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SPECIAL IN THIS ISSUE

California Dumps Hedge Funds: Lessons Learned!

By David G. Dietze, JD, CFA, CFP™

The California Public Employees Retirement System (CalPERS) recently announced that it was exiting its entire $4 billion hedge fund portfolio, including its "funds of funds," meaning investments in funds that in turn invest in hedge funds. Hedge funds are pools of money typically managed to provide stock and bond like returns but with less risk, often by shorting a portion of the market while investing in another portion. Compensation is performance based, typically 20% of profits in addition to a 2% management fee.

Hedge funds performed very well relative to the US stock market in the early part of this century. However, they failed to preserve capital in 2008, dropping 18%, although that loss was less severe than the S&P 500's 37% retreat.

In the last 12 months, to June 30, hedge funds (as measured by the HFRI Fund-Weighted Composite) returned 9%, nearly 16% less than the S&P 500. The story has been much the same over the last ten years, with the hedge fund index lagging every major stock index, long dated government bonds, high yield bonds, and emerging market bonds.

> *"Research indicates that the best predictive factor for the performance of a mutual fund is the fee it charges"*

Interestingly, the hedge fund index has failed over the last 10 years to keep pace with a standard 60/40 blend of stocks and bonds, returning just 5.77% annually versus the blend's 6.64%. The HFRI Fund of Funds Index, measuring performance of those fund of funds, indicates a dismal 3.42% average annual return during the same 10 years.

In a Nutshell

One of the most influential investors in the country is exiting over $4 billion in hedge funds on the grounds that they're too expensive and too complicated. Investors generally should be wary of all investments that are pricey, especially if you don't really understand what they do and how they do it.

CalPERS is also exiting hedge funds after a run of outperformance by stock indices relative to hedge funds. Unfortunately, the timing of its decision may signal some sort of market top. Although we don't know for sure how the proceeds are to be deployed, its change of heart smacks of buying high and selling low.

Keep Your Costs Down

CalPERS cited high costs as an important factor in turning its back on hedge funds. Hedge funds normally charge a 2% management fee, plus 20% of profits, an outrageously high sum.

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Contrast that with Warren Buffett's prescription for his heirs to invest his fortune in the Vanguard 500 fund, which charges a fee of just 0.05%. Assuming a 10% return, that average hedge fund fee would tally to 3.6%, or 72 times the Vanguard fee.

Many hedge fund investors counter that you get what you pay for, and it's worth the higher tab for superior skill. But, when analyzing the subpar performance of hedge funds over the last 10 years, it's hard to see the superior skill.

Unfortunately, when peering into the future, the fees you'll pay are the only certainty, while the skill displayed and the returns to come are, well, uncertain. Consider the esteemed mutual fund analyst Morningstar, whose research indicates that the best predictive factor for the performance of a mutual fund is the fee it charges. Why would it be different with hedge funds?

"Be wary of all investments that are pricey, especially if you don't really understand what they do"

Keep fees and costs in mind when analyzing your investments. Past success in overcoming them is no guarantee of future success.

If You Can't Explain It to Your Twelve Year Old, It's Too Complicated

CalPERS cited complexity as another reason to exit hedge funds. Hedge funds are less regulated than publicly traded companies or mutual funds and so lack transparency for investors to understand their strategies.

Hedge funds often use derivatives, leverage, and complex trading strategies. It's not just about finding great investments, but also about trading them in less than a straight forward manner. That's not easy for investors to understand.

By exiting hedge funds, CalPERS took a page out of famed Magellan fund manager Peter Lynch's thinking, namely you should be able to illustrate what your investment does with a crayon, or explain it in 30 seconds or less. Ditto Warren Buffett, who said you need to be able to explain what a company does. So, understand your investment before you make it. Avoid CalPERS' predicament of only realizing its ignorance after having held hedge funds for years.

Picking an Outstanding Hedge Fund Is No Easier Than Selecting a Great Mutual Fund

When hedge fund experts hear about CalPERS's exit and are asked about the dismal long term returns of the hedge fund indices, the common response is, well that's just the average. If you pick the right hedge fund/hedge fund manager, you'll outperform.

