

Foreign Stocks Tops in 2005

Did you know that foreign companies include 7 of the world's 10 biggest banks, 6 of the 10 largest oil and gas companies and 7 of the top 9 automobile manufacturers?

If your investment portfolio doesn't contain any foreign investments, you should consider adding some. In 2005 the top returns were provided by four categories of international stocks when compared to various classes of US stocks, REITs and fixed income, according to statistics provided by Dimensional Fund Advisors. Although it is never a good idea to chase a hot investment category, many investors unjustly ignore international stocks and bonds.

At Mentor Capital we generally recommend some non-US investments for all but the most ultra-conservative clients. Typical allocations will range from 5 to 25% of the total portfolio, depending on the client's risk tolerance and time-frame.

One major benefit is portfolio diversification. By having a variety of investments that do not always move in lock-step, fluctuations tend to smooth out. While we live in an increasingly interconnected world, foreign countries' economies and their companies often move in different cycles than those of the U.S.

Tapping into the growth potential of so-called emerging market countries is another draw. Countries such as India, China, South Korea, Brazil and even South Africa are benefiting from export-based economies and reduced government controls and are outpacing the stodgier old economies.

Before jumping in, however, beware of the risks, which include:

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Don't throw away that trust!

Now that the exemption from the federal estate tax has hit \$2 million, some married clients have questioned whether they still need their trusts. After all, the trusts were made to avoid the tax, and now the tax threat for them has disappeared.

Fact is there still may be reasons to retain or establish a trust.

There are two at-death exemptions from the federal estate tax. First is the spousal exemption, which is normally unlimited. This means one spouse can transfer unlimited amounts to the other at death (during life as well) without paying taxes. Second is the lifetime exemption, which stands at \$2 million (to rise to \$3.5 million in 2009). This is the amount that can be left to anyone other than a spouse without paying estate taxes.

Someone who dies leaving everything to a spouse gives up his or her lifetime exemption. Using a bypass trust allows a decedent to use his or her lifetime exemption, saving hundreds of thousands of dollars in estate taxes if the joint estate exceeds \$2 million.

There are incentives other than the estate tax for establishing trusts during lifetime:

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What Is a "Financial Advisor"?

Many people call themselves "financial advisors," but there can be significant differences among them. No education, experience, or testing requirements are needed to call oneself a financial advisor. Whether you are getting advice from a financial planner, wealth manager, stockbroker, insurance broker, accountant, or other type of advisor, here are several questions that you should ask before deciding to do business:

Is the advisor an RIA? An RIA (Registered Investment Advisor) has passed a rigorous exam and is required, by law, to adhere to certain requirements, including:

▶ *Acting in a fiduciary capacity.* An RIA must act in your best interests in all aspects of the financial relationship. Non-RIAs (including stockbrokers) are not held to this higher standard.

▶ *Disclosing all conflicts of interest.* An RIA must tell you, up front, about any potential and actual conflicts of interest; non-RIAs are not required to do so. For example, a stockbroker who can win a free vacation for selling a specified amount of a stock or mutual fund does not have to disclose that fact to you.

How is this advisor paid? Does the advisor receive commissions, charge a fee, or both? Make sure that you ask enough questions to obtain a clear understanding of how the advisor is paid, *before* you become a client. Be wary if the advisor is evasive, gives confusing answers, or refuses to tell you.

Anybody who provides financial advice to you, and/or helps you invest your money, is getting paid by you in some way. If you have the impression that there is no charge for such "advice", begin asking questions.

How much will I pay this advisor? An advisor who is "fee-only" (does not sell products nor earn commissions) should be able to clearly tell you – up front – how much the fee for his or her services will be. If the advisor is paid all or in part on a commission

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Foreign

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- ▶ *Currency fluctuations*
- ▶ *Less regulated securities markets*
- ▶ *Higher costs*
- ▶ *Lower liquidity*

Most of these risks can be mitigated by investing in mutual funds or exchange-traded funds that invest in a large number of companies and countries. Mentor generally does not recommend the use of funds that invest in only one country or region.

You can also get some foreign exposure, although diluted, by investing in the stocks of US companies that have a large export business or own foreign subsidiaries. There are even mutual funds that focus on these types of stocks.

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basis, you should understand how much the commission percentage is, what it is based on, and if it is up front or deferred. Also, are trailing commissions built into the annual mutual fund expense ratio, and if so, how much are they?

Knowing the answers to all of these questions will help you to make a wise and informed decision that is in your best interests, not someone else's.

(Note: Mentor Capital is a "fee-only" firm and an RIA.)

Throw away

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- Privacy. Properly-titled trust assets pass outside the public process of court probate;
- Planning for efficient management of one's affairs in the event of incapacitation;

- Reduction or elimination of the expense of probate.
- Planned payments of bequests to heirs beyond the age of majority.

While there may be many advantages of having a trust, establishing and managing one is not cost-free:

- Legal fees are paid to have an attorney draw up the documents;
- Continuing legal fees (or the expenditure of personal time) are paid to fund the trusts and to manage them during lifetime.
- Further legal fees may be paid to amend or rewrite the trusts when tax laws change.

You can see that the decision about whether to form or retain a trust is not simple. However, with proper consideration of the facts and circumstances and professional counsel, this important estate-planning issue can be resolved.

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