Peace of Mind . . .
Intelligent Planning.

AMERICAN FINANCIAL ADVISORS
WEALTH ADVISORY SERVICES

3361 Rouse Rd., Ste. 135
Orlando, FL 32817
888-679-9779
www.afadvisors.com

Registered Representative of and securities offered through Foothill Securities, Inc., member FINRA/SIPC. Advisory services offered through American Financial Advisors, Inc., a registered investment advisor. American Financial Advisors, Inc. and Foothill Securities, Inc. are not affiliated companies

An economic and investment update

THE FINANCIAL INSIDER

Volume XXX, Number III

'The opinions expressed herein are those of the author and are not necessarily the same as those of Foothill Securities, Inc. Foothill Securities, Inc. did not assist in the preparations of the enclosed report and makes no guarantee as to its accuracy or the reliability of the sources used for its preparation.'

Retirement and Succession Planning for Entrepreneurs

If you're a business owner, you've invested a great deal of time and effort into building your company. With day-to-day demands, it may be difficult to imagine your eventual transition into retirement. Yet, if you want to build personal financial security and ensure business continuation, it is important to plan ahead. **Business succession planning** can help create retirement income for a retiring business owner and facilitate the transfer of operations and/or ownership to family or another entity. A succession plan can also provide a strategy to handle unforeseen events, such as death or disability.

Laying the Foundation

It is never too early to begin planning for succession. An early start can allow you ample time to develop an appropriate exit strategy, choose the right person to be your **successor**, and train your successor to manage the daily

(Continued on page 8)

When Your Spouse Dies: Taking the Helm

One of the most difficult experiences in life is the loss of a spouse. In addition to grieving the loss of your partner, you may also feel overwhelmed by the need to make important financial decisions that could have a lasting impact on your financial future. While no one can ever be completely prepared to deal with such a loss, especially one which is often compounded by legal and financial concerns, there are steps you can take to successfully navigate this turbulent time.

Seek Support: You Are Not Alone

It is important to realize that grief affects everyone differently. Depending on your relationship with your spouse, whether you have children, your life experiences, your belief system, and many other factors, the grieving process can vary considerably from one person to another. There is no "right" way to grieve, and there is no time frame for recovery.

Some people find solace among others who have experienced a similar loss, such as a bereavement support group through a local hospital, church, or community center. Others may find comfort and relief through work, exercise, a new hobby, or time spent with good friends. Reach out to those who have offered to help you. Whatever you do during this time, take care of yourself and know that you are not alone.

(Continued on page 2)

When Your Spouse Dies: Taking the Helm

(continued from page 1)

Of course, certain matters will require immediate attention, such as notifying family and friends; making funeral arrangements; and contacting your attorney to review the will and handle the legal aspects of your spouse's estate. Let your family, closest friends, and trusted advisors help you with these details and short-term decisions, but proceed cautiously with major financial decisions, such as selling your home, borrowing or lending money, investing, making major purchases, or career changes. Consider the following financial checklist:

- Obtain several certified copies of the death certificate. They will be needed when claiming death benefits from insurance companies, as well as from Social Security.
- Consult immediately with the family attorney, who will guide you through many of the legal and tax issues.
- File for death benefits. Call your local Social Security office, the Veterans Administration, your life insurance professional, and, if appropriate, the employee benefits manager at your spouse's employer.

- Find out about medical coverage. If you depend on your spouse's insurance, contact his or her employer and exercise your right to keep that policy in force. Learn the options for either converting or acquiring new coverage.
- Keep detailed records, tracking all of the money that comes in and goes out in the first month or two. These will be needed to create a budget.
- Manage assets wisely. If some financial decisions can wait, let them. Spend some time taking care of yourself. Later, you will be in a better frame of mind to make additional decisions.
- Start with short-term financial goals, and then tackle the more complex decisions, such as whether or not to sell the home and how to manage assets over the long term.

Taking Charge of Your Finances

If your spouse was the primary breadwinner and managed the family finances, it may take time to assess your financial situation. Your attorney, financial professional, or even a family member or friend can help you sort through important papers and documents and help create a financial strategy that will work for you. During the first few months, pay bills that must be paid and monitor cash flow and liquidity. Keep a running list of financial questions as they arise, and don't hesitate to seek guidance and support.

As you begin to make decisions, there will be important issues that need to be addressed, such as determining your income needs, managing money on your own, reevaluating insurance coverage, and continuing to meet the needs of your children. Some of your decisions will come easily, especially if they are based on financial need. Others may be based on what you feel is best for yourself and your family. Will you want to work? Will you need to work? If you are currently employed, will you stay in the same position? If you have not worked for some time, will you need to acquire more education or enhance your technical skills? Work with professionals who have the patience to work with you at your pace. It may take time to feel comfortable making major decisions on your own, but you will get there.

