

ARTISAN WEALTH MANAGEMENT, LLC

# True Wealth

*Published exclusively for the clients and friends of Artisan Wealth Management, LLC.*

## Our Thoughts

2010 is well under way. The rollercoaster of the past two years seems to be nearing the end of the ride. In this time of reflection, we thought it might be insightful to select a few observations made by notable names as we share with you our Quarterly Commentary. As you will see, the selected quotes bear remarkable relevance to the world of wealth management — our world at Artisan Wealth Management, LLC at least. And perhaps we will impart some wisdom along the way.

***“A bank is a place where they lend you an umbrella in fair weather and ask for it back when it begins to rain.” - Robert Frost***



Most of us had very little to do with creating the meltdown in our financial system. Sure, some might have borrowed more than what may have been prudent, while others may have spent more than what was wise given their long-term goals and objectives. However, it is our view that readers of *True Wealth* are not so very deep into this camp.

Unfortunately, our legislators lost sight of the fact that people do not necessarily go to work on Wall Street in order to serve mankind. The more likely motivation is to make money — lots of money. As a by-product, the rest of the economy is usually well served by increased liquidity, availability of financing for business generally, risk spreading and other positive effects of financial engineering. However, when unchecked, the excess of greed and self-interest predictably take over.

***“No man’s life, liberty, or property is safe while Congress is in session.” - Mark Twain***

Those same Beltway folks—who expanded Fannie Mae and Freddie Mac to untenable levels; permitted (encouraged) lower-than-reasonable interest rates that helped to create the housing bubble; modified the requirements to have investment banks maintain a reasonable amount of capital reserves to support their business; and generally fostered excessive risk taking with an implicit “too big to fail” guarantee — are now pushing regulatory reform.

While we agree that reform is warranted, we just hope the cure is not worse than the disease. We are, however, reasonably sure that we, our children, and more than likely our grandchildren, are going to be paying for what has been termed “Congressional Malpractice” over many, many years.

***“You make most of your money in a bear market, you just don’t realize it at the time.” - Shelby Davis***

Many in the popular financial media claim that 2000-2009 was a dismal period for US investors. Some commentators are describing the tumult as the “Lost Decade” in stocks. From a narrow market perspective, they are right. Investors who were concentrated in US large cap stocks did not break even: one dollar invested in the S&P 500 in January 2000 turned into ninety-one cents over the next ten years. The results were even worse for investors who made bets on individual companies that ultimately failed. Among these are familiar names such as Enron, MCI, Circuit City and Bear Stearns.

However, for disciplined and globally diversified investors, the last ten years were not a lost decade. As suggested in the graph on page 5, investors who deployed their capital across a broad mix of domestic, developed, and emerging markets were generally rewarded with positive returns. Furthermore, investors with greater need for stability could have balanced the risk of stocks with the

*(Continued On Page 5)*

## It Might Be A Good Idea To “HIRE” Additional Employees This Year

On March 18, 2010, President Obama signed into law the “Hiring Incentives to Restore Employment Act” (the “HIRE Act”). The HIRE Act includes a number of tax incentives for employers to hire new workers, including a payroll tax exemption.

The main focus of the HIRE Act is a provision that provides Social Security tax forgiveness for private employers, state colleges, and universities under certain circumstances. Employers will be exempt from paying their portion of the 6.2% Social Security payroll tax in 2010 for every worker who was previously unemployed for a period of at least sixty (60) days, hired between February 3, 2010, and the end of 2010. In order for the employer to receive the exemption, the newly hired employee must: (1) certify by affidavit that he/she did not work more than forty (40) hours in the preceding sixty (60) days, and (2) not replace another employee of the company, except where the former employee quit or was terminated for cause.

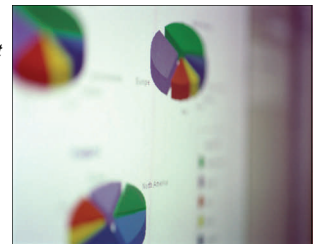
The HIRE Act also provides an incentive for employers to maintain new workers. Employers will receive a \$1,000 income tax credit for every new employee hired during the specified time period and retained for fifty-two (52) consecutive weeks. Additionally, under the Act, businesses can write off investments they make in equipment this year.

