

# Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS

## Enhancing the Client Experience

BY ROBERT G. CARPENTER



**ROBERT CARPENTER**  
President and CEO

**B**WFA has occupied our current office space for nine years. As our client base has grown, the traffic in and out of our meeting rooms has increased substantially, and scheduling of those meetings has occasionally been a challenge. Recently, we learned that we would be able to expand our office space by taking over an adjoining suite. We have decided to take advantage of this opportunity in order to create state-of-the-art conference rooms for client meetings and to improve the work space for our growing team of staff members.

We selected an architect and asked him to create three unique conference rooms:

- *Birdsong Conference Room*

The largest of our conference rooms, the Birdsong Conference Room will seat 30 people, making it large enough to handle a seminar.

- *Washington Room*

The Washington Room will accommodate six people. We think it will come in handy when we are meeting with an extended family, or when we need to bring in several BWFA experts at the same time to tackle complex issues.

- *Baltimore Room*

The Baltimore Room will be the most intimate room, designed for a maximum of four people. Working in a smaller space and without distractions, our advisors will be able to focus closely on an individual's or a couple's needs.

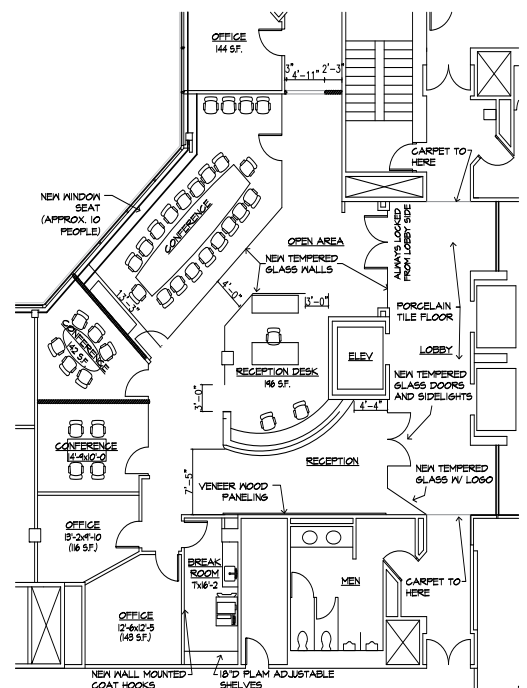
Each of the rooms will have large-screen TV/computer monitors with interactive video telecommunication so we can work with clients throughout the country.

We have asked the designer to use as much glass as possible to maximize natural light in the office. Wherever possible, we have used environmentally friendly green technology.

In conjunction with our landlord at Symphony Woods, we have set a target date of early summer to complete the renovations. We look forward to showing it to our clients and visitors.

Every client conversation and every face-to-face meeting is extremely important to us. Our total commitment includes making our physical space welcoming and productive for our clients' visits.

### Diagram of BWFA's Expanded Office Suite



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## FINANCIAL PLANNING

### The Family Summit

BY MARK STINSON, MBA, CPA | 

**T**hough one of America's wealthiest men, Joseph Kennedy often lectured his family about their extravagance. One evening at dinner, having received a new batch of bills, the senior Kennedy unleashed a barrage of criticism, causing Ethel (Bobby Kennedy's wife) to flee from the room.

Only after much soothing and cajoling from Bobby did she finally agree to return to the table. Father and son then confronted one another, and an ominous silence followed. At last John, endeavoring to break the tension, shrugged his shoulders and turned to Bobby: "We've found the solution," he declared. "Dad's just got to go out and make more money!"

When many people think of estate planning, they think of minimizing taxes. They also think that if they are not wealthy enough to potentially face estate taxes, then they do not need to have an estate plan.

At BWFA, we disagree. We have found, and research supports us, that the number one benefit of a thoughtful estate plan is to maintain family harmony. As one client put it, "I don't want the kids to hate me when I am gone."

BWFA does not want our clients' kids to hate them, either. Nor do we want our clients to hate their parents.

As a result, we have coordinated family summits for numerous clients so that (unlike the Kennedys) they can talk about those difficult issues. We think of these family summits as investments in family harmony.

A family summit can be valuable at any point in the estate planning process. Some families use it as a way to engage in a discussion while the senior members are developing their estate plan.

For other families, the family summit is held after an estate plan has been developed, and the senior members wish to explain their intentions to their heirs.

