

True North

Compass Financial Consulting, LLC

Providing Financial Direction

Spring 2008

'Tis Better To Give Than Receive

Over the years, we have had many conversations with clients about the inheritances they plan to leave their children and grandchildren. Many times, these discussions explore the challenges that can arise from leaving an heir too much money. As a result, we see many estate plans balanced between leaving “enough” for the kids and using the rest for charitable desires. In their excellent book titled, Beating the Midas Curse, Perry Cochell and Rodney Zeeb relate a simple story that illustrates the point of a “balanced” legacy where one gets their fill and the excess is used to better the world around them.

It was the biggest box of chocolate you’ve ever seen,” says Perry. “See’s finest. Eight separate layers, each with, oh, at least thirty pieces of candy in each layer. Dark caramels, truffles drizzled with raspberry sauce, chocolate with little almond slivers, and those little bon-bon things. When I lugged it into the meeting room and plopped it on the table, twenty-five pairs of eyes lit up like it was Christmas. I didn’t know attorneys and financial planners could drool like that!”

The setting was a Heritage Institute presentation for advisors to affluent families. Perry had just purchased the biggest, heaviest, and the greatest gift (or, depending on your viewpoint, the worst temptation) they could find in Chicago. (When he carted the massive box up to the See’s candy counter and told the clerk that the twelve pound giant was for a business meeting, not for him personally, the ‘I’ve seen-it-all-before’ salesperson just said, “Sure, fella....whatever you say.”)

At the presentation, Perry pulled the

top off the large box, and slid it to the nearest person seated at the U-shaped conference table. “We want you to have as much of this candy as you’d like,” he said. “But, you need to eat whatever you take right now, and we need to eat it up before we leave today.” The combination of the words great chocolate, free, and all-you-can-eat didn’t fall on deaf ears. As the massive container was pushed from person to person along the table, most took at least two pieces. For the next five minutes the only sounds in the room were the rustle of candy wrappers, an occasional “That is so good,” and a few, “Did you try the ones with the pecans?”

When the box reached the far end of the room, and everyone had had their first shot at the candy, Rod picked up the box and carried it back to the head of the line. “Okay, time for the second course,” he said. And around the room the box went again. Most folks took just one piece this time, a few sighed, and waved it past (maybe with just the slightest regret). The second trip around the room took only a couple of minutes. Once again, Rod carried it back to the other side, and urged folks to take their fill. Only a couple of hardy souls reached for thirds. The room grew quieter as confectioners sugar and cocoa powder began to work their sleepy magic on people who only twenty minutes earlier had greeted the arrival of the chocolate feast with loud approval.

“Well,” said Perry when the box came to a complete stop, “we’ve only eaten the two top tiers. There are still six layers left. How about we send it around just one more time? Anybody up for that?” There were no takers. As

good as the chocolate was, as infrequently as they may have had opportunities to indulge all they wanted, sometimes, enough is enough.

Just then, the door to the conference room opened, and a member of the hotel staff quietly entered. Her job was to check and refill the coffee and other refreshments on the table at the back of the room. Perry called out to her, “Excuse me, Miss—would you mind coming up here for a minute?”

She hesitated for a moment. Standing in front of a room filled with hotel guests at the conferences where she worked wasn’t something she did. She approached Perry, and he asked her to turn with him to face the people at the table.

“Do you mind if I ask your name?” he said.

“I’m Magdalena,” she replied, quietly, unsure about what it was they wanted to speak to her.

“Well, Magdalena,” continued Perry, “I just wanted to take a minute and thank you for all you’ve done for us the past couple of days. You’ve kept the break table stocked, you’ve answered questions about the area for our folks, and you’ve been really pleasant and helpful. We appreciate that.”

The twenty-five advisors gave her a round of applause. “Now,” said Perry, “we’d also like you to have something, our way of saying thanks. Do you have children?”

“Yes,” said Magdalena. “I have four, ages three to ten.”

“Well, they’re going to love this,” replied Perry as he handed her the box of candy. “We had a few pieces ourselves, but I think there will be plenty for your children.”

(Continued on page 2)

She took the (now just) ten pound box, her face beaming in a wide smile. The attorneys and financial advisors broke into applause again. Each one of them felt as if they had personally given her the candy.