Ideally, a family will have their financial affairs in order before a sudden loss occurs. However, that is not always the case. Life is unpredictable. But, learn from your experience and be sure to organize and safely file important papers, such as marriage and birth certificates, tax returns, retirement account records, insurance policies, investment and bank statements, and estate planning documentation. Should such circumstances arise again, you or your loved ones will be grateful for the organization. $

Are You Planning an Early Retirement?

As your 62nd birthday approaches, the dream of early retirement may seem like a possibility. From that day on, you may qualify for Social Security retirement benefits. While you may be lured by monthly Social Security checks, seriously consider your financial position to be sure you can afford to walk away from the nine-to-five routine.

As you imagine your retirement, it is essential to incorporate accurate Social Security figures into your financial equation. Keep in mind that Social Security benefits paid at an early retirement age will be less than the benefits paid at full retirement age (65–67, depending on your date of birth). To get an estimate of what you can expect to receive from Social Security, begin with a copy of Form SSA 7004: *Request for Social Security Statement of Earnings*, which you can obtain from any Social Security office by writing or calling 1-800-772-1213. Or, you can visit their website at www.ssa.gov to order a copy.

Go Beyond Social Security

Beyond your Social Security benefits, however, are other important factors, such as your overall financial situation, prospects for future income, and satisfaction with your job. If early retirement seems a reasonable goal, determine how much income you can count on from savings to supplement your Social Security benefits. Remember to include income from company retirement plans, **Individual Retirement Accounts (IRAs)**, or **annuities**.

Pension benefits may be tied to Social Security benefit amounts, so check carefully regarding the possible effects of early retirement on these sources of income. Your company's human resource manager may be able to provide you with the pertinent facts and figures about your retirement plan. Once you have determined the benefits you will receive upon retirement, add up your current living expenses and determine a rough estimate of how much income you may need during retirement. It is possible that you may live on less than your pre-retirement income, depending on your lifestyle.

Other Considerations

Another critical point to consider is whether retiring from your job would leave you without **life** and **health insurance** or other necessary benefits. You may want to investigate the cost of private health coverage until you reach age 65, when you may be eligible for **Medicare**.

If you find that your total retirement income will be insufficient, explore the possibilities of downsizing your home, moving to an area with a lower cost of living, or finding part-time employment where compensation is within allowable Social Security limits to avoid benefit reduction. If you are working and collecting Social Security benefits while under full retirement age, there is a $1 loss (a "give-back") in benefits for every $2 earned above $14,160 in 2010. If you attain full retirement age in 2010, there is a benefit loss of $1 for every $3 over $37,680 earned in months prior to attainment. Once full retirement age is attained, these earnings thresholds no longer apply. Many health professionals encourage part-time employment or volunteer opportunities during retirement for the social aspects, sense of purpose, and community involvement.

Retirement Needs Checklist

To begin preparation for retirement, read each of the following statements. If you have given careful consideration to the task, give yourself a check. The remaining items will require your attention soon, even if your retirement is still some years off.

- I have completed an assessment of my current financial situation, including income, expenses, assets, and liabilities.
- I have determined which of my expenses may be lower after I retire and which may be higher.
- I have determined how much I can expect from Social Security, veterans benefits, and pension plans.
- I have estimated how much I expect to receive from interest on my savings, real estate rentals, etc.
- I have reviewed my insurance policies to ensure that they meet my present and future needs.
- I have organized a strategy to pay off my large bills and debt before retirement.

Final Assessment

If you have any doubts about being able to make ends meet, working for a while longer may improve your financial situation. If, however, income from savings, rents, royalties, or other non-employment sources, combined with your projected Social Security income, is enough to meet your retirement expenses, you may want to focus on making your dream of an early retirement a reality. $

ID Theft: Don't Be a Victim

Identity theft is one of the fastest growing crimes in the United States, with as many as 9 million victims every year, according to the Federal Trade Commission (FTC, 2010). Identity theft is a type of fraud in which the thief uses your personal information to conduct transactions in your name. Thieves may, for example, use your identifying information to open or empty bank accounts, obtain credit cards, or take out loans.