Depending on the family dynamic, you can share as much or little as you want, and the meeting can be as formal or informal as you like. A BWFA advisor will be in attendance to explain details, as appropriate (and with your permission).

Many families are uncomfortable talking about death and money issues. Yet, we have seen that *not* talking about those issues can be even more painful in the long run. In our experience, one of the major sources of heirs' pain and guilt is not knowing their loved one's wishes and intentions.

Sometimes, heirs become estranged due to disagreements over items that have little financial value but huge emotional value. It's heartbreaking to hear words like this: "I just wish I knew what Mom would have wanted for..." Getting the answers 'right' can have greater lasting impact than financial decisions.

#### ELEMENTS OF AN ESTATE PLAN

In addition to family summits, BWFA offers a full range of estate planning services. We help clients create their estate plans and bring in attorneys to write the documents that accurately reflect their wishes. We also support heirs through the process of transferring wealth with a minimum of delay, cost and confusion.

**A WELL-CRAFTED ESTATE PLAN INCLUDES THE FOLLOWING ESTATE DOCUMENTS:**

##### The Will

To determine who will make sure your assets pass according to your wishes (known as the 'personal representative').

##### The Trust

To make sure assets pass how and when you wish.

##### The Durable Power of Attorney

To determine who (the 'agent') can make financial decisions for you.

##### Advanced Medical Directives

To determine (the 'agent') who can make healthcare decisions for you and let your family and medical staff know about your wishes for medical treatments and life-sustaining measures.

##### Letter of Instruction

To state, in plain English, how your estate is organized, important information about your estate, and any of your wishes that would be impractical to put in your will.

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## INVESTMENT MANAGEMENT

# Making Sure the Right REITs Are in Your Portfolio

BY CHRIS KELLY, CPA | 

A real estate investment trust, or REIT, is a security that trades like a stock on the major exchanges and invests in real estate directly. Typical REITs might include a group of apartment buildings, hotels, commercial real estate, or timber holdings.

REITs receive special tax treatment and typically offer investors high yields, as well as a highly liquid (easily traded) method of investing in real estate. REITs have performed exceptionally well during the last several years. They have provided above-average yields in a historically low-interest-rate environment.

Investors have noticed the outstanding performance of REITs. In their quest for income, they have poured large amounts of cash into the REIT sector, prompting a continual increase in the overall stock price of these securities.

BWFA invests in REITs on behalf of many of its clients, but we are wary about the rising price of REITs, as well as a rush towards REIT conversions by non-traditional companies.

### REIT CONVERSIONS

Wanting a piece of the action, many companies are considering a conversion to a REIT structure. These include companies that seem to be far from the real estate sector: data warehouses, private prisons, car dealerships, and healthcare facilities.

There are various criteria that must be satisfied in order to convert to a REIT, two of the main criteria being: a REIT must derive 75% of its revenue from rents and other direct real-estate activities, and it must pay out at least 90% of its profits to shareholders as dividends. In return, those profits are not taxed at the REIT-company level.

The 90% payout requirement is the reason why REIT securities are so attractive to investors seeking dividend income. Yet this same 90% payout requirement is precisely what can put a REIT into risky circumstances.

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Because REITs cannot stockpile profits for the lean times, they are vulnerable to financial strain when their businesses or the larger economy hits a bump in the road. At those times, a REIT might have difficulty funding current operations.

In some cases, a REIT may have to borrow money in order to fund dividend distributions to shareholders.



In other cases, a REIT might need to sell additional equity or take on additional debt to meet capital needs.

In the short run, additional debt can represent great opportunity for the company, if it has good uses for the investment. But if the costs of borrowing start to overwhelm cash flow, the effects can be catastrophic for the REIT and its investors.

In other words, although a REIT conversion might be beneficial for a stock's price in the short run, if it's done for the wrong underlying reasons, it could backfire.

We believe that REIT investments serve a useful purpose. Unfortunately, there will inevitably be companies that abuse the REIT structure and convert for the wrong reasons.

Our job is to diligently and thoroughly analyze these REIT conversions, while placing primary emphasis on the fundamental strength of company balance sheets, current and projected earnings, and cash flow data -- making sure the right REIT securities are in your portfolio.