By some estimates, the HIRE Act will create as many as one million jobs. The implication of the tax incentives alone are anticipated to provide as many as 300,000 jobs. Employers should factor the tax credit and payroll tax exemption into their hiring decisions this year and consult their advisors if questions arise regarding its applicability.

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## The Advantages Of An Independent Advisor — A Case Study

*This case study is a real description of an actual client relationship. Privacy is paramount at Artisan Wealth Management, LLC. Therefore, we have protected the identity of this client by changing names, locations and some circumstances. Given that many of our clients experience similar life events, this case study is designed to depict the value proposition Artisan Wealth Management, LLC brings to the table. Each family we work with is unique. There is no “cookie cutter” set of solutions. We bring our full set of resources to the table to educate, strategize, implement and monitor.*



### Background

Mr. Green is a high level corporate executive at a pharmaceutical company and Mrs. Green is a stay-at-home mom but spends much of her free time managing the affairs of various family LLCs that have been established over the years. They had a long-standing relationship with the private wealth management division of a prestigious investment bank. Over time, however, they came to feel that their portfolio was becoming disconnected from their overall objectives. There was little discussion with their advisor regarding issues of risk and liquidity. Most of the calls they received were to pitch them on the latest product sponsored by the investment bank. They came to feel that their advisor lacked objectivity and was more interested in selling them a product as opposed to guiding them toward the achievement of long-term goals. They also developed disjointed relationships with other professionals over the years such as an attorney, an accountant and an insurance agent. However, they received no coordinated guidance.

### Key Issues To Solve

- There was no strategic plan in place for achieving overall goals and objectives.
- There was no coordination of the various aspects of their financial life.
- Each investment account (IRA’s and Non-Qualified Accounts) was being invested in the same manner.
- The risk characteristics of the overall portfolio was well in excess of their objectives.
- There was no independent financial guidance.

### Our Approach

We started by signing a Fiduciary Oath and presented that along with our Privacy Policy to the Greens in our first meeting. We then began helping them to verbalize their overall goals and objectives as we conducted a very thorough discovery meeting. During this meeting we gathered together primary resources such as bank and investment account statements, tax returns, wills and LLC formation documents. We brought experienced professionals in law, accounting, investments and risk management to the table to ensure a truly integrated wealth management plan. We put together a new allocation for their overall portfolio and educated the

Greens about the importance of asset allocation along with asset location. The new portfolio allocation was designed with consideration of the tax reality of their different types of accounts while coordinating risk need and risk capacity. We then illustrated the challenges associated with how the LLCs have been set up and managed over the years and put together an improved operational guideline to mitigate areas of asset protection exposure. Finally, an estate plan was developed that minimized estate tax exposure both on the federal and state level while helping to ensure the creation of a desired family legacy.

After presenting our recommendations, we coordinated the efforts of outside professionals to implement the plan. We provided Mr. and Mrs. Green with a select group of qualified estate attorneys to interview and once they determined the attorney they felt most comfortable with, with the Green's authorization, we worked with that attorney to ensure the necessary legal documents to implement the estate plan were drafted in line with their objectives.

We worked over the course of the next two months to consolidate all nine of their outside investment accounts, including a 401(k) Mr. Green had with a previous employer, and put together one Joint Account and one IRA for each of them.

This consolidation simplified their lives and going forward we were able to provide them with a quarterly aggregate portfolio performance report so that they have a clear understanding of how they are benchmarked to their goals and objectives.

We meet regularly with Mr. and Mrs. Green to make sure we are on the same page and incorporate any life changes into the dynamic wealth management plan that we have developed for them. After all, one of the first things we explained to them as we began drafting it was that a good wealth management plan is a living document that must be monitored regularly. In our last meeting, Mr. Green told us that he and his wife can finally rest confidently at night knowing that they have a team of professionals keeping track of all the things that they have been too busy to focus on themselves.

That is what we do. We provide our clients with the confidence that comes with knowing they can focus on the things that are important to them in life and delegate those other items that, while still very important, do not necessarily bring them joy. Time is a non-renewable resource. We help our clients invest it in the areas that bring them joy.

