NORTHSTAR FINANCIAL PLANNERS INC.

AUGUST 2018

FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

"The markets are unknowable, unpredictable and uncontrollable."

—Nick Murray

IN THIS ISSUE:

SMART WAYS TO TAKE CONTROL OF A TRUST

Many successful families use trusts to minimize taxes, transfer wealth and protect assets from creditors and others. You may have already set up a trust, or you may hold an inheritance you received in a trust that was created decades ago.

Trouble is, too many families relinquish more control over their trusts than they need to, basically hoping that the trustees they have put in charge will serve them well. They take a passive role in their trusts rather than an active or proactive role.

The result: Families can potentially put their goals at risk. Yes, trustees have a legal obligation to serve you and your family. But they also have a duty to serve their owners and shareholders! These corporate trustees have a real financial interest in retaining control over your trust. They also try to avoid controversy: If a dispute among beneficiaries breaks out, they often become passive and look to a court to instruct them.

Clearly, relying on a third party to think and act solely in your best interests at all times is rarely the smart move. The good news: You don't have to put your faith entirely in someone else when it comes to your trust.

Over the years, trust law has evolved significantly. Today, there are more options than ever that allow for greater family control—options that didn't exist or that weren't commonly used back when many current trusts were established. By thinking and acting more like an asset owner than a trust grantor or trust beneficiary, you can potentially set yourself up for better results down the road.

There are three ways to ensure you take the reins when it comes to a trust.

THREE WAYS TO CONTROL YOUR TRUST

Option 1: Retain the power to remove a trustee

The person or entity serving as your trustee will have a large impact on how the trust assets perform and how they are distributed—so it's crucial to serve as a check and balance to a trustee. A simple trust provision providing that a beneficiary (perhaps a surviving spouse) has the power to remove the trustee for any reason can act as an important control over your trust. This power incentivizes the trustee to manage the assets well and make distributions appropriately. No matter what other interests the trustee may have or what his or her preferences may be for managing the trust, if you have the power to remove the trustee, the trustee needs to listen.

Option 2: Be a non-independent trustee

If you're a beneficiary of an "absolute discretion" trust and appoint yourself as trustee with distribution power, the trust's assets will be taxed in your estate and creditor protection benefits will be undone. But making distributions is just one of the trustee's functions. There's also the vital matter of how the trust's assets are managed to preserve and grow family wealth—and in this area, you can exert some power and control.

Specifically, you and your spouse and children (or any other beneficiary) can serve alongside another independent trustee and have all powers of a trustee except for the power to make distributions. Combining the ability to serve as a "family" or "non-independent" trustee with the ability to remove the independent trustee who has distribution powers gives you control over and flexibility in the management and performance of your trust.

Option 3: Direct your trustee

There are two significant benefits that an institutional trustee can provide that cannot be obtained with individual trustees (such as your old college roommate).

- Institutional trustees have a great deal of experience and capability in managing trusts and in keeping detailed, accurate records of a trust's property and transactions. This makes accounting and tax return preparation easier, as well as institutionalizes knowledge in a way that is not possible with an individual trustee.
- The grantor, with an institutional trustee, can establish the trust in a state of his or her choosing—even if the grantor, beneficiaries and trust assets otherwise have no contact with the preferred state. Just like a corporation or a partnership (or similar legal entity), a trust must be formed under the laws of a single state. While it is possible to establish a trust in any state, some are better than others.

What differentiates a directed trustee from a traditional trustee is right in the name—the trustee is "directed." Instead of making distribution or investment decisions, the trustee is directed by appointed advisors to take such actions.

Having a directed trustee can provide great benefits at a modest cost. By having a directed trustee, you can establish a trust or possibly move an existing trust to a jurisdiction that provides additional benefits to you, your family and your trust. You, or another person, could have the power to remove the directed trustee at some future point if the arrangement is no longer beneficial.

THE TAO OF WEALTH MANAGEMENT

The path to success in many areas of life is paved with continual hard work, intense activity, and a day-to-day focus on results. However, for many investors who adopt this approach to managing their wealth, that can be turned upside down.

The Chinese philosophy of Taoism has a phrase for this: "wei wu-wei." In English, this translates as "do without doing." It means that in some areas of life, such as investing, greater activity does not necessarily translate into better results.

In Taoism, students are taught to let go of things they cannot control. To use an analogy, when you plant a tree, you choose a sunny spot with good soil and water. Apart from regular pruning, you let the tree grow.

This doesn't mean that we should always do nothing. In fact, insights from financial science suggest you should direct your investment efforts to the things you can control. These include taking account of your own preferences and sensitivities when choosing investment strategies, diversifying your allocation to moderate the ups and downs, being mindful of the impact of fees, and exercising discipline when emotions threaten to blow you off course.

Successful investing requires taking actions that can have a positive impact on the outcome. For instance, to maintain their desired asset allocation, investors should regularly rebalance their portfolio by reallocating money away from strongly performing assets.

But rebalancing is a disciplined, premeditated activity based on each person's circumstances. It contrasts with the "busyness" of reflexively following investment trends and chasing past returns promoted through financial media. Look at the person who fitfully watches business TV or who sits up at night researching stock tips. That sort of activity is likely counter-productive and can add cost without any associated benefit. With investing, constantly tinkering with an allocation does not perfectly correlate with success.

Now, while that makes sense, many people struggle to apply those principles because the media tends to look at investing through a different lens, focusing on today's news, which is already priced in, or on speculating about tomorrow. Guesswork can surely be interesting. But is it relevant to your long-term plan? Probably not.

