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The Roth 401(k) Option... Is it Right for Me?

Sometimes it is difficult to convince employees who are just starting their careers to participate in the company sponsored 401(k) plan. Employees may feel that the tax savings may not be significant due to their low tax bracket or they anticipate that their tax bracket will be higher upon retirement.

The lack of participation can cause a small company to have difficulty meeting their nondiscrimination requirements, in effect causing highly compensated employees/owners to contribute less.

One solution is to amend your plan to offer a Roth 401(k) option. A Roth 401(k) has similar features to its cousin, the traditional 401(k). The Roth 401(k) allows a participant's money to grow federally tax-free if the participant's account is at least five years old. Although the contributions made into a Roth 401(k) are not deductible, over time the tax-free growth can outweigh the immediate tax benefits from a traditional 401(k). This can be very appealing for younger employees as well as those employees who expect their income to increase in the future. If employees are on the fence about which way to go (tax deduction now or tax-free later), they can split their contributions to get the best of both worlds.

Because Roth 401(k) plans are not subject to the same income restrictions, employees who have not been able to contribute to a Roth IRA will now be able to do so via a Roth 401(k). Starting in 2006, employees participating in such a plan can contribute up to \$15,000 annually (\$20,000 for those 50 or older by the end of the year in which the contribution is made).

The Roth 401(k) is a provision of the Economic Growth and Tax Relief Reconciliation Act of 2001. The availability of the Roth 401(k) and other provisions of the Act are slated to "sunset" at the end of 2010. However, even though contributions may be prohibited after 2010, existing account balances will continue to grow tax-free, even if the account is rolled over to a Roth IRA because of a change in employment or retirement.

If you have any questions about the Roth 401(k), please call me at 401-421-4800 or email me at jdorfman@lgcd.com.

The Heart of Investing

In today's global financial markets, there are almost infinite ways to seek investment advice, ranging from professional investment advisors to broker/dealers placing your trades, to the popular financial media, to your next-door neighbor or your horoscope.

We follow the advice offered by Greek lawmaker Solon around 600 B.C.: "In giving advice, seek to help, not please, your friend." This issue of The Educated Investor explores what we consider helpful advice worth heeding:

- ▲ The Roth 401(k) - take a look at this new option that could help you save for retirement.
- ▲ Taking Good Care of Your Wealth — How do you know your assets are being carefully administered?
- ▲ Assessing Your Investor Quotient (IQ) — What are some simple questions you can ask to ensure your investment plan is on track?
- ▲ Responsible Investing — Why we believe global diversification is the right approach.
- ▲ Can We Talk - does your family possess the skills they need to deal with family wealth?

Worth Repeating Worth Repeating

“ The most important investment lesson I can convey to you comes down to this: Ask questions. What kind of questions should you ask? Some are about products — some are about those who sell them. ... The answer can be found in something folksinger Pete Seeger once said when explaining the difference between education and experience. 'Education,' he said, 'is when you read the fine print; experience is what you get when you don't.' ”

— ARTHUR LEVITT
CHAIRMAN OF THE SEC, 1993–2001

Taking Good Care of Your Wealth

It's one thing to state that we are a Registered Investment Advisor firm and that we must meet the highest standard of fiduciary duty. What exactly does that mean, and of what benefit is it to you?

At the broadest level, being a Registered Investment Advisor simply means that we must be able to demonstrate that the business decisions we make and the advice we offer serve your best interests, which in turn translates to a comprehensive system of policies and procedures.

Responsible Allies

Beyond our investment approach designed to meet our fiduciary obligation to you (see next page) our firm is dedicated to providing you with independent, objective advice grounded in a fee-only pricing structure. We get to know you, so we can help you build your portfolio to meet your unique financial goals.

Responsible Procedures

You will find this same commitment to your best interests in the administrative details that we and our strategic alliances oversee on your behalf.

