are in the mail to our investment management clients and our results, for what many consider has been a so-so year, are definitely worth bragging about! Be sure to look over the HWKFS performance section of this month's letter to see why.

## **The Elephant in the Living Room (continued)**

We left off discussing how "the elephant in the living room" often keeps, even responsible people, from engaging in effective planning. And, introduced the concept that not creating and working estate, succession or retirement plans is dangerous business. Now...

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What causes prudent, sensible people to tolerate such risks? Usually their reticence stems from the fact that they don't have confidence that, if they put their delicate issues on the table, they'll be able to successfully resolve them. They fear that once they open that can of worms, their problems will actually get worse. Perhaps it's your sister's idiot son who feels that he should be at least a vice president in your company. Perhaps it is your daughter's husband who can't wait to get his hands on your money. It may be that you don't trust your children to handle the wealth you've spent a lifetime accumulating. Sometimes, it involves dealing with one or more children you don't like or respect. Perhaps you simply don't know what you'll do with yourself if you retire. The list seems endless, but whatever your reasons, they can grow to enormous proportions if they go unaddressed over time. Anxiety, or a sense of dread, accompanies even fleeting ideas about addressing these issues, and so, we go on pretending we'll deal with them later.

In other areas of your life, you're a problem solver. Indeed, you've resolved the problems that you know how to address. What remains are the one's that are beyond your current abilities. For many people, these deep emotional questions are just too painful to embrace. So they drift along as time passes and the emotional entanglements become evermore complex.

Let's use one more analogy to move us along. Finding the answer to a difficult problem is often likened to trying to find a needle in a haystack. The very image conjures up feelings of frustration. But what would happen if you searched with a powerful magnet? A once overwhelming task would become manageable. Unresolved issues, even emotional ones, can often be solved with new skills or new resources. Success requires you to get the right tools and tackle the task in a thoughtful, considered manner.

There is a family we've worked with that can serve as a useful example. Dad worked with a lawyer and created a trust about 10 years before his death. His concern was to minimize the tax liabilities his family might face upon his death. During the development of his estate plan, he didn't talk with anyone in the family, not his wife (he handled all of their business affairs), nor his children. Over the ensuing years the business grew and some children played different roles in the business, some did not. As the business became more profitable each child developed his or her own expectations about his or her inheritance and how the pie should be divided. At the time of his death only one child was involved in the business and he had worked with his dad throughout his career. Upon dad's death, his wife and one child who had never been in the business became trustees. Mom had no idea how to handle her role. This son, who was a trustee but had no stock in the business, became angry and resentful when the business started paying dividends to mom and the other stockholders but he got nothing. Siblings fought over what the son in the business took in salary, how the business should be run, or should it be liquidated so that no one would get dividends. Family members played multiple roles as trustees, stockholders, board members and operators. Often personal responsibilities clashed with personal agendas depending on which hat a person was wearing. Anger, resentment and frustration filled the interactions of the family, the family that mom wanted to turn to for love and support as she tried to carry on without her husband. On the other hand they had the minimal estate tax burden that dad's estate planning professional had arranged for them.

The point of this example is that there were any numbers of times over the ten years when dad, or both parents, could have addressed and managed the expectations of the various

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children and avoided jarring surprises at the reading of the will. I'm not implying that everyone would have been happy or that it would have been easy, but it would have created a much better outcome for the grieving widow and her family.

Your estate is a large part of your legacy. Take the time to do the sort of due diligence it takes to create the best circumstances for that legacy to be as positive as probable. Ensure that you make protecting your family's intellectual and human wealth as important as protecting its financial wealth. Prudent families are turning to family coaches to help them create comprehensive plans for managing the complex and emotionally charged issues that come with the transfer of wealth and responsibility across generations. The time to start is now. People must be prepared with the knowledge, skills, and personal wherewithal to handle the burden of wealth. Starting early allows you to manage expectations before they spiral out of control. Starting early allows you to guide and develop the skills of the family for working through disappointments, challenges, and opportunities. The period when people are emotionally distraught over the death of a loved one is not the time to ask them to learn these skills on the fly.

### **Concluding Thoughts**

Family councils, one-on-one meetings, and long range developmental plans are important vehicles for ensuring that those left behind have the abilities to use what they are given in the best interest of themselves, individually, and for the well-being of the family as a whole. Gather the resources you feel that you need to step up to the task. Develop your own skill set for addressing these difficult issues. Chase the elephant from your living room. One thing is certain, the longer the elephant is there, the more mess there will be that has to be cleaned up.

