THE NORTHWEST QUADRANT

## Infrastructure: Built To Last

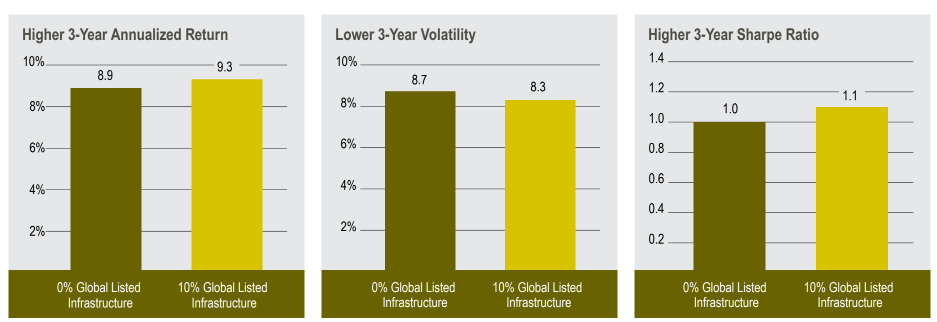
Larry Solomon, MBA, CFP
Director of Investments and Financial Planning

In a world consumed by conflict, poverty and social change, there are few things all nations have in common. Yet no matter their geography or agenda, they are united in the need for roads, bridges and energy: in short, infrastructure. By definition, infrastructure consists of the physical structures required to support the orderly functioning of society. The types of assets typically included are transportation assets such as roads, airports, and seaports; energy assets such as gas and electricity transmission and distribution; water assets like pipelines and treatment plants; as well as companies operating in the communications and social infrastructure sector.

The world infrastructure market is substantial, consisting of around 400 individual companies representing approximately $3 trillion of market capitalization. Furthermore, a recent study by the World Economic Form estimated that the gap between global spending for infrastructure and global needs at more than $1 trillion annually.

Infrastructure has compelling investment characteristics, including very long lived assets, high dividend yields, inflation-hedging attributes, low correlations, and most recently, strong total returns. Low domestic interest rates since December 2008 when quantitative easing was first implemented have driven investors to seek "bond proxies." US stocks with high dividend yields and stable cash flows have outperformed the broad market, particularly in sectors like Utilities, Telecomm, and Real Estate, where yields have averaged 3%-4% vs. 10 Year US Treasury yields of only 2%-3%. The earnings growth for these companies has generally been solid, but much of their strong performance can be attributed to appreciation due to huge inflows from yield-hungry investors.

In order to achieve the category's attractive characteristics going forward, investors will need to be more selective and to embrace a broader global approach to infrastructure investing. Key factors are: identifying "preferred" infrastructure companies with higher revenues and lower volatility, selecting firms with sufficient liquidity, and ensuring that there is revenue certainty, profitability, and legal stability in their home country. The most efficient vehicle for individual investors to access this asset class is through an Infrastructure-focused mutual fund or ETF. Adding global infrastructure to a portfolio of 60% stocks/40% bonds can dramatically improve returns and reduce risk, as indicated in the chart below. ■




**At June 30, 2014.** Source: Bloomberg and Cohen & Steers.

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A compass rose is a figure displaying the orientation of the cardinal directions, north, south, east and west on a map or nautical chart. We found it fitting to name our newsletter after this recognizable symbol of navigation and direction. If you prefer not to receive our quarterly newsletter or if you have any feedback or ideas for topics, please email Wes Burnett: wes@optifour.com.






# THE COMPASS ROSE


COHEN & BURNETT, P.C. OPTIFOUR INTEGRATED WEALTH MANAGEMENT, LLC

Fall 2014 Volume 24 ESTATE AND FINANCIAL PLANNING UPDATE


FOUNDING PARTNER

**I. Mark Cohen, J.D., LL.M., CFP®**

October has always been my favorite time of year here in Virginia. The weather is not too hot and not too cold – just right for outside activities; the bugs are mostly gone; and the trees display their beautiful fall colors.

