



FINANCIAL *Planning Strategies*

A Financial Planning Update

WestPoint *Private Client*
G R O U P



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Analyzing Investment Styles: Growth vs. Value

Growth or value—what's your style? Growth investors look for stocks that will grow at a high rate for a relatively short period of time, or mutual funds that focus on growth stock. Value investors look for stocks that are currently undervalued and should increase to their true value during a longer time horizon, or mutual funds with similar objectives.

Growth Fundamentals

Growth investors seek companies that show consistent earnings and sales growth, usually 25% or more each year, for a three- to five-year period.

Typically, the companies represented by these stocks are in rapidly expanding industries, or they offer proprietary niche products or services and have well-known brand names, strong finances, and top management. They have superior profit margins and generally high (over 15%) return on shareholder equity. They almost never pay **dividends**, preferring instead to plow earnings back into the company.

Two key indicators of growth stocks are **share price** and **earnings**. Specifically, the earnings growth rate is generally the more important of the two indicators

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Risk Tolerance—What's Right for You?

When it comes to investing, everyone has a different risk tolerance. Your co-worker or neighbor may not give a second thought to an investment that leaves you with a sinking feeling in the pit of your stomach. But, risk tolerance isn't a matter of "good or bad." Whether you thrive on risks or avoid them at all costs, the important point is to know the level of risk that best suits *you*.

Investing typically involves a trade-off between **risk** and **return**. Returns come in the form of interest or capital

appreciation. Generally, the riskier an investment, the greater the potential return. This is because the market theoretically "rewards" investors for assuming risk, which is the potential for loss. Investors in pursuit of higher returns must be willing to assume the likelihood of loss associated with more volatile investments.

But, not everyone *wants* to take a higher risk in the hope of achieving a larger return. Some investors are perfectly satisfied receiving smaller returns on investments that carry lower levels

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Analyzing Investment Styles: Growth vs. Value

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for growth stock investors. It is the rate at which profits grow from year to year. Generally, growth stocks should have an earnings growth rate over 25%. Consistency is also important. The market will not place as high a value on a company whose profits are up 40% one year and down 10% the next, as on one that grows 25% year after year.

Another key indicator for growth investors is stock price relative to the earnings or **price to earnings (P/E) ratio**. The P/E ratio, which is found by dividing the current share price by the earnings estimate, tells what the market is willing to pay for a share of the company's earning power. Although a growth investor may be willing to buy a company sporting a high P/E ratio, some relative guidelines should be considered. Ideally, the P/E should be lower than the earnings growth rate, for example, a growth rate of 45% selling at a P/E of 30%. It is also a good idea

to look at a stock's P/E in relation to the average P/E for its industry and to the market as a whole.

Value Investing— Key Indicators

Unlike the growth investor, a value investor typically buys a stock that has a P/E ratio substantially below that of the general market, the relevant industry, and the earnings growth rate. Value investors look for companies that are cheap relative to their "book value." **Book value** is the difference between a company's assets and its liabilities. It is theoretically the value of the portion of the company represented by a share of stock. Book value divided by the current market price, or price to book, shows the multiple that the market is willing to pay for a portion of the company's assets.

Generous dividend payments, or a high **yield**, are also important to value investors. Since dividends

account for half of a stock market's long-run total return, a stock that has a higher yield will give a value investor an edge over other investors. A value investor expects the price of a stock to rise to its true value, a predetermined target. When the target or the "appropriate" value is reached, a real value investor will sell that stock and look for another selling at a discount.

While some investors favor growth investing and others favor value investing, there are those who use both styles in their portfolios. The best strategies for *your* situation will depend on your risk tolerance, time horizon, and investment objectives. \$

Note: Stock and mutual fund values will fluctuate due to market conditions; shares, when redeemed, may be worth more or less than their original investment. Profits and protection against losses due to declining markets are not guaranteed.



Estate Planning for Intellectual Property

If you are an inventor, author, artist, or owner of a closely held business, you may have already taken steps to ensure the protection of your intellectual property rights. Business ideas, visual art, published or unpublished literary and musical works, inventions, computer programs, and designs of clothing and architecture can be protected by law through

copyrights, patents, and trademarks. These valuable assets also need to be carefully considered when planning your estate, so that they are transferred to your heirs according to your wishes upon your death.

Issues and Concerns

Intellectual property is a unique asset in that it is an expression of an

individual's knowledge and ideas. While not simply a thought itself, intellectual property is an intangible asset that is the direct result of work or trade. Just as no two individuals express ideas in the same way, each estate owning intellectual property must be handled differently. This area of estate planning is continually evolving,

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Estate Planning for Intellectual Property

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particularly as intellectual "capital" continues to become a greater factor throughout commerce in general.