Thieves can sometimes access your confidential financial details when companies that hold your information, such as your bank and credit card providers, lose customer data, or their systems are raided by hackers. While these situations are out of your control, there are several steps you can take to help reduce the risk of having your personal details stolen and misused, as well as a number of ways to detect a theft early and minimize damage done to your credit. Consider the following:

- Monitor your credit reports, checking regularly for any suspicious transactions. Under Federal law, each of the three major credit bureaus, Experian, Equifax, and TransUnion, must provide consumers with a free annual credit report upon request. You can access the reports through one website co-sponsored by the agencies, www.annualcreditreport.com. A thorough review of these reports, also known as credit file disclosures, can reveal any unusual activity.

  While you can order all three disclosures at once, requesting one report at four-month intervals may be a more effective way to monitor your score. You are entitled to receive free reports more than once a year if you are unemployed or have been denied credit, insurance, or employment because of your credit score.

- Do not provide sensitive data in response to e-mail or telephone solicitations. If you are interested in an offer, take down the caller's contact information and verify that the company is legitimate before revealing your identifying information. You can bar telemarketers from calling you by registering your phone number with the Do Not Call Registry at www.donotcall.gov.

- Filter unwanted e-mail by installing anti-spam software on your computer. For further protection, install firewall and antivirus software programs that include automatic updates. Use a secure browser when conducting online financial transactions.

- Invest in a mailbox with a lock or rent a P.O. box. Thieves have been known to intercept confidential correspondence and offers from financial services companies. Be sure to store sensitive information in a secure place in your home, especially if you have unfamiliar visitors or people working in your house.

- Destroy records containing private financial information by tearing or shredding, and do not dispose of credit card receipts or ATM statements in public trash receptacles. Thieves have been known to "dumpster dive" to obtain the details they need to commit fraud.

- Protect your accounts with passwords or access numbers that cannot be easily deduced. Avoid using your Social Security number, your birth date, your phone number, your mother's maiden name, your children's names, or a series of consecutive numbers. Never carry your Social Security number or passwords with you, and consider changing all of your passwords periodically.

- Before disclosing identifying information to businesses, employers, or other entities, ask how the information will be stored and handled.

- If your license or another form of identification is stolen, contact the appropriate agency immediately to cancel the document and order a new one.

(continued on page 5)

Will Restrictions and Asset Distribution

You have undoubtedly heard that it's important to have a **will** in order to control the disposition of your assets after your death. While you are generally free to distribute your assets as you wish, you may be surprised to learn that there are some restrictions, which may vary from state to state. These include the following:

- **Spousal Rights.** If you are married, your spouse is generally entitled to receive a share of your estate. If your spouse does *not* receive the amount mandated by law, almost every state allows him or her to take an **election** against your will.

- **Children's Rights.** Unless you intentionally **disinherit** them, some states allow your children to receive *at least* the share they would have been legally entitled to if you had died **intestate** (without a will). Also, if you have or adopt a child *after* your will is executed—unless you have provided for that child in your will, or he or she has received a share of your estate through lifetime gifts—some states entitle the child to receive the share he or she would have received if there had been no will.
- **Gifts to Friends.** Perhaps you are single and would like to leave your estate to a cherished friend. Your will may be contested by biological relatives who may have benefited if you had died intestate. To help guard against this, you may need to specifically disinherit family members.
- **Charitable Gifts.** If you plan to bequeath a portion of your wealth to charity, bear in mind that some states limit the amount you may leave to charitable organizations at the expense of close family members.

Preparing a will is a step in the right direction. However, to help ensure that your assets are distributed as you wish, it is important to be aware of restrictions that could hinder such progress. In order to ensure that your will is properly prepared, consult a qualified, legal professional. $

ID Theft: Don't Be a Victim

(continued from page 4)

- Keep track of your credit and ATM cards. Check your credit card and bank statements thoroughly for any suspicious purchases or withdrawals.

If you have reason to believe your identity has been misused, report the theft immediately to the fraud department of one of the three major credit bureaus and ask them to place a "fraud alert" on your file. The alert will prompt creditors to call you before allowing a new account to be opened in your name or an existing account to be altered. Calling just one bureau is sufficient, as the company you contact will report the problem to the other two bureaus. After placing the fraud alert on your file, you will be entitled to request one free copy of your credit report from each of the credit bureaus, even if you have already received reports that year.

Also, immediately contact creditors or other companies with accounts in your name that may have been affected by the fraud, instructing them to close the accounts immediately. The next step is to file a report of the theft with the police in the community where the crime was committed. Finally, file a complaint with the FTC, which maintains a database used by police and other law enforcement officials for identity theft investigations. Be sure to keep detailed records of your communications with creditors and other authorities regarding the theft.