*Please contact a BWFA professional or stop by our offices if you'd like to discuss REITs in further detail.*



## TAX SERVICES

# TO FILE OR NOT TO FILE: *That is the Question for April 15th*

BY SHAROLYN HOCKEY

On January 2nd, Congress passed the American Taxpayer Relief Act of 2012, narrowly avoiding the fiscal cliff. The IRS delayed the start of tax season and scrambled to play catch up to the late-hitting changes.

Because of the delay, many of our clients did not receive the information they needed for us to complete their returns. The changes delayed the issuance of 1099s and K-1s. They also affected filers claiming education tax credits or with rental real estate, among others.

The IRS released the last of these forms in early March. This shortened the tax season to less than six weeks. And since some states cannot release their forms until after federal forms are finalized by the IRS, state tax deadlines are even tighter.

The IRS did not extend the filing deadlines for those forms or for the individuals waiting for them. Therefore, we recommended that many of our clients apply for the automatic extension of their filing deadline. Requesting an extension is easy, and it doesn't make filing the return more complicated or expensive. It grants an automatic six-month deferral of the return filing deadline.

To extend, taxpayers file Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, along with any required first-quarter 2013 estimated income tax payments on Form 1040-ES, by April 15th. BWFA's tax advisors can help clients determine if a separate state extension application form should be filed as well.



## TAX CHANGES: A SUMMARY

The American Taxpayer Relief Act of 2012 affected taxpayers with provisions such as the expiration of the payroll tax holiday and the one-year extension of many business tax breaks. For our clients, there are three big changes:

### *INDIVIDUAL TAX RATES*

Lower Bush-era tax rates became permanent for all taxpayers, except those with taxable income above \$400,000 for single filers (\$425,000 for head of household, \$450,000 for married filing jointly). Those high earners will be taxed at 39.6% on earned income and at 20% for capital gains and dividends.

ATRA officially revived the 'Pease' limitation on itemized deductions and the personal exemption phase-out. Thresholds for both increased to \$250,000 of taxable income for unmarried taxpayers and \$300,000 for married couples and surviving spouses.

### *ALTERNATIVE MINIMUM TAX (AMT)*

ATRA increases the AMT exemption amounts for 2012, provides for an annual inflation adjustment to the exemption amounts for subsequent years, and allows nonrefundable personal credits to the full amount of the individual's regular tax and AMT.

### *ESTATE TAX RATES*

ATRA sets the maximum federal estate tax rate at 40%, with an annually adjusted exclusion of \$5.25 million for estates of those passed away after December 31, 2012. It also makes portability between spouses permanent. This portability makes it possible for a surviving spouse to take advantage of the deceased spouses' remaining unused exclusion amount.

*For each extension, BWFA will analyze whether a tax client needs to make an estimated tax payment. Contact BWFA's tax team if you have questions about filing for an extension this year.*



## BUSINESS SERVICES

# BWFA Now Offers Tailored Services for Business Owners

BY MICHAEL MATHEWS

**B**WFA has added a new department that we are calling Business Services. I'm proud to have joined the BWFA team to deliver a comprehensive approach for selling and buying small- and mid-sized privately held businesses.

The idea for offering business services actually came from our clients. Over the years, BWFA has worked with numerous clients who own privately held businesses that are their largest financial asset. We have seen them face challenges in turning these often-illiquid assets into cash that can fund a comfortable retirement. As we have worked on pieces of the puzzle, we have realized that offering a comprehensive approach to help them sell and buy businesses is a very good fit with the existing services that BWFA offers investment management, financial planning, or tax services.

*Here is an overview of the initial Business Services that BWFA is offering:*

### **BUSINESS SUCCESSION Planning and Execution Services**

Business succession planning and execution services assist business owners in understanding the market value of their business so they can optimize the result when they decide to sell. In addition, having this information aids in the actual preparation of the business for sale and the confidential execution of the sales process.

### **BUSINESS VALUATION**

BWFA's business valuation team will determine the current market value of the business. We will also give the owner input about when is the 'right' time to sell to obtain the proceeds to meet their retirement needs.

#### *Preparation of Business for Sale*

Our thorough review of all aspects of the business will help the owner identify which areas can be improved to increase the value of the business to be sold. This analysis is done with our team's experience regarding what buyers look for when acquiring businesses. For example: Are the business's financial statements up-to-date, clear, accurate and detailed enough to maximize the proceeds of a sale? What areas of operational due diligence will the buyer likely want to study? Does the business have proper legal documentation to facilitate a sale?

