[the*compass*] spring 2005

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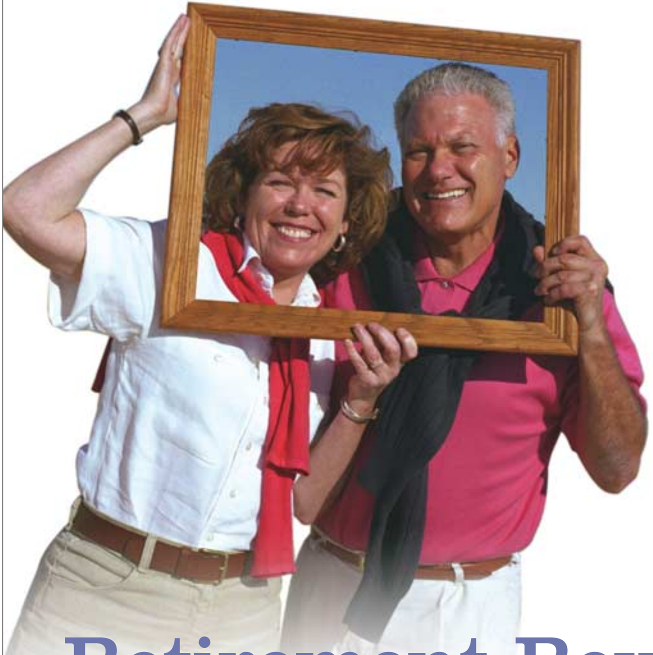

Retirement Revolution:
How Boomers View Life After Work

by Mike Palmer, CFP®

Fifty years ago the average American spent about 13 years in retirement. Today, the average length of retirement is expected to be nearly 20 years. There is a subtle but important difference between the financial planning considerations of retirement and planning for how one will retire. All of our clients do the former, but some neglect the latter. Increasingly, people are tackling the non-financial aspects of retirement with the same focus and zeal normally reserved for 401(k)'s and their retirement nest egg.

According to Ron Manheimer, Executive Director of the Center for Creative Retirement at UNC-Asheville, today's retirees have high expectations of their retirement. "These are Baby Boomers and they want to be engaged, to give back, but with the flexibility to pursue their passions on their own time schedule. It is in sharp contrast to how people viewed retirement a generation ago."

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NOTABLE QUOTE

"The investor's chief problem – and even his worst enemy – is likely to be himself."

Benjamin Graham

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.

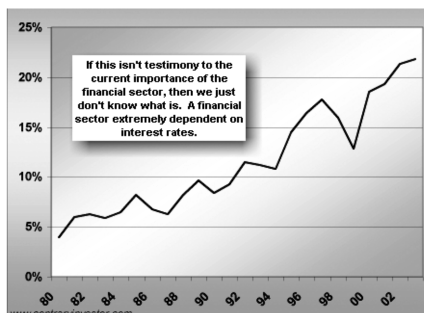
Market Commentary

by Mike Palmer, CFP®

As we often discuss with clients, the emotional issues surrounding money can be every bit as challenging as investment decisions. Recently one of my colleagues visited with a prospective client who described his current provider's style as one that "embalms my money rather than manages it." Upon exploring this description further, we learned that his comments stemmed more from a lack of responsiveness and communication than from their actual investment approach.

Yet, his belief that professional money management is an "active" exercise, requiring movement of funds and prescient selling of one stock to purchase another, is one perpetuated by Wall Street and the financial media. While "embalmed" money isn't what anyone desires, academic research indicates less trading activity yields superior results[1]. Timing, too, is a losing proposition. Market "seers" like Joe Granville and Elaine Garzarelli have their "one hit" wonder, never to be heard from again.

Financial Sector As Percentage of Total S&P 500 Weight



While it may sound simplistic, the best route to long-term investment success is focusing on low cost funds, constructing investment portfolios of diverse asset classes, and immunization to "market noise" that short circuits investment discipline. This foundation is fundamental to the asset management we provide our clients.

Over the last nine months much has been made of the falling dollar. We have no special insight on the outlook for currency exchange rates. Even if we did, we're never sure whether we should be rooting for a stronger dollar (making that European vacation less expensive) or a weaker dollar (enhancing returns on one's international equities). We do know that recent articles seeking to explain the dollar's decline have a familiar ring; they could have easily been written a decade ago. We have no opinion on whether the current dollar "crisis" is any more or less serious than the events of 1995. But when faced with uncertainty, diversification is always the appealing solution. So holding a portion of one's portfolio in non-dollar denominated assets is the sensible solution to dollar anxiety.

We continue to keep a cautious eye on interest rates. There is the obvious challenge of keeping the principal of our fixed income investments intact during a period of rising interest rates. Less well understood is the role lower interest rates have played in the stock market's performance since the mid-1980s.

P/E multiples expand and contract with declining and rising interest rates. Interest rates rise and fall with inflation expectations. All the commentary comparing current P/E's to historical levels is of little value. Future earnings are certainly more valuable in a low interest rate environment. While inflation, interest rates, and P/Es don't move in lock step, they are linked. Bear Stearns recently estimated that nearly one-third of the stock market's appreciation over the last 20 years came from expanding multiples. Those looking for additional evidence of P/E expansion's role in the market need look no further than the growing role the finance sector plays in the S&P 500. No sector of the economy is more interest rate sensitive, and over the last 25 years the sector has increased from about 5% of the index to about 24% today. This suggests the "market" (as measured by the S&P 500) is much more rate-sensitive than it's been in some time. It is also eerily reminiscent of the tech sector ballooning to 32% of the S&P 500 weight in early 2000.