Magdalena nodded to the group, thanked Perry and Rod, and left the room.

When she had gone, Perry turned to the group and asked, "So, which felt better? Seeing that wonderful candy come in here this morning and getting to eat every bit of it you wanted or watching Magdalena's face light up when we gave it to her to share with her kids? That [feeling] is what an active program of philanthropy can do for families..."

We agree with the authors when they say that philanthropy is a remarkable tool. It doesn't just cause people to feel good about themselves. It can strengthen, unite, and focus the energy of the family in ways nothing else can. As Winston Churchill once said, *"We make a living by what we get, but we make a life by what we give."*

If you are interested in exploring a "balanced" legacy, please let us know so we can assist you in the thought process.

What If TD Ameritrade Went The Way of the "Bear"?

If you have seen the financial news over the past couple of weeks, we are sure you have read about the quick implosion of the storied investment firm, Bear Stearns. Bear was one of the preeminent names in the financial sector with a history dating back to 1923. But all it took was a few too many bad bets in the subprime mortgage sector to write the final chapter in their history. A chapter that includes the government stepping in to arrange Bear's shotgun marriage to JP Morgan to avoid bankruptcy. If this news was not troubling enough, we are also reading stories of how the FDIC is beefing up their hiring in anticipation of a surge in bank failures. Financial institutions are truly in harrowing times.

Given the increased concern surrounding the stability of financial institutions, we felt it important to address the question,

"What happens if TD Ameritrade went bankrupt?" Let us stress that, in no way, is TD Ameritrade currently exhibiting any indications of financial stress. The company has maintained a conservative business model by focusing on what it does best—low cost execution of stock trades. This thinking has allowed them to avoid the pitfalls some of their competitors now face. Instead of buying up and/or issuing home equity loans, ala E*Trade, TD has used its cash to reward its stock holders with increased dividends and share buybacks. As Joe Moglia, TD's CEO, said in a recent issue of Forbes, "We [TD Ameritrade] haven't had to dodge any bullets because we didn't get in front of them to begin with." TD just released financial results that would make any company proud—their revenue rose 20% from a year earlier, they have an industry leading profit margin as well as a balance sheet with \$500 million of cash. Quite simply, TD is in very good financial shape, and we are not worried about any "shotgun marriage" for them.

However, let's still answer the "what if" question, "What if everyone stopped trading stocks so TD's revenue completely went away, and the firm faced bankruptcy?" A scary thought? Yes. The end of your investment account? No.

Let us remind you that securities regulations protect your funds when you keep them at a broker-dealer like TD Ameritrade. First, federal securities laws require that customer assets be kept separate from a brokerage firm's own assets. Securities are termed to be held in "street name" and are kept securely with The Depository Trust Company. The depository is a national clearing house kept separate and distinct from a broker's own operations. The depository is regulated by the SEC and Federal Reserve. Second, your assets are held in "book entry form," and are not in physical possession by the firms themselves (i.e., neither TD nor the Depository have physical stock certificates sitting in file cabinets ("physical possession")). Rather, ownership is noted via an entry to an accounting ledger ("book entry form"). Book entry form is good be-

cause it eliminates the concern of a lost or stolen certificate. Remember, holding a physical stock certificate is just like holding cash—which is why we tell you to put any stock certificates you physically hold in a very safe place!

The combination of holding securities in "street name" and "book entry form" make for a high rate of recovery in the event of a broker's liquidation. The Securities Investor Protection Corporation reports that 99.7% of eligible investors have been made whole in all the failed brokerage cases it has handled over the last 32 years. That is, 99.7% of the investors involved received all of their money.

Okay, so now we know you are asking, "Great, but what about that other 0.3%?" Well, that is where a broker's insurance kicks in. First, brokerage accounts are covered by the Securities Investor Protection Corporation ("SIPC"). Think of it as the brokerage version of the FDIC insurance on your bank accounts. If any securities or cash are missing from an investor's account, SIPC steps in to replace those securities and cash. This protection is limited to \$500,000 per account, including up to \$100,000 of cash. In the event this amount was not enough, TD Ameritrade holds "Excess SIPC" coverage via London insurers for up to an aggregate of \$150 million of additional securities protection, of which \$900,000 may be applied to cash.