Some of our procedures are dictated by government regulations to which we and all Registered Investment Advisor firms must adhere. We also have implemented many procedures to deliver excellent client service, as well as to anticipate — and minimize — service disruptions before they occur. Following are a few examples:

▲ **Arm's length asset management** — While we serve as your investment advisor, your assets are held in your name with our custodial strategic alliance. This secure system of checks and

balances ensures you maintain control of your own assets. You also benefit from account protection available via Securities Investor Protection Corporation (SIPC) insurance as well as excess-SIPC additional protection carried by the custodian.



▲ **Business continuation processes** — We and our custodial ally also maintain business continuation (“disaster recovery”) procedures, should damaging events such as floods or fires result in unexpected service disruptions. Maintaining routines such as duplicate, off-site copies of your critical records; staff call-lists and assignments during crises; and periodic testing of the business continuation processes we have in place are all par for the course, to help ensure our ongoing availability to serve you.

▲ **Compliance regulations** — Advisor firm obligations to comply with more and stricter government regulation is a clear trend in the financial industry. We have long recognized the importance of protecting your assets by remaining compliant with government regulations designed to protect you. As such, we maintain a compliance program within our firm, and we revisit it as needed to ensure that it remains current with new requirements.

▲ **Electronic record management** — Your important records (docu-

ments, transaction records and more) are scanned for electronic storage, with back-up copies stored off-site. These procedures ensure that your paperwork will be quickly, reliably and accurately available — to you and to your investment advisor.

▲ **Trade management** — Via proprietary, custom-designed trade management software, we have integrated nearly two dozen “checks” to detect and eliminate errors that can otherwise result from manual trade submissions. Electronic trading significantly reduces the number of times information is exposed to data-entry errors, as well as providing us with more rapid access to the status of any given trade.

▲ **It takes a team** — When you become a client, you benefit from the expertise of your investment advisor as well as our entire strategic team — including our network of carefully selected alliances designed to bring you enhanced service levels in a manner most convenient for you. We are all dedicated to service-minded excellence, accessibility and readiness to respond to your particular needs.

Reminder

Tax Planning Strategies

Presented by

LGC&D's Tax Department

December 5, 2005

8-10 a.m.

Aurora Civic Association,
289 Broadway, Providence RI

Call 401.421.4800 to reserve a space
for you and your guest

Assessing Your Investor Quotient (IQ)

Beyond simply watching your assets, a good advisor can add value to your investment experiences by addressing numerous critical related issues.

While this quick reference list is by no means exhaustive, if you find yourself answering “no” to any of the following questions, it may be time for a financial checkup. We can advise you on any or all of these issues.

1. Do you have an investment strategy?

Is your strategy a carefully planned approach, targeted to your and your family’s unique objectives? Or is it a variety of ideas, patched together over the years?

2. Do you know what your returns are for your entire portfolio?

What has your *after-cost* investment performance been (after-tax) for the last one, three or five years, or longer? What returns information, if any, do you receive from your financial consultant?

3. Do you have a written Investment Policy Statement (IPS)?

Does your written IPS clearly state your financial goals, time horizon, cash-flow needs, risk tolerance, investment strategy and the types of investments you are willing to make?



4. Do you work with your financial consultant on a fee-only basis?

A fee-only structure instead of transactions based on commission helps keep your investment advisor’s interests aligned with yours.

5. Have you incorporated appropriate steps toward risk management?

Are you prepared should death or long-term health care needs arise?

6. Do you know what it will take to achieve financial independence and/or retire in the style you desire?

Have you planned for the impact that return volatility can have on your nest-egg assets (especially if you experience negative returns during the early years of retirement)? If you own a business, do you have a succession plan in place?

7. Could you or your spouse outlive your money?

Are you aware that by definition more than half of us outlive our life expectancy?

8. Does your spouse have the professional advice needed to manage financial affairs in your absence?

Does he or she know how to contact your trusted advisors?