Leigh and I have been busy. In August, we backpacked for three days in Glacier National Park with Wes, his son David, and David's friend, Maureen. We were in the remote North Fork area about ¼ mile from Canada. The scenery was spectacular and we had the occasion to see much wildlife and some glaciers. We had close encounters with 4 black bears where I felt the need to take the safety off the can of bear spray (juiced-up pepper spray). Fortunately, they did not get close enough for the bear spray to be effective (about 10 feet) so no bears or hikers were hurt on this adventure.

More recently, we rode in the Seagull Century ride, also in perfect weather. Leigh and I did the Metric Century (65 miles) and Wes and Dave did the full 100 mile century. We all logged personal bests for our times.

We have not figured out what our spring adventure will be so if you have any ideas, please share them with me.

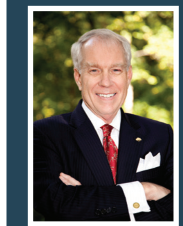
Michael is doing fine in Sierra Vista, Arizona but is thinking about getting out of the Army and going to graduate school next fall. Rachel is still in San Antonio teaching kindergarten but is also planning on going back to school next fall. ■

## Who should be your successor trustee.

I have always championed having you serve as trustee and your children or other close relatives serve as your backup trustees in your revocable living trust. Usually you will have an adult son or daughter who is mature, responsible, ready, willing and able to handle the four main jobs of being a trustee: (i) read and follow the trust instrument; (ii) take good care of the trust assets; (iii) keep good records and ensure the filing of accountings and tax returns; and (iv) be good to the beneficiaries. I wrote about this in the December 2006 edition of Trusts & Estates magazine titled "Appreciating Individual Trustees."

Sometimes, however, this doesn't work. It may be that there are no children, or there are no suitable children, or because the children are not being treated the same in the trust, it could be unpleasant for the child tasked as trustee. In these situations, we are often asked if we would be willing to serve as trustee. We are usually happy to do so. Having us serve as trustees brings a number of benefits: we know what we are doing and understand the trust; we do not favor one beneficiary over another; we are responsive to all beneficiaries; we are set up to manage investments and do the reporting; and, we do the tax returns.

If you have any concerns over who should be your successor trustee, please give me a call and let's talk. ■



## MANAGING PARTNER

**Weston D. Burnett, J.D., LL.M., CFP®**

We hope you had a great summer. Mark and I think we have a terrific staff here to serve each of you. This fall we celebrated another staff member's fifth anniversary with the firm, Dan Frix. In order of time served with the firm, our staff has been here for you the following number of years: Larry Solomon & Andy Vanderhoof 7+years; Jo Anna Young 6+ years; Dan Frix 5+ years; Ryan Berges 3+ years; Kammie Bingham 2+ years; and Brittney White 1+ years. After five years with the firm, Katie Duffy, our associate attorney, is moving to Charlotte, NC to be closer to family. Our staff is mourning her departure.

My Trustee work at George Washington University is still demanding and rewarding. I spent a great deal of time on the highly successful search for the new Dean of the Law School, Blake Morant, who was the Dean at Wake Forest Law School and is the incoming President of the American Association of Law Schools. Much of my work as Trustee is now focused on George Washington University's Vision 2021, when the University celebrates its 200$^{th}$ "birthday." Vision 2021 centers on four themes which I deeply believe in as goals for higher education: innovation through cross-disciplinary collaboration, globalization, governance and policy, and citizenship and leadership.

On the fun side, Barb and I cruised the Volga from Moscow to St Petersburg in mid-July before political matters really worsened. We also attended three weddings and two funerals. Later, we spent time at our NH Lake House with water sports, mountain hikes and family gatherings. A weekend later, we were in Glacier National Park, Montana hiking and communing with the bears, with Mark, Leigh, my son David, and his fiancée, Maureen. I transitioned then to long weekend bike rides in August and September. I just capped off my bike training by finishing my 100 mile Seagull Century drafting off my son (what are sons for) while averaging 20 miles an hour for the five-hour ride. ■

## Year End Tax Planning Tips for 2014

Dan Frix, CPA/PFS, CFP®

As we approach the end of the year, we wanted to remind our clients and friends of a couple of tax tips that may potentially lower your income taxes.