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## Estate & Gift Tax Legislation Update

2010 has been quite a tumultuous year for estate and gift tax developments, both on the federal and state level. We would like to take this opportunity to share a few that may be of interest.

- **House Passes 10 Year Minimum Term For GRATs.** On March 24th, 2010, the House passed the Small Business and Infrastructure Jobs Act of 2010 which contains a provision instituting a 10 year minimum term for GRATs and a requirement that the remainder interest for GRATs be greater than zero. Artisan Wealth Management, LLC has often touted the benefits of the Zeroed-Out GRAT strategy with clients and friends over the past few years. That zest had been even more fervent over the past sixteen months or so as we have seen historically low Applicable Federal Rates, the minimum interest rate published by the IRS for use with this strategy. If this law is enacted, we will see the demise of a great estate planning tool used to transfer significant wealth to younger generations estate and gift tax free. If you have been considering implementing a GRAT strategy, give us a call immediately as your window of opportunity may be closing soon.
- **NJ Estate Tax Extended To Non-Residents.** A bill was introduced on February 8th, 2010 in New Jersey seeking to extend the New Jersey estate tax to non-residents who own real or tangible property in New Jersey. Currently, the New Jersey estate tax only applies to New Jersey residents. We will be monitoring the progress of this legislation.
- **Florida Estate Tax On Non-Residents.** Bills were filed in both the Florida House and Senate this past February to impose a Florida estate tax on non-residents who own real or personal property in Florida and who reside in states that tax Florida residents who own property in those states. If enacted, the law would be effective July 1st, 2010.
- **Federal Estate Tax Repeal.** We are approximately five months into the one year estate tax repeal and there are no new significant developments. This marks the first time in almost 100 years that the federal estate tax does not exist. It remains pure speculation at this point whether the repeal will be replaced with a new estate tax law, and if so, whether or not a new law would be retroactively applied to the beginning of the year. If Congress fails to put a new law together over the remaining seven months of 2010, the federal estate tax will return to what it was prior to E.G.T.R.R.A. in 2001. Needless to say, this would be an extremely unfavorable result for our clients and friends. We will be watching this issue closely over the coming months.
- **Gift Tax Annual Exclusion Remains At \$13,000 In 2010.** The IRS announced in Revenue Procedure 2009-50 that the gift tax annual exclusion amount available to taxpayers in 2010 will remain unchanged at \$13,000. The annual exclusion permits a taxpayer to gift up to \$13,000 annually to any number of beneficiaries without being required to use his or her \$1 million lifetime gift exemption amount.

## Paying For College: What You Need To Know

When surveying clients regarding major financial worries, we find one of their top concerns deals with paying for college. Regardless of one's cash flow and financial assets, paying for college is often a daunting task. In 1940, the cost of enrollment at Harvard University was approximately \$1,000 per year. If we were to adjust that number for inflation, that number would be approximately \$15,000 per year today. However, the reality is that Harvard currently costs approximately \$50,000 per year. Why the disparity?

There are a number of reasons that the cost of college has gone up well beyond inflation. First, the Consumer Price Index measures the increase in cost for a basket of goods and services used by people, not institutions. Colleges and universities have a much different mix of expenses. They are much more heavily weighted toward facilities, energy costs, and staffing costs. Also, when a college or university offers scholarships and financial aid, the only way they ensure a net positive cash flow for the institution is to raise tuition rates faster than inflation. The professors at Harvard in the 1940s and today would point us toward the Law of Supply and Demand. There is a relatively fixed number of seats at colleges and universities and there is a tremendous demand for those seats. Sallie Mae estimates that in 1970 there were 8.6 million college students in the United States. Today that number is closer to 19.6 million.

With the cost of college continually on the rise, what is a family to do? Plan ... and start early, very early. As soon as a Social Security number has been obtained, you can start a 529 plan for a newborn. A regular monthly contribution for the next 20 years can make a big dent in the ultimate cost of higher education. Grandparents can start plans as an alternative to baby gifts, which has the potential to pay big dividends over the long term. An added benefit is that gifts made into a 529 Plan are immediately removed from the donor's taxable estate.