Responsible Investing

Perhaps foremost, our fiduciary obligation speaks directly to why we recommend building a globally diversified passive asset class investment portfolio designed to achieve your long-term investment objectives. Let’s take a look at the components:



Asset class investing — is based on principles defined by the American Law Institute’s Prudent Investor Law, the tenets of Modern Portfolio Theory and a host of supporting academic studies. Together, the evidence has demonstrated that, by far, the biggest part of your investment return comes from the asset class you invest in (riskier asset classes are expected to result in higher returns), as opposed to efforts to pick winning stocks or time the market. Thus it is in your better interest to focus on capturing asset class returns.

Global diversification — helps reduce the volatility of your portfolio. By helping you maintain diversification in a disciplined manner, we can guide you in setting and achieving reasonable financial goals.

A passive approach to investing — among other advantages, helps keep your expenses to a minimum, while still enabling us to manage for tax efficiency and implement a portfolio engineered to maximize returns for your chosen level of risk.

Can We Talk?

LGC&D invited Marty Carter, a nationally-recognized family legacy advisor, to share her experience and insight in the field of family dynamics and money matters. Financial issues can be the most difficult to discuss in a family setting, but if left unsettled, can cause strife and result in poor financial decision-making. We worry about how to protect the wealth we have worked so hard to accumulate. We wonder if our children will be able to continue our successful family businesses. We hope that our spouses will be taken care of when we are gone. What we should all be doing is working to teach our children about money, planning for the future, and sharing our plans with our spouses and families.



If you missed Marty's presentation, here are some easy **Action Items**: simple steps YOU can take to make sure your family has the financial knowledge and skills they need.

- ▲ Put together your **personal financial statement** or balance sheet: What you have vs. What you owe. You and your spouse should both know and understand this snapshot account of your finances. If appropriate, share this information with your children.
- ▲ Create/Review/Update your **estate plan**. You may want to change the beneficiary of your life-insurance policy or IRA. The will you had drafted when your kids were born needs updating. You should review your estate planning documents any time a "life-event" occurs. (For instance: marriage, divorce, adoption, birth of a child or grandchild, or a death).
- ▲ Keep a list of **important financial contacts** – your financial advisor, your accountant, your insurance agent, and your attorneys – where it will be accessible in the event of an emergency.
- ▲ Gather together all of your **financial documents** and leave copies with your financial advisor. In addition to ensuring that everything is stored together in one secure location, your advisor will have a more global view of your finances and will be better able to help you achieve your goals.
- ▲ Hold **family meetings** where financial questions and concerns can be discussed. If there are younger children involved, use these meetings as an opportunity to teach them about money. For young adults, discuss their financial goals and how they can be achieved. If you have adult children, discuss whatever estate planning info you are comfortable sharing. Let them know where your documents are kept and share with them your list of financial contacts.
- ▲ Most importantly – **give your children a financial education!** If your kids receive an allowance, work with them to establish a budget. Suggest that they allocate certain portions for different purposes: 25% for saving/investing, 25% for charitable giving, and 50% for them to spend. You can use your family meeting time to discuss which charities or causes they would like to help. Consider sharing the family budget with older children. Show them how your income is allocated – how much goes to paying the mortgage, how much is invested, etc. You'll worry a lot less about your kids' ability to handle family wealth if you've given them the experience and tools they need to deal responsibly with money.

If you'd like more ideas or assistance getting started call us at 401-421-4800 or send an email at WealthManagement@lgcd.com.

Our Basic Tenets

Our objective is to design portfolios using passive asset class funds that maximize investors' returns within their tolerance for risk. Here is what sets us apart:

- ▲ Fee-only investment management
- ▲ A disciplined investment strategy
- ▲ Access to institutional no-load passive asset class funds
- ▲ Fixed income expertise
- ▲ An academic Nobel Prize-winning investment approach
- ▲ Continued access to academic research
- ▲ A tax-efficient focus, with valuable tax and estate-planning ideas
- ▲ Risk tolerance assessment
- ▲ Periodic portfolio rebalancing
- ▲ Regular communications and state-of-the-art reporting
- ▲ **MOST IMPORTANT ...**
A TRUSTED ADVISOR RELATIONSHIP



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