To begin, it is important to determine if the intellectual property can be passed down to heirs. Certain types of intellectual property may have inherent **renewal or termination rights** through copyrights, patents, and trademarks. This can create additional questions as to *when* intellectual property rights become part of the public domain. To address these concerns, some owners of intellectual property choose a specific executor to handle intellectual property issues in their estates. For example, an author may appoint a family member to oversee the general administration of his or her estate and a second fiduciary just to handle the posthumous publication of additional literary works.

The valuation of intellectual property also poses a challenge to estate planning. The Internal Revenue Service (IRS) offers guidelines for some, but not all, types of intellectual property. For instance, the valuation of literary work is based on the copyright's future earnings potential reduced to its present value. Theoretically, this valuation methodology may apply to other types of intellectual property, as well. However, the question may remain as to how far into the future the potential for earnings may exist. It may be possible

to engage the services of a professional appraiser to help determine the current value of intellectual property and how future trends may affect this value. In this case, it is important to choose someone with special training and expertise in handling intellectual property.

Estate Taxation

The issue of estate taxation is one that affects anyone with substantial assets, regardless of the type of property that is included in his or her estate. However, intellectual property sometimes creates additional concerns. Just as an executor might be hard-pressed to sell a family vacation retreat solely for the purpose of raising cash for estate taxes, a best-selling author may be uncomfortable with the thought that after his or her death, the future publication rights to an unpublished work will be sold for a similar purpose. This feeling can be further multiplied if a large portion of an individual's assets is "intellectual" in nature.

Life insurance can play a pivotal role in keeping intellectual property in a decedent's family. A life insurance policy purchased and owned by an **irrevocable life insurance trust (ILIT)** (created for the benefit of the decedent's family) can provide cash at death to satisfy any estate tax obligations. This use of life insurance can help solidify the estate plan and secure the future rights and

ownership of intellectual property in accordance with the wishes of the decedent.

Also, the **charitable giving** of intellectual property may mitigate the effects of estate taxes. For gifts of intellectual property during the donor's lifetime, the charitable income tax deduction is generally insignificant, because such a deduction is based on **cost basis** rather than **fair market value (FMV)** at the time of the gift. However, the charitable bequest of intellectual property through a will may yield a better result. In this case, the estate of the decedent would receive a charitable contribution deduction against estate taxes based on the fair market value of the gift at death.

One Step at a Time

Estate planning for intangible assets such as intellectual property involves an array of complicated considerations. A basic understanding of the issues involved merely underscores the need for appropriate planning to help ensure the ultimate distribution of your assets according to your desired wishes. Be sure to consult your estate planning team, including financial, legal, and tax professionals. \$



Risk Tolerance—What's Right for You?

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of risk. The key is to find the *right* level of risk that potentially allows you to achieve your desired return...while keeping your stomach jitter-free!

What factors affect risk tolerance? Your age, stage in life, personal temperament, financial goals, and planning time horizon each play a role. Here is a brief discussion of these points:

Age and Stage in Life.

Generally, the younger you are, the more risk you can assume. If you are single, you may be able to afford more risk than a married couple with children. And, if you're just starting out in the work world, you may be more comfortable with higher-risk investments than if you are retired or approaching retirement.

Personal Temperament.

At every stage of your investing life, it is important to evaluate how well you would handle the possibility of losing any funds you invest. Though you may find a roller coaster ride thrilling, you may not enjoy a wild market "ride." The stock market, for instance, has historically risen over the long term, yet it has experienced wide short-term fluctuations. How well would you have handled the 1973 to 1975 recession, when the stock market dropped by 46%?

Financial Goals and Planning Horizon. It's also important to consider how many years you have to meet your financial goals. Generally, the earlier you begin saving, the more risk you can afford to assume.

Though you should never take on more risk than you are comfortable with, you should also recognize that the amount of risk you are willing to carry affects the return you can potentially expect to achieve.

Periodic Reviews—A Must

Knowing your "comfort level" for risk can prove invaluable when you must make investment decisions. With proper planning, you can develop a portfolio that balances your risk tolerance with your financial goals. Since risk tolerance changes with time and circumstances, it's also a good practice to reassess your investing strategies as you start a family, approach retirement, or experience other major life changes. \$



Shrinking Credits for Hybrids

Valuable tax credits for hybrids ushered in by tax reform in 2005 are fading fast. Toyota Motor Corporation has already hit the phaseout ceiling, having sold 60,000 qualifying vehicles as of May. This means shrinking credits for consumers.

As of October, the allowable credits for

Toyota and Lexus hybrids are worth half as much as before. For example, the credit for the Toyota Prius dips from \$3,150 to \$1,575. In April 2007, the credit will be reduced by half again, and then it will disappear entirely in October 2007. This phase-out schedule applies to all Toyota and Lexus models.

Hybrids by other manufacturers, such as Ford and Honda, are still eligible for full credits, based on vehicle weight class, fuel efficiency, and lifetime fuel savings. According to the IRS, as of March 2006, Ford had sold a total of 6,192 hybrids and Honda had sold 9,072, while Toyota had sold 41,779. \$

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