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RB Capital Management, LLC

986 W. Alluvial, Suite 101
Fresno, CA 93711
(559) 432-6100
(559) 432-6110 Fax
rob@rbcapitalmanagement.com
www.rbcapitalmanagement.com

Rob Ballan
Portfolio Manager

The Bulldog Bulletin

1ST QUARTER 2015

Making Your Money Last a Lifetime

Imagine yourself on the first day of the retirement you've been looking forward to for years. You're in good health; and between your pension, Social Security, and IRA, you've got more than enough to fund your lifestyle.

Now, imagine it's 10 years later: you're still in good health, but to maintain your lifestyle, you've had to dip deeper and deeper into your IRA each year. You've realized that at the rate you're going, your IRA will be depleted in a couple of years. You're 75 years old and your alternatives are grim: you either make drastic cuts in your expenses or go back to work, where you'll struggle to replace what you're going to lose.

Sound like a nightmare? It's been a reality for many retirees who after years of living comfortably, suddenly face the prospect of severely tightening their belts to continue to make ends meet. If you don't want that to happen to you, you need to know what to do to make your retirement money last your entire lifetime. The sooner you learn how, the easier it's going to be.

The secret is to withdraw less from your nest egg than it earns, so that each year it will grow. While that sounds simple, it's not quite so easy. It involves keeping your expenses, inflation, withdrawal rate, and investment returns in dynamic balance. Let's take a closer look at each component of the equation.

Your Expenses Always Grow

Even if you watch your pennies, the fact is that every year it becomes more expensive to buy exactly what you bought the previous year. That's because of inflation, which over the last 80 years has averaged about 3% a year.

Of course, the inflation rate has fluctuated from year to year, sometimes going negative (called deflation, which has happened 18 times since 1900) and sometimes going into positive double digits (as in 1975 and 1981, at 11% both years). But at an average rate of 3% a year, a basket of goods and services becomes 25% more expensive in just eight to nine years, and 50% more costly in 15 years.

While Social Security has a

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Estate-Tax Exclusion Opportunities and Challenges

The current estate and lifetime gift-tax exemption is $5.43 million for individuals in 2015. While this may appear to have taken off the pressure for careful estate planning — only 1% of U.S. estates are estimated to be larger than $5 million — the higher limits pose both opportunities and challenges for high-net-worth families.

Here are some estate-planning considerations married couples should address:

Change charitable donations? — The single most obvious benefit of the higher estate-tax exemption is, if planned properly, a couple can now leave substantially more — $10.86 million — to heirs and relatives. This is most significant to those whose primary reason for charitable giving is to reduce taxes. Given the new law, reviewing your purposes and strategy should be your first priority.

Accelerate and increase gifting? — For couples who have exhausted the previous unified gift-tax exemption of $2 million, the $10.86 million limit represents an

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Making Your Money

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built-in cost-of-living adjustment, the amounts in pension and annuity checks generally never change from day one. That means just to keep your lifestyle from degrading, you must take out more from your retirement savings to cover the income/expense gap.

Keep Returns Equal to Withdrawals Plus Inflation

The problem with increasing withdrawals is that as your account balances decline, the same rate of return puts fewer dollars back into that balance. To solve that problem, your investments have to earn enough to do *two* things: earn back the purchasing power you've lost to inflation and earn enough to replace what you've withdrawn.

For example, let's say you have a $100,000 portfolio and withdraw $4,000 at the beginning of the year to cover your expenses — a 4% rate of withdrawal. That brings your portfolio balance down to $96,000. If your portfolio only earns 4%, you're going to get progressively poorer, because to maintain your lifestyle your withdrawals must increase.

The rate of return that keeps your original $100,000 worth the same amount in future dollars in this scenario is 7%, which is your withdrawal rate plus the rate of inflation. That preserves the value of your nest egg for as long as you live.

Fine-Tuning the Approach

In reality, people don't withdraw everything they're going to need to pay their bills at the start of the year. Neither does inflation hold steady at 3% a year, nor do investment portfolios generate the same rate of return year after year. So the key to keeping your finances in balance is to make adjustments. When prices go up faster than 3% or your returns are less than projected, you either spend less or shift to investments with a higher rate of return, or some combination of the two.

Making all these calculations and adjustments requires staying keenly alert and financially agile. It's well worth your while to have another look at your retirement plan. Please call if you'd like to discuss this in more detail. ❍❍❍

Distributing Your Estate to Grown Children

Even though your children may now be grown, they are probably still the center of your estate plan. Just because they are adults doesn't mean you have to leave their entire inheritance to them outright. Consider these factors first:

❍ **Do you want to distribute your estate gradually?** If substantial assets are involved, you may want to set up trusts to distribute your assets gradually, such as in thirds when each child reaches age 25, 30, and 35. You can always give the trustee power to make early distributions for items like paying for college, starting a business, or purchasing a home.