**Capital Loss Harvesting**

If you have accumulated a lot of capital gains from your securities portfolio this year, you may want to look at your existing investments to determine whether you own securities that would generate a capital loss if sold. If so, you may want to sell these by the end of the year so as to realize the loss to offset the capital gain income. Even if you have no capital gain income, this strategy can produce a deduction, of up to $3,000, against other income sources.

If you like the security you've sold and want to reacquire it as a long-term investment, you can repurchase it as long as you wait at least 31 days, before or after the date of sale, so as to avoid the "wash sales" loss disallowance rules.

**Charitable Giving**

If you are inclined to make gifts to charity, here are a couple of ideas to consider.

If you have appreciated securities that you have held for at least a year, you may want to contribute the securities rather than cash. This strategy allows you to get a deduction for the fair market value of the security on the date of the gift but you do not include the underlying capital gain in your income tax return.

If you want to make a substantial contribution this year to obtain the tax deduction but are uncertain as to the specific charity, you could consider giving to a donor advised fund. Such gifts are deductible in the year made to the fund. You can decide next year which qualified charity(ies) will actually receive the funds.

Finally, if you have not taken your required minimum distribution (RMD) from your IRA or other qualified retirement savings plan, you may want to wait until later this year to see if the rules permitting RMD contributions to charities are extended to 2014. ■



## Maryland Estate Tax Exemption Amount Will Be Increasing

Andy Vanderhof, J.D., LL.M.

In 2014, Maryland passed legislation that gradually increases the Maryland estate-tax exemption amount. Under the new law, the exemption amount will increase each year beginning in 2015 until 2019 when it will equal the federal estate tax exemption amount.

Maryland has its own estate tax, separate from the federal estate tax. Under the law that is in effect until the end of 2014, an estate with a gross value of more than $1 million must file a Maryland estate tax return. By contrast, federal estate tax returns are required only for estates of more than $5.34 million for deaths in 2014. The Maryland estate tax rate is 16% of the amount over $1 million.

Here are the scheduled increases for the Maryland estate tax exemption amounts: (1) for 2015 it is $1.5 million; (2) for 2016 it is $2 million; (3) for 2017 it is $3 million; (4) for 2018 it is $4 million; and (5) for 2019 it is an amount equal to federal estate tax exemption amount.

For 2014 the federal estate tax exemption amount is $5.34 million. That amount will be adjusted every year for inflation and is projected to be in the area of $5.9 million in 2019.

The new Maryland legislation also provides that the Maryland estate tax exemption will be portable between spouses beginning in 2019. That means if any Maryland estate tax exemption is unused at the death of the first spouse to die (as, for example, where the first spouse to die has insufficient assets to take full advantage of his or her exemption amount), then at the death of the surviving spouse, he or she may use the deceased spouse's unused exemption amount.

With portability, beginning in 2019 a married couple will have an *estimated* combined Maryland estate tax exemption of $11,800,000 (two times the projected amount of $5.9 million). ■

## What Happens To My IRA When I Die

Part I In A Series

Ryan R. Berges

On the surface it would seem that determining what you want to happen with your IRA assets when you die should be a straight forward process. But frankly it is a process that must be handled with a great deal of care, otherwise there are many pitfalls that could easily cost a lot of money and cause your IRA to be distributed in a manner contrary to your final wishes. You need good advice in order to have a good outcome for your IRA at your death.

First off, it is important to understand that an IRA is a "contractual agreement" between the individual that owns the IRA and the IRA custodian firm. When we open new IRAs for clients often the client will say, "But I have already named my beneficiary in my will (or trust)." In reality, it does not matter what your will or trust says about passing on your IRA (unless your estate is your beneficiary), the beneficiary election you make with the IRA custodian will determine how your money passes on. This is why it is absolutely necessary to have a current and proper beneficiary designation on your IRA (and on your retirement plans such as 401k, 403b, and TSP as well). If you have more than one IRA or retirement plan, each account will need its own beneficiary designation and those designations are not required to be the same.

One of the major advantages of working with a multi-disciplinary firm such as Cohen & Burnett and OptiFour is that you get the professional Legal, Tax, and Financial advice under one roof. These three disciplines must work together to help use, grow, and pass on your IRAs effectively. Next quarter, we will address some of the do's and don'ts of selecting beneficiaries. ■