That sounds good, but consider if that's easy or probable. When an institution like CalPERS, with all the resources to hire the best and brightest, can't seem to choose the outperformers, how will you? Consider that funds of hedge funds, which are supposedly the most experienced hedge fund investors and are paid a fee for choosing the best hedge funds, woefully underperformed the index of hedge funds. Be skeptical that anyone can consistently select hedge funds that will outperform the average hedge fund.

Avoid Chasing the Recently Better Performing Investment/Fund/Strategy

CalPERS placed emphasis on cost and complexity in exiting hedge funds. It was not clear how they will redeploy the proceeds. Because traditional investments have recently outperformed hedge funds, CalPERS may well be committing the sin of performance chasing.

After all, the cost and complexity were there five years ago, but back then performance was different, with stocks struggling. Why did they wait until now to make the move, and wouldn't it have been more profitable to have realized the cost and complexity problems then?

Investing 101 says to buy low and sell high. That is not as easy as it sounds, because it requires buying when something is out of favor and selling when something is in favor. Arguably, despite all the resources that CalPERS has, at least in this instance, it is failing to do that.

"The hedge fund index has failed over the last 10 years to keep pace with a standard 60/40 blend of stocks and bonds"

You might wonder if a savvy contrarian would say this is actually the time to dump stocks and get into hedge funds, given stocks' raging bull market and hedge funds' lagging returns.

CalPERS, of course, has lots of constituencies to answer to. You don't, so buy low what is out of favor and sell high when it seems popular to do otherwise.

The Traditional Hedges Are Simpler and More Profitable

The time tested hedge against market volatility is to diversify your equities with fixed income, creating an asset allocation of stocks on the one hand with fixed income and cash on the other. Although fixed income and cash have historically underperformed equities, high quality fixed income has tended to rise when stocks decline, making your portfolio less volatile.

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"We are looking at all data points for weakness/strength in the economy. On balance, strong data will be a boon to equities but put pressure on fixed income. But, a silver lining to weak data will be less risk of premature Fed tightening."

David G. Dietze, JD, CFA, CFP
CNBC, September 25, 2014

Wealth Transfer Planning? There's a Trust for That.

By Claire E. Toth, JD, MLT, CFP™

When most people hear the word "trust," they think complicated setups with big tax savings. That may or may not be the reality. A trust, like a corporation, is merely an entity. Calling something a trust tells you very little about how it works or what its purpose is. People tend to create one of three basic sorts of trusts: for themselves, for loved ones, or for a combination of

charity and themselves or their loved ones. Each of these three basic types of trust has different purposes, different tax consequences, and operates differently.

"Calling something a trust tells you very little about how it works or what its purpose is."

Every trust has three different players: the grantor, who creates the trust and moves assets into it, the trustee, who runs the trust, and the beneficiary, on whose behalf the trust is created. A person can wear one, two, or all of these hats at once.

Revocable Trust/Living Trust

These two terms are used interchangeably and mean the same thing. Typically, you create a trust for your own benefit, transfer your assets into it, and run the trust for yourself. Thus initially, you play all three roles. If at some point during your life, you choose not to or can no longer manage your own money, the successor trustee you have appointed steps in and manages the assets for your benefit. This trust also acts as like a will, stating who receives your assets at your death (for other reasons, you still need an actual will). The trust assets go directly to those beneficiaries, without going through the probate process that otherwise occurs at death.

Importantly, a revocable trust does not save taxes. You are treated as owning all of the assets during your life. You report all of the trust income on your tax return, and if you are subject to estate tax, you are considered to own all of the trust's assets.

So why set up a revocable trust? There are many non-tax reasons. If you live in a state where probate is long, complicated, and expensive (think Florida, New York, California, and New Hampshire, among others), using a revocable trust is standard operating procedure. Trust assets can move directly to heirs without the cost and delay of probate. If you own a vacation home or other real property outside of the state where you live, put it in a revocable trust—otherwise it must go through a probate process in the state where it is located. If you choose to disinherit a family member, a trust can typically better withstand a court challenge than can a will.