❍ **Have you selected a trustee carefully?** If trusts are involved, you want a trustee who is impartial and will deal fairly with all your children. Think twice before naming one of your children as trustee. One sibling in a position to decide what happens to other siblings' inheritances can cause disagreements among siblings.

❍ **Have you thought about the consequences of a child divorcing?** You probably don't want a portion of your assets distributed to an ex-daughter-in-law or ex-son-in-law, so special provisions may need to be added to trusts.

❍ **Have you considered how assets will be distributed among children?** Perhaps one child is better off financially than your other children. Do you divide your estate equally or give less to the financially well-off child? Children often feel a right to an equal share of their parents' estate, even if they have a substantial estate of their own. If you decide to make unequal distributions, be sure to explain why personally or in a letter left with your estate-planning documents. Hopefully, this will prevent hurt feelings or disagreements among siblings.

❍ **Do you need to make special distributions to even out inheritances?** Perhaps you have paid all college costs for some children, while other children have not attended college yet. You may want to ensure that all children receive a college education, and then distribute the rest of your estate equally among your children.

❍ **Should you coordinate your estate plan with your children's estate plans?** If your children have substantial estates of their own, it may not make sense to leave additional assets to them. They may prefer those assets go directly to their children, helping to minimize family estate taxes.

❍ **Have you explained the need for estate planning to your children?** Especially if you are leaving a substantial estate to your children, they may need to plan their own estates. You don't need to dictate what they should do with their estates, but gently remind them why they need an estate plan. ❍❍❍

Estate Tax

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unprecedented opportunity to move assets out of their estates without taxation. Keep in mind, however, that the annual limit on tax-free gifts to an individual is only $14,000 in 2015, $28,000 if a couple splits their gift.

Trust or will? — The higher limit means you can avoid establishing trusts to remove greater funds from your estate. One disadvantage of testamentary transfers to beneficiaries is you lose control over how and when the funds are distributed. Wills must still pass through probate, which means there is the potential for considerable delay before your beneficiaries gain access to the assets they may need to pay taxes or other bills. Wills also distribute assets without limitations placed on the purposes for which they can be used or when, such as reaching the age of majority or annual distribution amounts. Only trusts can establish these directions.

Understanding the portability provision — Under the portability provision, any of the estate tax credit amount that has been unused by a deceased spouse can be transferred to the estate of the surviving spouse.

For example, if a spouse's estate has used only $2 million of the $5.43 million exemption, the remaining $3.43 million can be applied to the surviving spouse's estate, raising its exemption to $8.86 million. But there are two important caveats: 1) It's not automatic. Even if an estate won't owe a penny in federal estate taxes, it must file an estate tax return to establish the transferred credit. 2) Portability does not apply to generation-skipping trusts, whose beneficiaries are grandchildren and great-grandchildren.

If the surviving spouse is predeceased by more than one spouse, the additional exclusion amount carried over to the surviving spouse is limited to the lesser of $5.43 million or the unused exclusion of the last deceased spouse.

Avoiding unintended disinheritance — Because estate laws are constantly changing, when it comes to dividing assets among different heirs, many wills and trusts rely on a formula clause that doesn't specify dollar amounts or percentages. For example, a document may simply say that children of the deceased are to receive the maximum amount they are allowed free of federal taxes, with the remainder going to the surviving spouse. For an estate of $5.43 million or less, this means the spouse is effectively disinherited. Adding further clarification in such cases is vital to ensuring that an intended beneficiary isn't left penniless.

Lower state thresholds — Be aware than more than a dozen states also levy inheritance taxes, and the threshold of taxability may be considerably lower than the federal level.

Estate planning is an important part of your overall financial plan, no matter how large your net worth. To review your current estate plan in light of the current tax laws, please call. ❍❍❍

Cut the Financial Clutter

Below are six tips to help you cut financial clutter.

1. Prepare an inventory. First, make a list of all your financial accounts. Then gather all your financial paperwork in one place and organize it into three piles: One of things to keep hard copies of, one of things to keep digital copies of, and another of things to get rid of.

2. Shred, shred, shred. Much of the paperwork you've been hanging onto for years can be thrown away. Tax returns can usually be disposed of after three years, though in some cases (like if you're self-employed) you'll want to keep them for a longer period. Credit card statements can typically be shredded once you've confirmed there are no erroneous charges, and most receipts can be pitched right away. Loan documents can be shredded once the debt is paid off.

3. Get a scanner. Make digital copies of records you want to retain but don't need originals of.

4. When possible, consolidate accounts. Having numerous financial accounts is a major source of clutter. When possible, streamline and consolidate. Not only will this make things easier to manage, but you'll reduce the risk of forgetting accounts and eliminate extra fees.