### **Hoffman, White & Kaelber Financial Services Investment Performance Update**

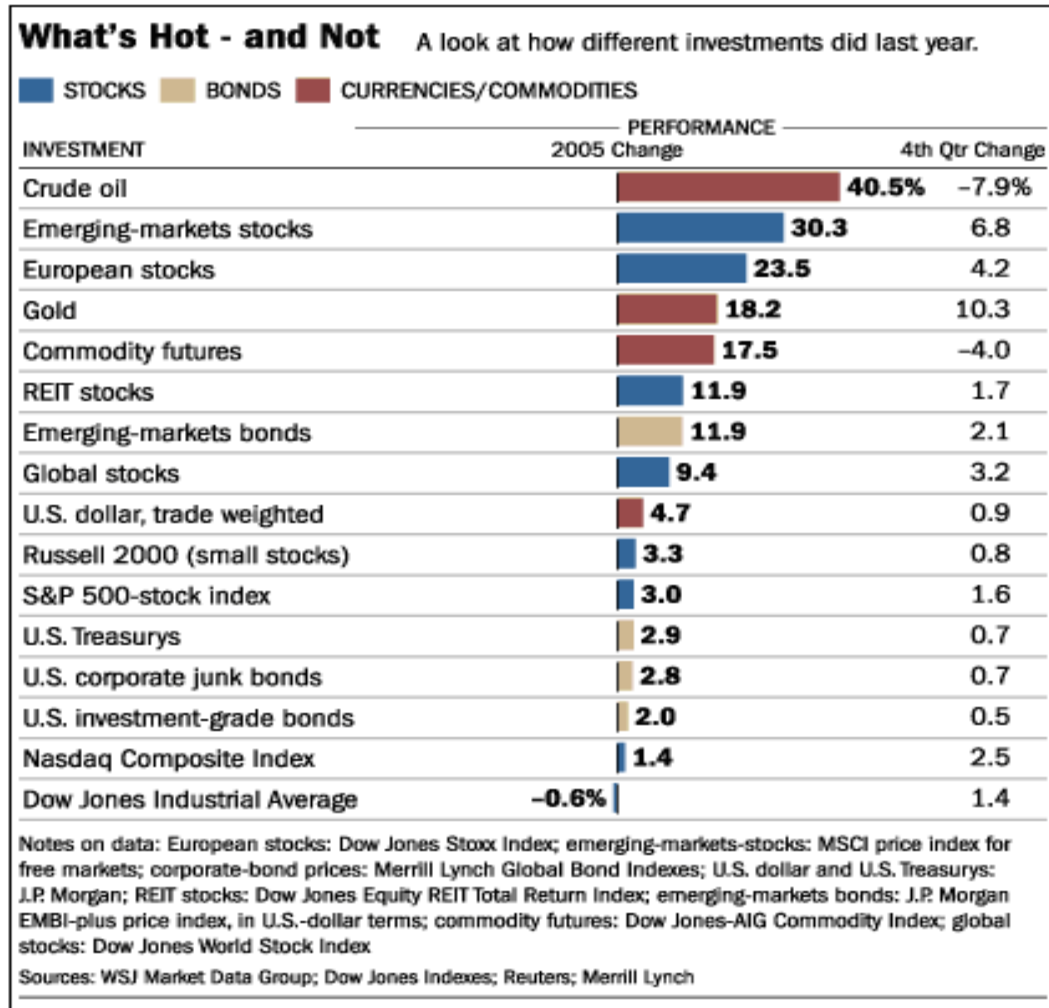
As I reflected in last month's newsletter, the resilience of the US economy in the face of substantially higher oil prices, fed tightening and hurricanes has been amazing. For that matter, the world economy has been resilient against higher oil prices as well. Globally, solid economic growth is expected to continue through 2006 and the Far East is expected to expand more robustly than its global peers. Happy New Year!

For the month ended December 31, 2005, our one-month performance is up 2.36%, our year-to-date return is up 9.53%, and our average annualized return since inception is up 9.83%. Our since inception risk profile remains very conservative at +/- 5.60% and our Sharpe Ratio (reward for risk taken) is admirable at 1.41. For more details, please see our web site. So, how does this performance stack up?

Our client accounts individual full year performance ranged from 10.66% to 9.08% and our weighted average returns across all client accounts was 9.53%. Our portfolio volatility (risk) was less than half of that of the S&P500 (at +/- 3.63%) for the year as well.

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Taking a look at the following chart from the January 3, 2006 issue of the Wall Street Journal: What's Hot . . . and Not



For 2005, we were HOT! When you factor in risk taken, we were RED HOT!

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