More important than these benefits is the benefit to you while you are alive. Most of us who live long enough reach the stage where we shouldn't manage our own financial affairs unassisted. An adult child or other trusted person can far more easily

"A revocable trust does not save taxes."

manage your affairs as trustee of a trust than by using a power of attorney (which you still need for many other reasons). Banks, brokerages, and other financial institutions deal with trusts all the time; it is much more awkward for another person to deal with them on your behalf using a power of attorney. Investors who have reached retirement age should seriously consider incorporating a revocable trust into their estate plans.

Trusts for Others

When most people think of trusts, this is what they conjure up: a rich relative leaving a huge pile of money to heirs, with a bank running the show. Planning professionals speak of these trusts as protecting the beneficiary from "creditors and predators."

Trusts for others can be established during the grantor's life, or at death, under a will or another trust (such as that revocable trust). The trust usually pays out regularly to the beneficiary—its income or a fixed percentage of its value on a regular basis.

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Claire E. Toth, JD, MLT, CFP™

Claire E. Toth, as Vice President of Point View Wealth Management, Inc., provides our clients with tax, financial, and estate planning expertise, enabling the firm to offer fully integrated asset management and financial planning services. She works with clients on issues ranging from financial planning to estate planning.

Previously, Ms. Toth was Of Counsel to the law firm of Herold and Haines, P.A., in Warren, New Jersey, where her practice focused on tax and business planning for closely held businesses and their owners. Before joining Herold and Haines, Ms. Toth was with the IRS Chief Counsel in Washington.

Ms. Toth received her A.B. and J.D. degrees from the University of Chicago, where she was elected to Phi Beta Kappa. She has an M.L.T. from Georgetown University and was awarded the CFP™ designation.

Mutual Fund Investing – What Matters?

By Donna M. St.Amant, MBA, and Portfolio Manager at Point View Wealth Management, Inc.

Mutual funds offer attractive advantages that can enhance many portfolios. They are professionally managed vehicles that provide liquidity for short term cash needs, while at the same time allowing an investor to stay invested in the market. The diversification of mutual funds is a key benefit. It allows smaller investors to gain exposure to markets that would otherwise not be economically feasible via individual stock selections. In addition, they offer the opportunity to invest in unique market segments in which an investor may not have the expertise to invest in single stocks. Further, they are a liquid way to own a less-liquid asset such as bonds. There are a variety of choices when it comes to funds. Here are some points to consider when making a selection:

"A potential investor should consider how the fund's strategy fits in with his or her overall investment portfolio and financial goals."

The fund's investment objective: An actively managed fund is run by a professional manager whose goal is to outperform a certain benchmark, such as the S&P 500. They employ different strategies such as growth, income generation, and asset protection. A fund will typically focus on one, or a blend of these types of strategies. Other funds are passively managed and simply track a particular index, generating a return in line with that index. These objectives dictate what types of companies the fund is looking to invest in and also the fees it charges. These goals determine the risk inherent in one's portfolio and should be considered as part of the overall financial strategy.

Donna St. Amant, MBA

Track record: Consider a mutual fund's track record versus its stated objective and versus that of other funds in the same category. Although historical performance is no guarantee of future results, it can give an indication of how a manager has performed under different market conditions. It is best to review performance over the short and long term. Good performance during a one to three year period, during a strong overall market cycle, can be deceiving. Comparison to a benchmark and review over a ten year period will allow one to review performance through market ups and downs.

Fund Managers: The fund manager determines the objective of the fund, its asset allocation and directs the buying and selling of the underlying securities.

"Good performance during a one to three year period, during a strong overall market cycle, can be deceiving."

Does the fund have an experienced team of managers? The tenure of a fund's management is important. Not only does it tell an investor how much experience a manager has in the market, but a new team may bring a new strategy or direction to the fund that may or may not be aligned with one's goals. Past performance is less relevant if there is a new manager running the fund.