People caught up in the day-to-day may constantly switch money managers based on past performance, or attempt tactical changes in their allocation, or respond in a knee-jerk way to news events that turn out to be noise.

Again, the assumption underlying these approaches is that if you put more effort into the external factors and adjust your position constantly, you will get better results. Unfortunately, people may end up earning poorer long-term returns from trading too much, chasing past performers, or attempting to time the market. Ultimately, that's just another reminder of the potential benefits available to disciplined investors who stay focused on what they can control.

As the ancient Chinese proverb says: "By letting it go, it all gets done. The world is won by those who let it go. But when you try and try, the world is beyond the winning."

Jim Parker, Vice President, *Dimensional Fund Advisors*

SESAME SEED ECONOMICS

One of my favorite TV shows the last few years is the HBO comedy Silicon Valley, featuring a hapless team of techno-geeks who could all become overnight billionaires if not for their own foibles and follies.

A scene from season one of the show has stuck with me for years. A group of startup executives are meeting with venture capitalist Peter Gregory (wonderfully played by the late Christopher Even Welch) to discuss another round of funding. They've got a couple of days left before they're broke. Gregory is only interested in talking about hamburger buns. "Have any of you ever eaten at Burger King?" Throughout the episode, the company execs become more and more desperate for money, even as Gregory becomes more and more obsessed with the count of sesame seeds on the buns of each type of hamburger on the menu.

With massive layoffs just a few hours away the execs demand an answer, "Are we getting the money or not?" Gregory announces that world sesame seed production is about to plummet as rare sesame loving cicadas bloom in two of the three countries that produce sesame seeds, and he has made a large purchase of sesame seed futures in Indonesia, the only country that will not be affected by the insects. Just a 10% increase in the futures, he says, will net him $68 million, so he writes a big fat check, high fives are exchanged, and everyone enjoys a delicious Burger King breakfast.

It's a very funny scene, but ludicrous from a financial planning perspective in many ways, perhaps none greater than the idea of people enjoying Burger King for breakfast (wrote the resident food snob). While very entertaining, I'm going to play the spoil sport and point out the many real-world problems with the investment aspects of the scene:

1. Nobody else in the world figured out what Gregory did, that cicadas were going to hatch in two countries, or the implication that those cicadas would destroy a lot of crops. I grant you there may not be a lot of analysts covering insect populations in Myanmar, but the other country was Brazil. It seems like it would be on someone's radar that massive crop destruction was imminent in the fifth largest country on Earth.
2. Some time **after** his purchase, futures traders also figured out the cicada problem and poured their money into Indonesian futures like he did, sending the price up.
3. He was so confident in his future earnings, he wrote an 8-figure check before seeing a penny of profits from the trade.
4. Nothing else happened over the next year to jeopardize Indonesia's future stranglehold on sesame seed production, like, for example, some other country without a cicada problem getting into the sesame business or the Brazilians buying a bunch of bug zappers.

This exchange illustrates the inherent problem with stock picking. It only works if 1) you figure out something no one else has figured out, including thousands of market analysts whose job it is to figure things out, 2) you make an investment based on what you figured out, 3) the rest of the world then figures it out and asset prices move accordingly, and 4) nothing else happens in between event 2 and 3 that moves the price in a different direction.

That's a lot to count on, so my advice is this: If that's how you plan to invest your money, don't write any checks just yet.

—Steve

WHO WE ARE

ALLEN P. GIESE, ChFC®, CLU®
President, Investment Advisor Representative

STEVE TEPPER, CFP®, MBA
Vice President, Chief Operations Officer, Investment Advisor Representative

GARY S. GLANZ
Director of Business Development, Investment Advisor Representative

GARY C. GONZALEZ
Investment Advisor Representative

STACY SAAVEDRA
Client Service Specialist

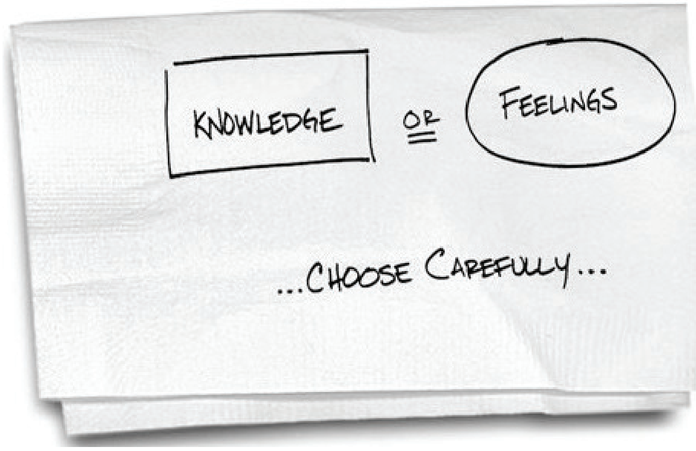
RICHARD LOTTIER III
Client Service Specialist

NORTHSTAR
FINANCIAL PLANNERS INC.

(954) 693-0030
1250 S. Pine Island Road, Suite 275
Plantation, FL 33324

northstarplanners.com
info@northstarplanners.com

FROM CARL RICHARDS' NAPKIN BLOG



FINAL THOUGHT

"I reviewed your investments and set you up for early retirement. On your last day of work, you can afford to leave at 4:30 instead of 5:00."

© Randy Glasbergen/glasbergen.com