[the*compass*] fall 2006

THIS ISSUE...

Wisdom is Where You Find It

Words of Wisdom from Our Clients

by Mike Palmer, CFP®

As I write this I'm concluding a business trip to Long Island, a convening of the Apex Alliance, a study group of five independent trust companies from across the country that I currently chair. Over the course of two days we compare business plans, identify common challenges, share stories of our achievements and enjoy the camaraderie that comes from helping make a positive impact on the lives of our clients.

We're pleased that our respective businesses are thriving, but at times like this truly astute managers take the time to assess potential weaknesses and evaluate areas of improvement. If you are a client of our firm, you may soon receive a client survey. This survey is our first systematic effort to gather feedback on what our clients view as our strengths and weaknesses. Client feedback is an important metric as we strive to improve our clients' experience. We hope you'll take the time to share your thoughts and ideas on how we might improve, and let us know what we're doing well too.

Just as our firm is experiencing success, so too are most investors. The Dow Jones Industrial Average just surpassed the previous all-time high of early 2000 and most asset classes are experiencing solid returns through the first three-quarters of the year. It is precisely at times such as this that individuals should take a moment of self-reflection and ask themselves; "Am I *really* on the right track to achieving financial independence?"

Over the course of client meetings the last few months, I've made note of some of the more insightful observations from those we serve. Wisdom is where you find it - so allow me to share some of the more powerful insights from our clients and friends.

>> "Past performance is a frail guide to the future."

It was indeed satisfying to have a client repeat one of the mantras of our firm's investment strategy. One of the benefits of our asset class investing is we aren't reliant

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NOTABLE QUOTE

"It's not enough that we do our best; sometimes we have to do what's required."

Sir Winston Churchill

The Trust Company of the South is a fee-only independent trust company and financial planning firm focused on serving the needs of affluent individuals, families, and non-profit institutions.

Trust Company of the South...because wealth management is more than managing money

IRA Charitable Rollovers

by John Slayton, JD, LLM-TAX, CFP®

Embedded within the recently adopted 900+ page Pension Protection Act of 2006 is a useful new charitable planning opportunity. During 2006 and 2007 an IRA owner 70 1/2 or older may make a direct transfer/rollover from an IRA to any public charity of up to $100,000 in one year, without including such transfer in taxable income. "Qualified charitable distributions" may only be made to public charities, not supporting organizations or private foundations and not "quid pro quo" donations (for football tickets). Transfer to a particular scholarship fund or disaster relief fund is permitted.

IRA owners over 70 1/2 must take required minimum distributions ("RMDs") from their IRAs each year, based on their life expectancies and the January 1 value of their IRAs. **An IRA charitable rollover will satisfy the donor's RMD.** By transferring part or all of their RMD to charity, without taking the transferred amount into income, the donors will have a lower taxable income and taxes.

IRA rollover gifts could prove beneficial in various scenarios:

1. **Convenience Donor:** providing instructions to your IRA custodian to make a transfer to a public charity is simple.

2. **Generous donors:** may already give at a level of 50% of their adjusted gross income ("AGI"), the maximum permissible annual deductible donation limit (subject to a 5-year carry forward of excess amounts). Donations of 50% of AGI from regular non-IRA assets would still permit direct transfers from their IRAs. Since the IRA rollover is not included in taxable income, it will have no impact on regular income tax and charitable gift limitations.

3. **Major Donors:** often have very large IRAs, with large RMDs. The IRA charitable rollover could facilitate balancing between IRA and taxable accounts and may offer income tax advantages. Because the IRA transfer to charity is not treated as income to the donor, but rather a direct gift to the charity, several types of exemptions or deductions that are phased out at higher income levels could be preserved and would not be adversely impacted by the donation. This is a better tax result than receiving the income and taking a charitable contribution deduction that could be limited due to higher levels of income.

4. **Social Security Recipient Donors:** could avoid increasing income above the two income levels that make 50% or 85% of social security benefits taxable through an IRA rollover. Keeping the IRA rollover out of taxable income could decrease income tax payable on social security benefits.

5. **Standard Deduction Donors:** Many seniors with IRAs do not have adequate deductions to justify itemizing and, therefore, take the standard deduction on their income tax returns. They gain no benefit from deductible charitable contributions. Making a direct IRA rollover avoids the inclusion of the donation in taxable income, so the charitable deduction is not an issue.

The $100,000 IRA charitable rollover opens up many flexible new gifting opportunities. As the amount of assets housed within IRAs continues to grow and their owners continue to age, many major charitable giving opportunities will present themselves. Please contact us if you would like to discuss this further.

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on a "hot hand" or an ephemeral "proprietary trading strategy" for a successful investment experience. In a world where the future is fundamentally unknowable, perhaps the most important attribute for experiencing investment success is embracing the concept that no one has a reliable way of identifying in advance the money managers whose skills will win out in the years ahead.