### Points Of Interest

- This year Artisan Wealth Management, LLC was the proud sponsor of the 1st Annual Blue Jean Bash benefiting America's Grow-A-Row. March 20th, 2010 proved to be a truly fun-filled evening. To learn more about this worthy cause and to see photos from the event, visit them online at [www.americasgrowarow.com](http://www.americasgrowarow.com).
- Edward R. Collins, was honored on March 26th, 2010 at the 25th Annual Caldwell College Veritas Awards

Dinner and received the Veritas Award for Excellence in Financial Management. You can learn more about this and other events by visiting the News & Events section of our web site.

- Artisan Wealth Management, LLC is continuing to expand its educational outreach efforts. The past twenty-four months have been nothing if not eventful. Layer a myriad of legislative changes and it is easy to understand why a look of bewilderment has come over

If you have been saving over the years, the traditional pools of wealth that you may have tapped in the past may not offer as much assistance following the past twenty-four months of challenging markets and a bewildered economy. Your investment assets may have been significantly impacted by the roller coaster of the financial markets and home equity, a traditional source of funding in the past, has declined with the real estate bubble explosion that has rocked the entire United States. Even college scholarships and grants have felt the pressure as endowments have lost significant portions of their values as well.

Paying for college is perhaps the second largest investment we make, after the purchase of a home. Start early and study the payment alternatives, even before starting a family! And the better educated we become, the less the sticker shock will be when the time comes in August of some year to write those first checks!

#### Financial Aid Starts With The FAFSA

Financial Aid comes in many forms. It consists of everything from grants to scholarships, work study to institutional aid and loans. All too often, parents and students alike assume they will not be eligible for some form of student aid. The reality is that many factors go into the equation of determining eligibility ... but they all begin with the completion and submission of a form called the Free Application for Federal Student Aid (FAFSA). The FAFSA asks for a host of general student and family financial information in order to determine what is called the Expected Family Contribution or EFC, which is self-explanatory and heavily influenced by income levels. Asset ownership also affects the EFC as 20% of student owned assets are taken into consideration versus just 5.64% of parental assets. All that said, it is imperative to complete the FAFSA because even if no federal aid qualifications are met, most institutions start with the FAFSA in assessing their own aid awards. These may often be influenced by more than simply income and asset levels. Give our office a call to learn more.

the faces of so many. In light of this reality, the professionals at Artisan Wealth Management, LLC are volunteering their time and experience to educate clients and friends of the firm about the current state of affairs. If you belong to a group or an association that could benefit from an informative workshop or seminar, give our office a call at (908) 366-7630 to discuss this educational opportunity in more detail. We look forward to hearing from you.

## Our Thoughts (Continued)

lower volatility of bonds, and potentially avoided the large fluctuations of the stock market over those ten years. So, while it was a “Lost Decade” for some, those who walked a disciplined and broadly diversified path may have been more sheltered from the worst of the storm, reinforcing the merits of this approach to investing over time.

**“The hardest thing to understand in the world is the income tax.” - Albert Einstein**

Clearly, Albert Einstein died before Health Care Reform. Actually, we are not exactly sure what Einstein meant by this statement. Was he referring to the overwhelming complexity of the tax code — which has expanded exponentially since his death — or was he dumbfounded by why we tax productivity at all rather than, say, consumption?

All we are certain of, is that increased taxes are in our future, with more being debated at every level of government. Some of these taxes are direct and some are indirect, some are even called “fees” or “surcharges” but the effect is the same.

The recently passed healthcare legislation targets individuals earning \$200,000 and couples making \$250,000. Filers at or above these levels will pay an additional 0.9% of their wages and 3.8% of their investment income beginning in 2013. Investment income refers to capital gains, dividends, interest, annuities and rent, among other things.

According to the IRS, roughly one million individuals and four million couples will cross the \$200,000/\$250,000 thresholds this year ... that is under 2% of the population. But since these income thresholds will not be tied to inflation, we are likely to see the number of people affected rise dramatically over the years, as we did with the Alternative Minimum Tax.

