

Trust planning

Should your investment program be a trust?

Investment planning

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Trust Topics®



January 2011



Should your investment program be a trust?

Investors move up to living trusts for any number of good reasons. With tax reform and doubts about the economic outlook making life even more stressful than usual for investors, this could be a propitious time to make your move.

Investors with \$50,000 portfolios have stockbrokers, it has been said, while those with \$5 million have trust officers. That may be true, but it's also misleading.

Fact is, few of our customers are in the high-wealth category. A good number of business or professional people, active or retired, count on us to maintain and enhance their hard-won financial independence. Some rely on us to invest significant sums that they have received as a result of a death in the family or the sale of property. All in all, the great majority of trusts in our care are well below the million-dollar level.

What sets us apart is the nature and quality of our work. Each of our trust customers deserves the same first-class service that an investor with \$5 million expects to receive.

Is it time for you to move up to a living trust?

These insights into our way of doing things will help you arrive at an informed decision.

We're different

First, you should understand that we don't claim to be better than full-service brokers or financial advisors. We're just different.

Continued on next page.

Buying and selling. Some investment advisors make their money from the commissions that they receive for buying and selling securities for their customers and from profits on new issues of securities that they underwrite and make available to the public.

That's not us. We're paid a fee based upon account size. Our compensation goes up only if the account grows in value.

Financial management. As a trust institution, our sole concern is to do the best possible job of managing our customers' money. We have no stocks to sell, nor do we look to commissions for compensation.

Because we have nothing to sell but service, our success is tightly linked to the success and satisfaction of our customers. We're well aware that to prosper, we must make our customers' capital grow and serve our existing customers so attentively that they refer new customers to us.

This attentiveness is reflected in our insistence on viewing each trust customer as an individual with a unique set of financial aims and circumstances, not merely as an account.

Imagine for a moment that our newest customer is you. The changing economic outlook will surely have an effect on your investment strategy. So will tax reform. But that does not necessarily mean your assets should be deployed in the same fashion as your neighbor's, your sister-in-law's or your business associate's. Your investment strategy should reflect your own needs and circumstances. We're ever mindful of these individual factors as we shape and monitor trust investment programs.

More than investment counseling

In some respects, our services resemble those that an investor might receive from a top-flight investment counseling firm, but there can be significant differences. We provide each of our trust customers with complete custodial care and record-keeping services. Indeed, we take care of virtually every investment detail that you can think of. Sound convenient? It is. More important, all this attention to detail can result in significant savings over the years. If you've ever mislaid a dividend check or failed to notice that a bond was called for redemption and had ceased to earn interest or overpaid your taxes because adequate investment records were lacking, you'll understand what we mean.

Unique advantages. By placing their investable funds in what we call a revocable living trust, our customers are able to take full advantage of our broad and unique capabilities as a trust institution. They (and you) can instruct us to perform a wide variety of special duties, now or in the future.

For example, some of our trust customers have a fondness for roaming the world. Who makes sure that their estimated income taxes, property taxes and other recurring payments are taken care of while they're away for extended periods? If they wish, we do.

For older men and women, our ability to accept added responsibilities as trustee can result in enhanced peace of mind. It's worrisome to hear of aging friends or relatives who have become incapable of managing their own finances, and even more distressing to hear of problems arising from the appointment of a guardian or conservator. With a well-planned trust agreement, an older person can make arrangements now to minimize financial-management problems in the event of future illness or incapacity.