#### *Business Sale*

The actual sale process includes many complicated steps, and BWFA will be there along the way. We can help develop materials to confidentially market the business for sale, identify potential buyers, and obtain initial offers. After offers have arrived, we can negotiate for the best offer and terms, and then guide the owner towards selecting attorneys and CPAs who will help with the sale of the business. Even down to the final due diligence, creation of purchase documents, and financing of the acquisition, our staff can provide insight and input to close the sale to everyone's satisfaction.

### **BUSINESS ACQUISITION Planning and Execution Services**

Existing business owners looking to grow their business through acquisition of another business and seasoned corporate executives who want to own their own business can benefit from BWFA's business acquisition services.

#### *Business Targeting*

With our deep contacts throughout the region, we can provide input about selecting the type, size, and geography of the business to be targeted for acquisition. With targets in mind, we can create marketing materials to confidentially reach out to a select set of businesses, based on criteria established with the business buyer.

#### *Business Acquisition*

Acquisitions are complicated, and any business owner will want advisors on his/her side. BWFA can help with preparing confidentiality agreements with prospective acquisition targets and with negotiating the offer. We can draft a letter of intent to buy a business and work with other experts on due diligence, creation of purchase documents, financing, and more. We have experience and solutions for each step along the way leading up to -- and beyond -- the close of the sale.

#### *Talk to Us*

If you want to confidentially discuss how BWFA can help you sell, or buy a business, please call today and set up a meeting with a BWFA Business Services professional.



## WHATS HAPPENING AT BWFA

### BWFA Family Continues to Grow

BY MEGHAN MANAS

As BWFA continues to grow, we continue to add new employees. We are excited to welcome the following individuals to our family:

#### **THAD ISMART, CFP® FINANCIAL PLANNER**

Thad has been working in the financial planning industry since 2005. He is a CERTIFIED FINANCIAL PLANNER (CFP®) professional and has worked with retirees, affluent families, and business owners in the areas of Estate Planning, Retirement Planning, and Wealth Management.

#### **SHAROLYN HOCKEY, TAX MANAGER**

Sharolyn is a seasoned tax professional who worked for national firms Reznick Group and PricewaterhouseCoopers (pwc) before joining BWFA's tax team. Her clients have included Fortune 125 companies and high net-worth individuals. Her passions include taxes, client service and animal welfare.

#### **JOSEPH HILL, JR., TAX MANAGER**

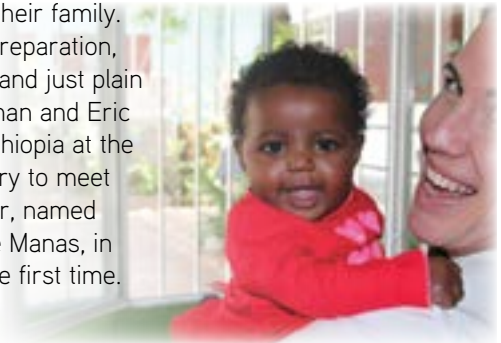
Joe received his MBA from Loyola University in 2010. More recently, he earned a Master of Science in Finance, also from Loyola. Joe passed all four exams needed for a CPA and is currently awaiting licensing from the State of Maryland.

#### **BAILEY TOPPER, MARKETING ASSOCIATE**

Bailey was the winner of the Caplan Entrepreneurial Grant and has worked with many businesses throughout Howard County.

In other BWFA family news, congratulations to our own Meghan Manas and her husband Eric on the upcoming addition to their family.

After much preparation, perspiration, and just plain waiting, Meghan and Eric traveled to Ethiopia at the end of January to meet their daughter, named Miriam Arline Manas, in person for the first time.



It was quite a special trip, but as you can tell by the happy smiles all around, it was well worth the wait. During the 10-day visit, the new parents were able to visit with Miriam every day, and on the next to last day, they were officially decreed by the Ethiopian courts to be her parents.

Meghan and Eric are home now, anxiously awaiting the United States Embassy in Addis Ababa to issue their new addition a visa allowing her to travel home for good. In the meantime, there are only about 700 pictures (we are happy to share!) to help pass the time. Hopefully, by the time the next newsletter comes out, we will be able to report on Miriam's arrival in Maryland!



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