Fees: A mutual fund's expense ratio is the percentage of an investment paid in fees. A higher ratio directly lowers one's long term return. Consider whether the expense ratio of the fund is reasonable for the fund's objective. In addition, funds may carry sales charges that apply when the fund is bought and/or sold. Sometimes these charges are based on the holding period so bear in mind the time horizon of an investment. According to a Morningstar study, expense ratios are the strongest predictors of performance. Across different asset classes and time periods, the funds with lower expense ratios outperformed. As John Bogle stated, "In the short term the impact of costs may appear modest, but over the long run, investment costs become immensely damaging to an investor's standard of living. Think long term!"

"Past performance is less relevant if there is a new manager running the fund."

Turnover Ratio: This is the percentage of a mutual fund's holdings that have been replaced over the past year. It gives an indication of how much trading occurs within the fund. A fund with a high turnover ratio will have higher trading expenses and may generate higher capital gains, all of which will lower the overall return.

Top holdings: Take a look at the mutual fund's largest holdings. What stocks and sectors have the most exposure? These holdings should fit in well and complement an investor's existing holdings. For instance, if an investor holds a concentration in one particular stock from an employer, then that stock should not be a top ten holding in the mutual fund being considered for purchase. The same holds true for industry and sector concentrations.

Risk: The standard deviation of a fund illustrates how volatile the fund's returns are from year to year. The higher the standard deviation; the wider the range between the fund's day to day returns versus the average. More volatility equals more risk. Large swings may not fit with an investor's risk tolerance.

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Funds and ETF's Demystified

By Elaine F. Phipps, MBA, CFA, and Portfolio Manager at Point View Wealth Management, Inc.

Mutual funds offer investors a diversified portfolio of stocks and/or bonds and cash. The benefit to an investor is the ability to profit from this diversification without having to purchase the individual underlying securities. Instead, this can be done quickly with a nominal investment in a mutual fund.

When looking to purchase mutual funds, an investor is often overwhelmed by both the many options and the confusing terminology. Closed-end funds (CEFs), Open-end funds, Exchange-traded funds (ETFs) - what are the differences?

To help facilitate informed investment decisions, here are the basics:

Definitions and Differences

Open-end Funds **–** These are the most common ways to invest in mutual funds. It is estimated that close to 44% of US households owned open-end mutual funds in 2012. The mutual fund company aggregates money from investors on a continual basis. A portfolio manager can then invest in industry sectors and stocks/bonds on a scale that would not be practical for the individual with a limited portfolio. Shares in the funds are bought and sold at the end of each trading day based on the value of the fund's net asset value or NAV. The NAV is determined by taking the market value of the fund and dividing by the number of shares outstanding. The share number changes each day as old investors exit and new investors enter. There is no secondary market for open-end fund shares. Purchases and redemptions are made directly with the fund manager who stands ready to buy and sell shares every day at the market closing price. Liquidity is almost instantaneous as funds will settle the next day.

> *"The benefit is the ability to profit from this diversification without having to purchase the individual underlying securities."*

Closed-end Funds **–** This product has a very long history, having been introduced in the late 19th century. This type of fund has a fixed number of shares that are traded on an exchange. As such, NAV is only part of the pricing determinant as supply and demand come into play. It is common to see closed-end funds trading at a large premium or discount to NAV based on market demand. For a fund that issues a small number of shares and becomes widely sought after either based on performance or market perception, a premium is possible. The exchange traded mechanism also allows this instrument to be bought and sold during the course of the trading day. Closed-end funds tend to be more actively managed, and often employ leverage to generate higher yields. Trade settlement is three business days.

Elaine F. Phipps, MBA, CFA

Exchange Traded Funds **–** ETFs are a relatively new financial product, having been launched about 20 years ago. This type of instrument also trades on a live exchange, but the price tends to track more closely with the NAV than with closed-end funds. That is because the product is somewhat transparent, set up more like an index and passively managed. ETFs also have an innovative structure where shares are created and retired on an active basis by large companies. ETFs allow an investor to sell short, buy on margin, purchase very small amounts and provide settlement in three business days.