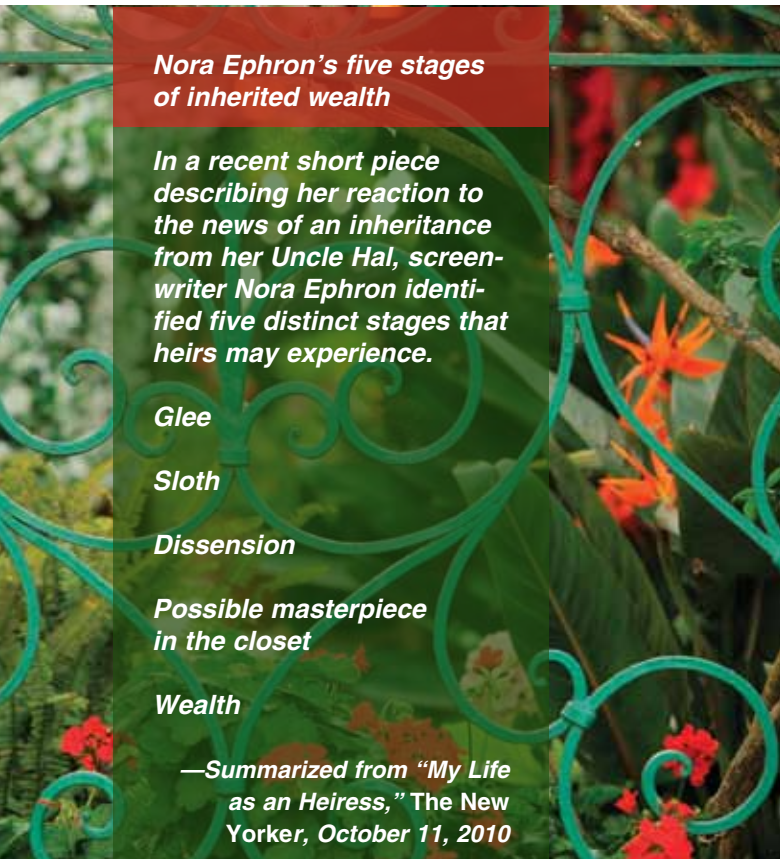
Revocable trusts also offer special advantages in terms of estate planning. You can arrange to have a trust continue beyond your lifetime, free from probate delays, for the benefit of your spouse, children or those you wish to provide for. Unlike the provisions of a will, which necessarily become a matter of public record once the will is probated, the terms of a living trust generally remain private, thus shielding family beneficiaries from unwelcome publicity.

Moving up without "tying up"

When talking with potential customers, we've learned to expect a comment that goes something like this: "A trust sounds like just what I've been looking for — except, I don't want to tie up my money."

Like these men and women, you will also be pleased to hear that the terms of a trust can be just as *untied* as you want to make them. What's more, the type of trust that we're discussing is revocable. That means you're free to cancel the whole arrangement if you find a better source of first-class financial management. You're also free to amend your instructions to us as your plans or circumstances change.

Ready to move up to a living trust? Call on us! □



Nora Ephron's five stages of inherited wealth

In a recent short piece describing her reaction to the news of an inheritance from her Uncle Hal, screenwriter Nora Ephron identified five distinct stages that heirs may experience.

Glee

Sloth

Dissension

Possible masterpiece in the closet

Wealth

—Summarized from "My Life as an Heiress," The New Yorker, October 11, 2010



The third year in the last 30 years			
President	Year	Total return, S&P 500	Total return, small-company stocks
Jimmy Carter	1979	18.44%	43.46%
Ronald Reagan	1983	22.51%	39.67%
	1987	5.23%	-9.30%
George H. W. Bush	1991	30.55%	44.63%
Bill Clinton	1995	37.43%	34.46%
	1999	21.04%	29.79%
George W. Bush	2003	28.70%	60.70%
	2007	5.49%	-5.22%
Barack Obama	2011	?	?

Source: M.A. Co.

The third year

Investors with a sense of the history of the financial markets have high hopes for 2011. That's because, since the 1930s, the stock market has generally done best in the third year of a president's term. MarketWatch's Mark Hulbert, looking at the Dow Jones Industrial Average since 1896, has found that the average Dow return in the third year was 15.5%. In contrast, the first year of a president's term averaged 8.8%, the second 0.4% and the fourth 4.1%.

Writing in *The New York Times* about the 65 years since World War II, Floyd Norris observed that third years have had positive returns 94% of the time, with an inflation-adjusted median change in the S&P 500 of 18.0%. That's nearly three times better than the median for the fourth year of 6.7%. The fourth year, in

contrast, has been best for growth in the Gross Domestic Product, with above-average growth 75% of the time. Indeed, during this time frame, 62% of all economic growth has happened in the third and fourth years of presidential terms, just 38% in the first two years.

Unlike the "Super Bowl indicator," the third-year phenomenon is statistically significant, though no one has a satisfactory explanation for it. One popular theory is that presidents do all they can to have a high-growth economy as they head into re-elections. The table above would seem to bear that out. The table shows total returns for the more volatile small-company stocks, as well as for the large companies represented by the S&P 500.