>> "I don't need you to make me money."

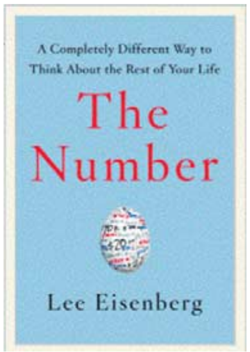
Too often, people look to their financial advisor to "make them money" when in reality it is more common that our institutional expertise *saves* them money, a subtle but important distinction. Our clients are their own economic engine. It is their professional passion and business acumen that enable them to accumulate the resources to qualify to work with our firm. Nothing we do will ever equate to the wealth building capabilities of our clients' focused energies in their chosen field of expertise.

>> "The biggest risk to do-it-yourselfers is that they don't know what they don't know."

The more I've accumulated "life experience" the more I've come to appreciate this sage advice. The most common example we see is an inability to address one's estate plan. It isn't about you, it is about those you leave behind and the position you will leave them in. No one intends on leaving chaos behind. No one intends on impoverishing his or her spouse and children. But left unaddressed, that can be the result. Two other examples from my own life. I recently retained a sports physiologist to devise a workout regimen and keep me disciplined and accountable to it. I view it as a premium payment to help me enjoy a high quality of life 30 or 40 years from now. I've also retained a business coach who is skilled in identifying my unique abilities, focusing them to deliver optimal value to my firm and my clients, and provide proper work-family balance. The best example I can set for my clients is to live a life that they aspire to; an abundant life of family, friends and professional achievement.

I hope you too will take a brief respite from this time of abundance to reassess what areas of your life, be they financial or family, personal or professional that could be improved upon to give you a more complete life.

BOOK REVIEW



The Number

A Completely Different Way To Think About The Rest Of Your Life

By Lee Eisenberg

Mr. Eisenberg's book provides a unique and thought provoking way for individuals to think about their future retirement. If you are looking for concrete formulas on where and how to invest your money for a secure retirement, this is probably not the book for you as it is more philosophical than statistical. The author focuses on the issue that there is more to a successful retirement than amassing large sums of money. With life-spans ever increasing, many of us will spend more than a quarter of our lives in retirement. Mr. Eisenberg argues that having enough money to fund those years is certainly important, but there are also the questions of the "quality" and "what to do" with those years, other than waiting for them to end.

As financial planners, we often see how our clients have been

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Behind the Scenes at Trust Company of the South

>> **John Slayton** recently gave a presentation on Investment Policy Statement development to the North Carolina Council of Resource Development Officers (for community colleges). John was also quoted in a recent article of the *Triangle Business Journal* regarding the new 2006 Pension Act as it relates to using individual retirement accounts for charitable gifting strategies.

>> **Mike Palmer** was featured in the September 2006 issue of *Financial Advisor* magazine in an article entitled "Donor-Advised Funds Take Off."

>> **Bill Smith** has been named to the University of North Carolina's Carolina First Campaign National Steering Committee.

>> **Will McPherson** is an officer in the Greensboro Jaycees and recently served as hospitality tent Chairman during the Chrysler Classic in Greensboro.

>> **Catie Iber** is currently pursuing her M.B.A. in accounting.

>> **Wallace Williams** is serving as Chairman of the Finance Committee at Christ United Methodist Church in Greensboro, NC.

>> **Brad Sutton** is serving as Treasurer of the Innovest Client User Group Committee.

BOOK REVIEW, *cont'd*

meticulous in the planning of their education(s) and career advancement, but find that many have no idea what to do with themselves once they reach retirement. The author does a good job of providing the reader substantive ideas and thought on what to do the day after their last day of work. From our perspective, "The Number" of dollars you need to retire with financial security is very dependent upon what you want to do with your time. If your goal for retirement is spending time at your lake house and fishing all day, you won't need as much money as if your goal is to travel the world.

Bottom line, the book is trying to get its readers to focus on how they wish to live the retirement phase of their life *before* they retire. The author believes (as do we) once you have addressed this issue, you'll have a basis for establishing a plan and for achieving it. Then and only then can one prudently go about establishing "The Number." Approaching retirement with no thought or plan is probably a recipe for disenchantment and that is why, ultimately, this book is probably worth giving a read. – *William H. Noble, Principal*

THE TRUST COMPANY OF THE SOUTH

Raleigh Office

Michael H. Palmer, II CFP®
Principal
919 781.8287
mpalmer@tcts.com

Burlington Office

John H. Slayton, JD, CFP®
Principal
336 538.1000
jslayton@tcts.com

William H. Smith CFP®
Principal
336 538.1001
wsmith@tcts.com

Rocky Mount Office

William H. Noble
Principal
252 451.8728
bnoble@tcts.com