Management Styles & Strategies

Mutual funds employ many management styles, the most common being indexed, actively-managed, lifecycle/target dated, balanced and tax-managed. Index funds are developed to track an underlying index such as the S&P 500 and are very low cost. Actively managed funds utilize a portfolio manager's research and expertise, resulting in higher fees and frequently more portfolio turnover. Lifecycle/Target date funds employ a mix of stocks and bonds, usually by investing in other mutual funds. These are used when an investor is trying to reduce risk and become more conservative over time, commonly tied to an event such as retirement or college tuition payments. Lifestyle funds also invest in a mix of stock and bond funds but the mix doesn't change over time. They are marketed to an investor's particular risk tolerance of conservative, moderate or aggressive. Balanced funds offer a set equity/fixed income allocation, typically in the 60%/40% range. Finally, tax-managed funds are designed to limit turnover and thus distributions in order to keep the tax man at bay.

> *"An investor is often overwhelmed by both the many options and the confusing terminology."*

Costs

ETFs and open-ended mutual funds have some of the lowest cost structures out there given the "indexed" and passive nature of their management. Fee ranges on ETF's and index funds should be below 25 basis points, while actively traded ETFs and managed funds may have fees exceeding 1%. The actively traded fee premium is tied to a manager analyzing and trading securities to maximize returns. Commissions and loads should also be

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"Tis Better to Give–and Here's How

By Claire E. Toth, JD, MLT, CFP™

Charitable giving seems to be in the American DNA. In recent years, Charitable Gift Funds, also known as Donor-Advised Funds, have become an increasingly popular gifting vehicle. Fidelity's charitable gift fund is now the second-largest public charity in the U.S., after the United Way. Still, only about five percent of all charitable giving takes place through a gift fund. Take a look and see if they're right for you.

Charitable Gift Funds are typically sponsored by big brokerage firms, such as Fidelity, Schwab, and Vanguard. They are also sponsored by community funds, and sometimes by special interest groups. A donor can establish an account, transfer cash or assets into it, and get an immediate tax deduction. The gifts to charity can come over time. Let's unpack this.

"Only about five percent of all charitable giving takes place through a gift fund."

After the donor sets up an account (minimum account size can vary, typically $5,000 on up), he can fund it with cash, with appreciated stock, or sometimes with non-traditional assets. These can range from gold coins to closely-held stock, depending on what the brokerage firm is willing to accept. For most donors, the best bet is to donate appreciated stock. Not only can you deduct the value of what you donate, but you totally avoid paying tax on the stock's appreciation. That transfer is irrevocable—you cannot change your mind and get your money back.

Typically, the assets are sold and the account invested in mutual funds of the donor's choosing. Any post-donation growth is totally tax-free, albeit not deductible by the donor (or taxable to him). The donor then advises the fund to make cash gifts to charity. Legally, the donor cannot mandate a gift, but so long as the recipient is a recognized charity, the brokerage firm will make it. There is no additional deduction when the gift is made to charity; most charities' thank you letters make it clear the gift is from a gift fund.

Making gifts this way has multiple benefits. First, your accountant will love

you. With a gift fund, you can have as little as one charitable deduction a year; the record-keeping is far simpler. Second, many smaller charities cannot accept stock donations; the gift fund turns your stock donation into the charity's cash gift. Third, you can make gifts as small as $50 (many brokerage firms have a higher minimum gift). This makes gift funds ideal for those numerous, smaller gifts where a stock transfer would simply be unworkable. Fourth, if you manage your gift fund online, it knows what charities you give to—and when. You won't be scratching your head wondering if this is the third time in a year you gave to the same charity, or if you haven't given in 18 months. Finally, gifts can be anonymous if you choose. This cuts down on repeat solicitations for charities you intend to give to only once. Alternatively, you can name your gift fund after your family and have the gifts so designated, much as private family foundations do.

"For most donors, the best bet is to donate appreciated stock."

Gift funds are also useful if you have a big income spike. You can transfer stock to the fund to reduce your income without making direct charitable gifts so large you won't be able to repeat them.