The Fed's expectation is for core inflation to stabilize in the 1.5%-1.75% range. If this proves too conservative, one can expect the Greenspan Fed to fight that inflation hot spot every bit as aggressively as it extinguished the threat of deflation two years ago.

We believe expectations for equity returns for the remainder of the year should be muted, at least until the Fed tightening cycle ends. This may be a period when our management of client emotions requires our foremost attention.

[1] Terrence Odean and Brad Barber, *Quarterly Journal of Economics,* February 2001.

Fender Bender Mender

by John Slayton, CFP®

It is one of life's minor misfortunes most of us encounter at some point – an auto accident. Even the smallest parking lot bump-up can require repairs mounting into the thousands of dollars. Several months ago I personally experienced an auto insurance claim. Let me share a small bit of advice that may help you if (or when) you get rear-ended on the commute home. If you are involved in a major auto accident resulting in your having to deal with the offending party's insurance carrier to repair your car, make sure early in your dealings with the insurance carrier to mention that you anticipate receiving an actual cash value settlement.

Typically, the carrier will have an adjustor examine your car and prepare a detailed list of parts and services that will be required to restore it to its condition prior to the accident, using like kind and quality of parts. In minor accidents, this may be adequate to restore you to your prior status. In the event of a more serious accident, however, any damage in excess of 25% of the vehicle's value must be disclosed on any subsequent sale and title transfer. The required disclosure of this damage will reduce the value of your car, even if it is restored to pristine condition. Who would pay as much for a used car that had been in a bad accident as they would for one that had not been so impacted?

Accordingly, have your auto dealer/repair shop provide you with a written estimate of the loss of value your specific car would suffer in the resale market if you were to sell it immediately after it had been fully repaired. This dollar figure, generally a percentage of the blue book value of your car in perfect shape, is a loss of value to you today, even though your car has been repaired and you cannot visually see any damage. The insurance carrier will likely not accept your number as presented, but that will be the starting point for negotiation of a dollar payment to you for loss of value. **If you do not ask for an actual loss of value settlement, it is unlikely that the carrier would volunteer it for you.** The good news is that if you retain the car for years after the accident, this loss of value will gradually disappear in the decreasing blue book value, but you will have received your payment for the total loss up front.

CASE STUDY

How We Add Value

During a recent relationship review with a client, we discussed the client's retirement savings and reminded the client deferral limits on 401(k) contributions had increased by $1000 in January. We asked whether the client, a physician, had increased his payroll deduction accordingly. "My office manager took care of that," he replied. Just to be sure we asked that he send us a copy of his pay stub.

A week later we received a copy of the pay stub, and indeed the deferral had been changed to reflect the $1000 increase. But upon further review, we discovered the client, who will turn 50 years old later this year, was not taking advantage of the 50+ "catch up" deferral. The "catch up" provision enables him to contribute an additional $4000 per year. We alerted him to this opportunity and communicated with his office manager to make sure our client took advantage of this opportunity.

It may seem like a little thing, but this serves as a great example of how we serve as our clients' financial advocate and safety net. Our attention to detail saved approximately $1400 in income tax and put more retirement money to work for our client.

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

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Behind the Scenes at Trust Company of the South

>> **Mike Palmer** has been named to the UNC Educational Foundation's Planned Giving Council. The Council is focused on promoting planned giving for the Carolina Forever campaign to endow athletic scholarships at the university.

>> **Bill Noble** has been appointed to the Planned Giving Advisors Council for the Boys and Girls Homes of North Carolina.

>> **John Slayton** attained his Certified Financial Planner (CFP®) designation.

>> **Bill Smith, John Slayton,** and **Mike Palmer** attended the Trust Advisors Forum in Pinehurst.

>> **Mike Palmer** was quoted in the April issue of *Bloomberg Wealth Manager* on defining wealth management.

>> **John Slayton** spoke on the Uniform Trust Code at the Wake County Estate Planning Council meeting in March.

>> **Brandon Cook** has joined the firm as Operations Officer. He is a graduate of Fayetteville State University and will be based in the Burlington office.

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RETIREMENT, *cont'd*

Manheimer sees contrasts between "pre-retirement" and "post-retirement" considerations. "People are spending a lot of time on due diligence issues - namely quality of life considerations. Where do they live? How will retirement impact their relationship with their spouse? What causes will they invest their energy and resources into? Many of our program attendees find a peer group setting extremely valuable. Retirement can be a taboo subject at home, but a setting with like-minded people stimulates open discussion. "

One common theme Manheimer sees in some retirees is a sense of disappointment for how retirement has played out thus far. "We have programs that attract attendees looking for a purposeful retirement. Some didn't give it (retirement) much consideration, and after six months of golf or travel they are looking for more out of retirement."

There are a number of resources available for "pre-retirees." UNC-Asheville's Center for Creative Retirement (www.unca.edu/ncccr/) offers a variety of programs designed to educate and assist retirees. *Paths to Creative Retirement* workshops are 3-day sessions designed to explore various aspects of retirement.

The Triangle region of North Carolina is becoming a retirement mecca. The cultural, medical, and recreational appeal, combined with the temperate climate, attracts people from all across the country. For retirees dedicated to lifelong learning, the Triangle provides a proverbial cornucopia of opportunity. Among the local resources are the Duke Institute for Learning in Retirement (www.learnmore.duke.edu/dilr/), the UNC Program in the Humanities (www.unc.edu/depts/human/level_2/seminars.html) and NC State's Encore Center for Lifelong Enrichment (www.ncsu.edu/encore).