Develop your own plan

Of course, the real driver of stock market returns is the economy, but growth can be affected by politics. Congress headed off major tax increases set to go into effect January 1. This action, coupled with the "Quantitative Easing" policies of the Federal Reserve Board, may lay a foundation for solid growth this year. However, there is some concern that the ills of the housing market have not been fully resolved yet. Lingering problems in foreclosures and unemployment could undermine the recovery.

If investing were easy, everyone would be good at it. The record suggests that such is not the case. If you would like an independent review of your portfolio management strategies, we will be pleased to be of service. □

New tax basis reporting rules

Beginning January 1, 2011, broker-dealers and custodians are subject to new reporting rules for cost basis. The new requirements were created with the Emergency Economic Stabilization Act of 2008. Under the rules, brokers will have to track the cost basis of their clients' holdings and report the basis on Form 1099-B when an asset is sold. For stocks, real estate investment trusts and foreign stocks, compliance must begin this year, mutual funds and dividend-reinvestment plans next year, and bonds and options in 2013. The rules apply to new acquisitions, not assets acquired before this year.

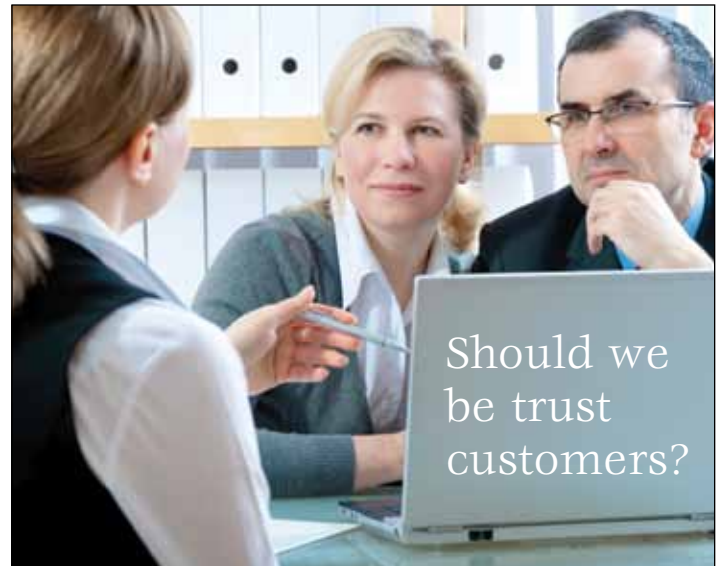
According to National Taxpayer Advocate Nina Olson, "It seemed that people who wanted to comply with the law were finding it too hard, while those who wanted to skirt the law were finding it too easy." That led to an estimated tax gap of \$25 billion attributed to basis errors. The new requirements are expected to remedy this problem.

Example. You own 1,000 shares of Hypothetical Company purchased 10 years ago for \$20 per share, another 1,000 shares purchased five years ago for \$50, and 500 shares purchased this year for \$40. The current price is \$45, and you want to sell 100 shares. If you want to take control of your tax exposure, you have to identify which shares to sell. You would have a long-term capital gain of \$2,500 if you sold from Lot 1, a long-term capital loss of \$500 if you sold from Lot 2, and a short-term capital gain of \$500 if you sold from Lot 3. Your choice will depend upon many factors. For example, you might want to lock in low tax rates and would choose the maximum gain, or you might want to minimize your current tax liability and would choose the least gain, or even a loss.

You can give your broker a standing order on how to handle basis choice. For example, you might say first-in, first-out (FIFO), last-in, first-out (LIFO), or highest-basis-in, first out (HIFO). You can reserve the right to identify the shares to sell on a case-by-case basis, or you can delegate that decision to the broker or another agent. If you don't make a choice, the tax law provides that FIFO will be used.

Under final regulations issued in October, for inherited securities, brokers will use the fair market value at the date of death. Reporting for securities acquired by gift will be more complicated. Brokers will be required to capture both the carryover basis (the donor's cost basis) and the fair market value of the shares on the date of the gift.

All this extra work for financial service providers is expected to turn out to be helpful for securities owners. They will have more accurate information upon which to make their portfolio management decisions. □



Having the resources to be financially independent is a blessing, but managing that fund wisely can be a burden. Especially in these uncertain times, the financial markets can be a treacherous place to venture without professional guidance.

Why not enlist our help with your investment management? We have an array of investment services to meet a wide variety of needs. We've helped many others; let us help you and your family as well.



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