There are a few basic guidelines to keep in mind when using a gift fund. First, if you donate appreciated stock, you must have held it for more than a year to be able to deduct the fair market value. If you have held the stock less than a year, you can only deduct your cost basis. It makes no sense to donate stock that has depreciated in value—instead, sell it, take the capital loss, and donate the cash (or some other appreciated stock).

Gifts out to charity must be outright gifts—you can't use a gift fund to buy tickets to a fundraiser, or for any other transfer where you receive some benefit in return.

If you give stock rather than cash, your tax donation is capped at 30 percent of your adjusted gross income. Admittedly, that isn't an issue for most of us. If the value of your gift exceeds that amount, the unused charitable deduction carries forward to future years.

"With a gift fund, you can have as little as one charitable deduction a year."

Be aware that the ability of certain, higher-income taxpayers to take that charitable deduction is reduced. Once a married couple has income exceeding $305,050 , or a single taxpayer has income exceeding $254,200, itemized deductions are reduced by three percent of the excess over that base. (These amounts adjust annually for inflation.) This reduction has no effect on the amount of capital gains tax avoided by donating appreciated stock to a gift fund. In fact, it makes the stock donation more compelling, because by avoiding capital gains tax, the donor effectively reduces his income. Additionally compelling, donors with this level of income are also subject to the Obamacare 2.9 percent surcharge on capital gains; stock gifts to a gift fund (or to any charity) avoid that as well.

Before you open up that Charitable Gift Fund, do read the fine print. Different sponsors have different internal rules—the minimum account size can differ, the minimum charitable gift can differ, the number of gifts a donor designates each year can differ, and of course, the internal fees on the funds will definitely differ. The rules will also likely differ as to what happens to your gift fund when you die. Typically, you can choose between making

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Wealth Transfer Planning? There's a Trust for That

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The trust principal may be distributed as well, when the beneficiary reaches a certain age, or if it's needed to buy a home, pay medical bills, or fund an education.

"Investors who have reached retirement age should seriously consider incorporating a revocable trust into their estate plans."

As this suggests, trusts for others are almost endlessly flexible. The beneficiary often—but not always—is not considered to own the trust assets. This can save estate tax when the beneficiary dies. During his lifetime, it keeps trust assets out of the hands of creditors, ex-spouses, and the like. Some trusts are set up to last for generations, passing access to—but not legal ownership of—significant money for several decades.

If you live in a state with an estate tax—that includes New York, New Jersey, and Massachusetts, among others—chances are your estate plan includes a trust for the surviving spouse. It may be called a bypass trust or a disclaimer trust. This works to maximize the amount a married couple can exclude from the state estate tax, while still making all the assets available to the survivor.

Special purpose trusts also exist. Life insurance trusts own the policy on the grantor, keeping any proceeds free of estate taxes. Special needs trusts benefit disabled family members without disqualifying them for government assistance programs.

Trusts for Charities

Trusts that benefit both charity and people must follow very specific rules. The trust is divided temporally between the two classes of beneficiaries. If payments to the charity come first, it's known as a charitable lead trust. If the people are paid first, it's a charitable remainder trust. In each case, the first series of payments must be either a percentage of the trust's value or a fixed dollar amount.

Tax law requires that each interest be valued using an interest rate tied to that paid on Treasury bonds. With interest rates at historic lows, this tends to overstate the payments coming out first and understate the remainder. As a result, if you set up a charitable lead trust and leave the remainder to your children, you may be able to transfer significant wealth to your children at a large discount for gift and estate tax purposes.

"Trusts protect the beneficiary from 'creditors and predators.'"

Charitable trusts come with costs and complicated tax rules. They can make sense if you intend to transfer at least $1 million. For smaller amounts, non-trust alternatives will likely serve better.

Mutual Fund Investing – What Matters

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Size: For some types of funds, growing too large too fast can jeopardize the manager's ability to maintain its strategy. For example, small cap growth funds tend to hold stocks that are more thinly traded. The larger a fund becomes the more cash it has to invest, which can be cumbersome in a less liquid market. Also as assets grow, a manager is forced to expand its universe of holdings. The fund begins to become more generic and more like an index fund, yet the investor is still paying the higher fees of an actively managed fund. One other potential issue for larger funds is that it can be more difficult to move in and out of a stock quickly based on a change in the investment view of a particular company.