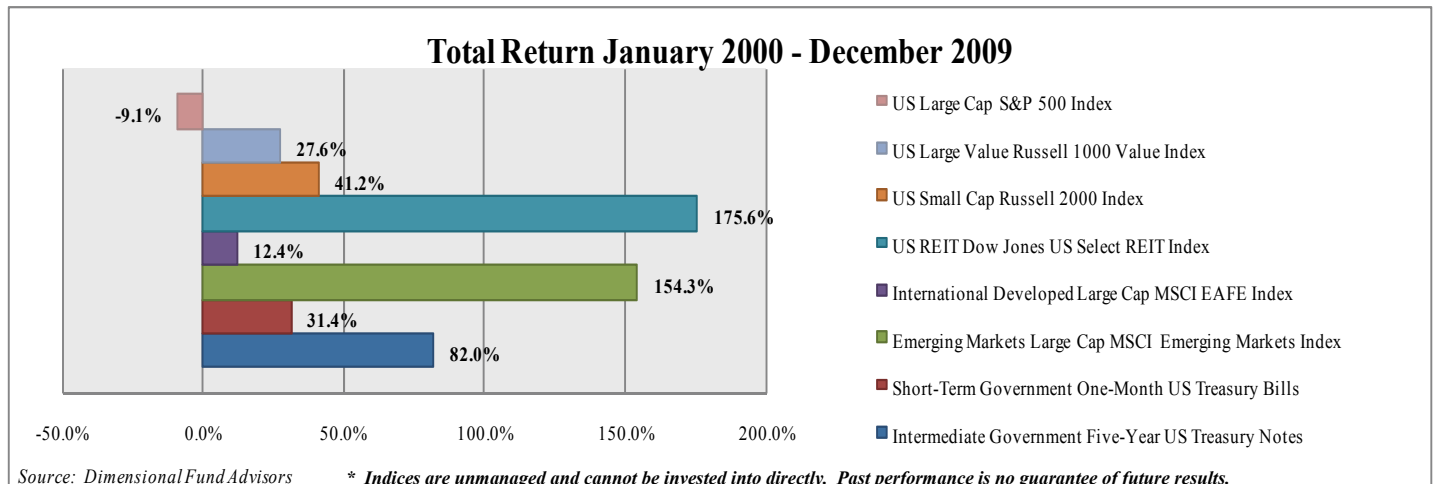
The expiration of the Bush tax cuts next January will mean a boost in the long-term capital gains rate to 20% from 15%. Dividends, currently taxed at 15% for almost all taxpayers, will be taxed as ordinary income. Income tax rates are set to go up at the end of the year for everyone except those in the 10% and 15% tax brackets.

Under current law, a major increase in estate taxation will kick in after 2010. The applicable exclusion amount in 2009 was \$3.5mm; in 2011 that number drops to just \$1mm, the same amount it had been in 2002. The top estate/gift tax bracket will also rise, to 55% from 45% in 2009. This gives new irony to the old adage about death and taxes. All this said, there is a high probability that Congress will alter current estate tax law later this year. We invite you to review “Estate & Gift Tax Legislation Update” on page 3 for more information.

Artisan Wealth Management, LLC will continue to focus its attention on helping clients manage their tax liability whenever we see an opportunity to do so. Some things to consider are:

- If you own low-basis stock, you may want to liquidate it in 2010 while federal capital gains taxes are still at 15%;
- You may also wish to consider postponing sizeable charitable gifts to 2011 in light of likely higher income tax rates; and
- The establishment of a Charitable Remainder Trust (CRT) might be a great way to convert low-basis assets into a tax-advantaged income stream.

We employ a number of different tools and tactics to minimize your tax burden and to provide you peace of mind and clarity. To discuss this or any other topic in more detail, give our office a call at (908) 366-7630. We look forward to speaking with you soon.





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Artisan Wealth Management, LLC**

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*Our success stems from the early recognition that achieving true financial independence is contingent upon having an integrated plan of action to lead our clients in their journey toward financial success.*

*From asset protection strategies to professional client money management, our team of professionals looks forward to helping you define what success means to you and mapping out a course to help you work towards that reality.*

*We invite you to learn more about us and our unique services by reviewing our web site at:*

*<http://www.artisanwealthmanagement.com>*

*We look forward to being your guide in your journey toward financial success.*

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