Don't become a victim of identity theft. To learn more, visit the FTC website at www.ftc.gov. $

Building the Value of Your Business

Caught up in the day-to-day issues of running your business, you may not be thinking about how much your company could be worth when the time comes for a transition. But the choices you make now, both large and small, can add to or detract from the future value of the company.

There are many ways for a company to grow, including entering new markets, developing new products, acquiring complementary businesses, hiring more employees, and increasing sales and marketing expenditures. An owner may attempt to grow the business rapidly by tapping into outside financing or more slowly by using the company's own revenue. With so many strategies to consider, you may want to develop a long-term plan to guide the growth of your business.

Your decision regarding the ultimate disposition of the company may influence many aspects of your current business strategies, including your form of business ownership. It may make sense, for example, to opt for a C corporation structure for a business that may go public or an S corporation structure if a private sale is planned. Be sure to consult with your tax and legal advisors about the implications of each form of business ownership.

Transferable Assets

To begin, work on building and maintaining your company's transferable assets. These may include tangible assets, including property and equipment, as well as intangible assets, including a customer base, a solid reputation, brand recognition, and business processes. Depending on the type of business you operate, your firm's intangible assets could prove to have substantial value at the time of transition. Distinct intangible assets include copyrights or trademarks, proprietary lists of customers or prospects, and long-term contracts. The value of the business in excess of the owner's equity is known as goodwill; this may include assets such as an attractive location or customer awareness.

Companies also derive intangible benefits from a strong management team with the knowledge and connections required to maintain the business after the owner retires. In many cases, having a skilled and loyal workforce can also be considered a transferable asset in a sale.

Financial Performance

When growing your business, strive to establish a self-sustaining enterprise with steady revenue growth. The financial performance of a company is often measured by its free cash flow, or the cash that it generates before interest, taxes, depreciation, and amortization, less capital expenditures. In assessing the value of the company, a buyer may, for example, project a company's earnings over the next five years based on the current cash flow. This projection will take into account any outstanding debt, as well as whether revenue growth and margins demonstrate a history of consistent growth.

Regardless of your time frame for transitioning the business, regularly review the products and services offered by your company. Businesses are often more efficient when they focus on their core competencies, rather than diversifying too broadly. If your company has product lines or offers services not closely aligned with the firm's core business, consider whether these areas are profitable or represent a drag on the company's resources. Selling off non-core assets may provide funds to help pay off debt.

You may also want to restructure agreements or contracts that may be objectionable to a potential buyer, such as a long-term lease, licensing contracts, employment contracts, and loan agreements. Long-term leases may be an asset provided the terms are favorable, the location is suitable, and the size is right. If, however, the company is likely to outgrow its facilities before the lease is up, or if potential buyers want to move the firm's operations, a short-term lease may be more appropriate. On the other hand, you may seek to formalize certain verbal agreements to ensure the business' relationships with key customers or suppliers continue after the transition.

For a detailed analysis of your company's value, contact a professional business appraiser who is familiar with your industry. Even if you have no immediate plans to leave the company, an estimate can help you identify ways to maximize the value of the business in preparation for a future exit. $

Life Insurance Options for Unmarried Couples

Unmarried couples face some unique financial and estate planning issues. While married couples typically use **life insurance** to provide funds to help replace income upon the death of a spouse, unmarried couples may have an even greater need for replacement income, since the surviving partner is ineligible for spousal benefits from Social Security and many **defined benefit pension plans**. In addition, both partners' estates may have a greater need for cash to help pay estate taxes, since unmarried couples are not entitled to the **unlimited marital deduction** for property bequeathed to one another.

With proper planning, life insurance can provide cash to help meet your needs as an unmarried couple. It also offers a way to provide for your partner beyond a **will**, which could be contested by family members.

Income Replacement

There are two ways to structure life insurance to help provide replacement income. You can either ***cross-own*** policies or own ***individual*** policies with the other partner named as the **beneficiary**.

Cross-Owning Policies. You each own a policy on your partner's life. When one partner dies, the surviving partner can use the death benefit proceeds to help replace lost income. Since the policy is owned by the surviving partner, not the deceased, it is generally not included in the deceased's estate and, thus, is not subject to Federal estate taxes.

To cross-own policies, you may need to demonstrate an **insurable interest**. Spouses are automatically assumed to have an insurable interest on one another. As an unmarried couple, be prepared to prove insurable interest with evidence of jointly owned assets and, possibly, copies of wills or **trust** documents.

Individual Policies with Partner as Beneficiary. You each own a policy on your own life, naming your partner as beneficiary. The surviving partner uses the death benefit proceeds to help provide income. However, since you each own your own policy, the proceeds are included in your estate and may be subject to estate taxes.