"According to Morningstar, expense ratios are the strongest predictors of performance."

Taxes: Mutual funds must pay out all capital gains and dividends each year, and these are generally taxable to the holder. Determine the best type of account (taxable or tax-sheltered) in which to hold a given fund and consider tax-free funds for a taxable account.

"For some types of funds, growing too large too fast can jeopardize the manager's ability to maintain its strategy."

All of these elements are disclosed in a mutual fund's prospectus. To further assist an investor, there are also many independent research firms that can aid the evaluation process. Morningstar and Standard & Poor's are two examples of such firms that provide a vast amount of in-depth research on funds and provide rankings versus benchmarks and versus other funds within the same style category.

California Dumps Hedge Funds: Lessons Learned!

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Indeed, a 60% equity/40% fixed income portfolio, using the S&P 500 as your proxy for stocks and the Barclays Aggregate as your benchmark for fixed income, significantly outperformed the hedge fund index over the last ten years. Disciplined rebalancing during this period could have added to the gains of that blend. Plus, you paid a lot less in expenses with the traditional stock/fixed income portfolio.

"Because traditional investments have recently outperformed hedge funds, CalPERS may be performance chasing"

We believe the traditional mix of stocks and bonds is preferable to hedge funds to reduce volatility since it's less expensive and less complex.

'Tis Better to Give – and Here's How

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final gifts that empty the fund, appointing successor owners (a way to involve your children), or some combination of the two. Be certain your gift fund sponsor fits your charitable giving style.

"The ability to designate family members as successor owners can make the gift fund function much like a private foundation."

The ability to designate family members as successor owners can make the gift fund function much like a private foundation. However, a private foundation comes with significant expenses and regulatory oversight. Most trusts and estates attorney don't recommend setting one up for less than $5 million—some set the threshold as high as $20 million. Using a Charitable Gift Fund gets you most of the advantage of a private foundation at a far smaller cost.

Funds and ETF's Demystified

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taken into consideration, especially if an investor is purchasing small amounts on a regular basis. With many no-load, open-end mutual funds, there are no fees on purchases, which is appealing to dollar-cost averaging investors. Closed-end and ETFs often charge a brokerage commission for each purchase or sale, independent of the amount of the investment.

Premium/Discount

Closed-end funds are often traded at a substantial discount to NAV, possibly greater than 10%. This appeals to certain investors who feel they can profit in several ways. Not only do closed-end funds generate an attractive yield, but they can also offer upside profit potential should the discount to NAV disappear as the fund's price appreciates. However, this strategy should be used selectively and an investor needs to do his homework before purchasing.

"Mutual funds employ many management styles."

Yield

Some closed end-funds have enjoyed a recent rally due to their high dividend yields. Many closed-end funds invest in municipal and corporate debt, using leverage to boost returns of as high as 15%. Although this is attractive, especially now as investors search for yield and dividends, these high yields often reflect higher risk. Leverage cuts both ways and with a softening economy, and or rising interest rates, can spell trouble. However, buying the closed-end funds at a substantial discount can help mitigate the risk.

Taxes

A large percentage of closed-end funds invest heavily in bonds and preferred stocks as a way of boosting yield. This yield translates to ordinary income and will be taxed as such. Index funds and ETFs are the big winners in terms of minimizing taxes, as managers do not need to constantly buy and sell securities unless a component of the underlying index has changed.

"Closed-end funds are often traded at a substantial discount to NAV, possibly greater than 10%."

How to Choose

Investors need to focus on their objectives. Are you embarking on a monthly savings plan with small purchases of the fund, or are you prepared to invest a large lump sum? Prioritize what you want in terms of diversification, yield, liquidity and safety. As with any investment, watch expenses, do research on the fund performance, manager and trading history. Although we still believe owning individual stocks gives an investor the ability to create his own mutual fund portfolio with more control and lower costs, the use of funds is appropriate in specific instances.

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