5. Automate your finances. Reduce the amount of clutter coming in by signing up for online bank account and investment statements. However, because some banks may only allow you to access the past several months of statements, you may want to download the records and save them elsewhere. When possible, automate bill payment and paycheck deposits. You'll minimize the risk of late payments and avoid problems with lost checks.

6. Get an online vault and home safe. Personal computers can be compromised or stolen, so you may want to add an extra layer of protection by storing your financial information in a secure online vault. An added bonus? You'll be able to access your financial information from anywhere. Of course, not everything can be stored online. A fireproof home safe is a good place to store original documents. Marriage and death certificates, deeds to your home, car titles, Social Security cards, and copies of your will are all items commonly stored in home safes. One word of caution if you have a safe — make sure your family will be able to access it in the event you die or become ill. ❍❍❍

Financial Data

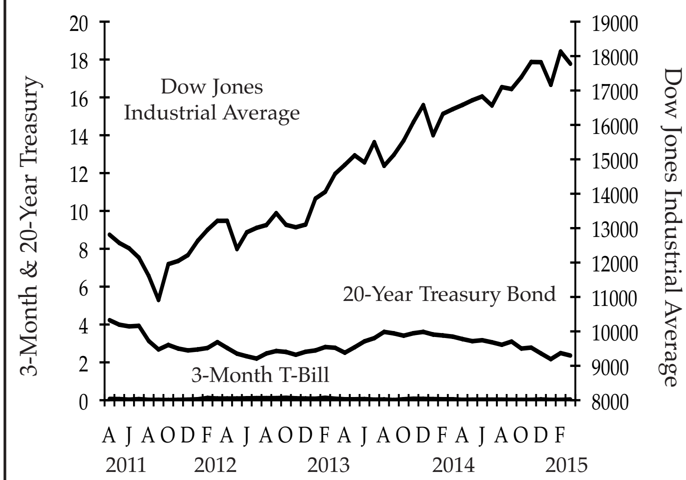
Indicator	Jan-15	Feb-15	Mar-15	Dec-14	Mar-14
	Month-end				
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.42	0.42	0.42	0.43	0.41
3-month T-bill yield	0.02	0.02	0.04	0.04	0.05
20-year T-bond yield	2.17	2.49	2.36	2.47	3.36
Dow Jones Corp.	2.71	2.76	2.83	3.08	2.90
30-year fixed mortgage	3.14	3.36	3.34	3.47	3.96
GDP (adj. annual rate)#	+4.60	+5.00	+2.20	+2.20	+3.50

Indicator	Month-end Jan-15	Month-end Feb-15	Month-end Mar-15	% Change YTD	% Change 12 Mon.
Dow Jones Industrials	17164.95	18132.70	17776.12	-0.3%	8.0%
Standard & Poor's 500	1994.99	2104.50	2067.89	0.4%	10.4%
Nasdaq Composite	4635.24	4963.53	4900.88	3.5%	16.7%
Gold	1260.25	1214.00	1187.00	-1.0%	-8.1%
Consumer price index@	234.80	233.70	234.70	-0.6%	0.0%
Unemployment rate@	5.60	5.70	5.50	-5.2%	-17.9%
Index of leading ind.@	120.80	121.10	121.40	15.1%	21.3%

— 2nd, 3rd, 4th quarter @ — Dec, Jan, Feb Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

April 2011 to March 2015



Past performance is not a guarantee of future results.

News and Announcements

Credit Issues as You Age

While obtaining credit can be just as important for older individuals as it is for younger ones, older individuals often have unique credit issues. For instance, waiting until after retirement to apply for a loan can result in the loan being rejected because your income is much lower. Or if one spouse dies, the surviving spouse may find that lenders want to close accounts, or he/she may not have a sufficient credit history to apply for credit on his/her own.

To help ensure that you don't have credit problems as you age, consider these tips:

- **Apply for major loans while you are still working.** If you are getting close to retirement and know you'll need a loan, perhaps for a retirement home or new car, apply for credit a few years before retirement.
- **Make sure that credit cards are obtained as joint accounts.** If you have an individual account with your spouse listed as an authorized user, the lender can close the account if you die. However, if the account is a joint one, the creditor cannot automatically close the account or change its terms. The lender may require your spouse to update the application if the lender suspects that he/she does not have adequate income for the credit limit.
- **Ensure that both you and your spouse have a good credit history.** Review your credit reports, ensuring that all information is accurate and you both have sufficient history. That way, either of you will be able to obtain credit if the other dies.
- **If you are denied credit, find out why.** It could have been an error, or you may convince the lender to consider other information. You may also be able to negotiate a compromise with the lender. For instance, if the lender is concerned about your age when considering a 30-year mortgage, perhaps a 15-year mortgage would be acceptable. ❍❍❍

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