Cash to Pay Estate Taxes

Married couples qualify for a special tax break—the unlimited marital deduction—that allows them to transfer unlimited assets to each other during their lifetime, or at death, free of gift and estate taxes. Since unmarried couples are not eligible for this deduction, the value of any property you leave each other above the applicable exclusion amount may be subject to Federal estate taxes. Some states also levy estate taxes. Life insurance provides cash that can be used to help pay estate taxes. You can either cross-own policies or create an **irrevocable trust**.

Cross-Owning Policies. With cross-owned policies, you purchase insurance in the amount of the estimated taxes. As mentioned before, one advantage of this approach is that the surviving partner owns the policy. Consequently, the proceeds are not included in the deceased's estate.

Irrevocable Life Insurance Trust (ILIT). With an ILIT, a **trustee** buys and owns the life insurance policy, and you furnish the trust with the funds in the form of gifts to pay the premiums. However, irrevocable trusts must be structured properly to avoid adverse tax consequences. They are costly to set up, and as the name implies, they cannot be revoked if circumstances change.

Life insurance has long provided a valuable solution for married couples who may need cash to help replace income and pay estate taxes at the death of a spouse. As an unmarried couple without the legal protections of marriage, your need for cash at the death of a partner may be even greater. As with all insurance and estate planning concerns, it is always best to consult a qualified professional to discuss your particular needs and to help ensure all arrangements are structured properly. $

Retirement and Succession Planning for Entrepreneurs

(continued from page 1)

operations of your company. Consider the following points to create a foundation for a successful plan:

Valuate Your Business. A key aspect of planning for continuation is calculating the worth of your business. There are a variety of techniques for business valuation, and the most appropriate will depend on your business circumstances. A qualified professional can help you choose strategies for valuation.

Plan Your Exit Strategy. It is important for a retiring business owner to plan his or her departure from the day-to-day operations of the business. A solid plan can help ensure this transition will go smoothly, as well as facilitate the transfer of ownership.

Choose a Successor. If you plan to keep ownership and control of your business within your family, start by assessing your family members' interests and qualifications, and how well they match the needs of the business. Discuss with family members who will participate in the company and in what capacity. Then, determine how working members will be compensated and what will be given to nonparticipating members.

If you expect unrelated parties to carry on the business, meet with the key people involved for an in-depth discussion about the company and its future. If succession involves the sale of the business, be prepared to address such issues as what the purchase price will be, how it will be paid, and when the succession plan will be activated.

Develop a Business Plan for the Future. Through your business plan, you can outline clear-cut, short-, medium-, and long-term business goals for your successor, along with an action plan for achieving them. Include budgets and financial forecasts that can be modified according to changing conditions in both the industry and the economy.

Choose a Transfer Strategy. Depending on the type of business, its value, and your personal financial situation and goals, determine the best ownership transfer strategy for your business. There are a variety of ways to structure and fund **buy-sell agreements**. For transfers to family members or charity, **gifting** may be an appropriate option. Consult your tax and legal professionals for specific guidance.

Plan for Contingencies. Regardless of your intentions for succession, it can be helpful to compile current information in case an unforeseen event, such as a death or disability, occurs before you have finalized your succession plan. This information should include the following:

- A copy of your current business plan.
- Job descriptions for all positions within the company, including details regarding areas of responsibility and delegation of duties.
- A list of potential successors.
- A plan to ensure extensive "hands-on" training for your designated successor.
- An estate plan that addresses any Federal and state estate tax obligations.

Other Considerations

A comprehensive succession plan involves strategies to handle a number of financial, legal, and tax issues. For instance, how will a successor secure funds to buy out a retiring, deceased, or disabled owner's share of the business? What are the estate planning issues? How can an owner minimize gift taxes resulting from the transfer of company stock to family members? Such situations can be addressed in a succession plan, with the guidance of qualified legal, tax, financial, and insurance professionals.

A Parting Thought

You owe it to yourself to ensure that your business will continue to flourish after your retirement, as well as in the event of death or disability. Proper planning through a business succession plan can help provide long-term security for your retirement, your company's future, and your family. $

The information contained in this newsletter is for general use, and while we believe all information to be reliable and accurate, it is important to remember individual situations may be entirely different. The information provided is not written or intended as tax, legal, or financial advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel. Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation of the purchase or sale of any securities. This newsletter is written and published by LIBERTY PUBLISHING, INC., BEVERLY, MA COPYRIGHT 2010.