We review TD's financial situation as part of a checklist of key internal processes. And, just like we do with our investment recommendations, Compass personnel put their money where their mouth is, as each of us holds the bulk of our investment assets at TD to further align our interests with clients.

We hope these comments have shed some light on the "worst case scenario." Again, we remain confident in TD's current financial condition, and we have no reason to believe that such a scenario will present itself.

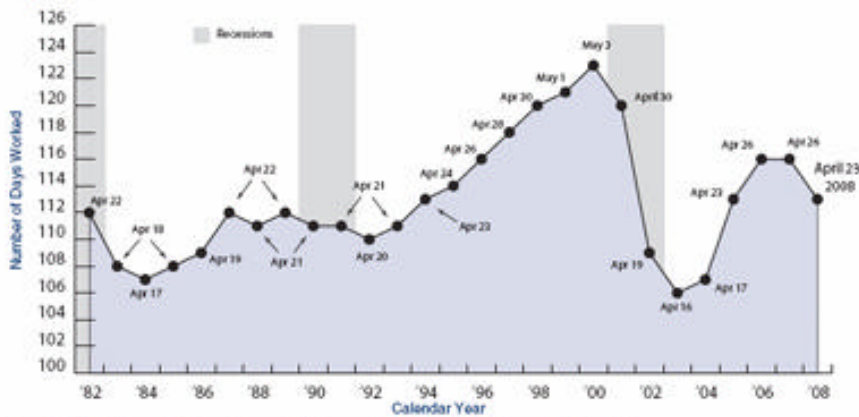
Does It Get Any Better Than Spring, Taxes and Politics?

According to the Tax Foundation, American's "Tax Freedom Day" will arrive on April 23rd of this year, which

cheapest state in the union is Alaska. Here, when you combine the idea of no personal income tax with a state energy

Also, you will have had to file your 2007 tax return before the IRS will send you your check. For many that will mean the checks will arrive beginning in May, but for those requesting an October tax return extension, they will find their bit of stimulus arriving just in time to buy Thanksgiving dinner.

*Tax Freedom Day
1982-2008*



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and Congressional Budget Office.

is three days earlier than in 2007. Tax Freedom Day is the day when the average American has finished their civic duty of paying all forms of taxes. The Foundation estimates that it will take longer to pay your taxes (113 days) then it will take to pay your food, clothing and housing combined (108 days). Tax Freedom Day's early arrival this year is mainly caused by the fiscal stimulus package that was recently passed (see the next article for details).

The Tax Foundation has tracked tax statistics back to 1900, when Americans paid only 5.9% of their income in taxes. Then, Tax Freedom Day fell on January 22nd!! The first World War caused the tax burden to double and Tax Freedom Day to move to February. The Great Depression and President Roosevelt's New Deal moved it to March followed by World War II and an April date for Tax Freedom Day. Tax Freedom Day stayed solidly in the April time frame for the next fifty years, before briefly creeping into May for a four year time period between 1998-2001.

Of course, the tax burden varies state by state. Unsurprisingly, the Northeast and California tend to have the highest tax burdens, pushing their resident's tax freedom days into May, while the

fund that gives each resident an annual check, Alaskans are done paying taxes by March 29th. So, one tax planning suggestion to consider would be a move to the "Great White North." But, if you would like to avoid the Alaskan summer and its bird-size mosquitoes, then you need to be content to do your celebrating on April 23rd.

The Check Is In The Mail (well, maybe)

In case you are wondering why your neighbors are rushing to their mailboxes each day, it is because they are anxiously awaiting the economic stimulus check to arrive from their Uncle Sam. Here is a brief summary of the key provision that could allow many to finally buy that big screen TV.

Most taxpayers will receive a rebate of \$600 per person, plus \$300 per dependent child under the age of 17. Rebates will be phased out for taxpayers with adjusted gross incomes greater than \$75,000 (\$150,000 for couples filing jointly) in 2007.

To qualify, the taxpayer must have earned \$3,000 in qualified income. This includes earned income (e.g., wages, self-employment income, Social Security).

Election 2008. How To Support Your Candidate, Part I

Unless you are in the Federal Witness Protection program, you have likely received multiple calls over the past six month requesting a contribution to some political campaign. We wanted to briefly review the rules for campaign contributions so that you don't wind up the target of a probe into the abuses of campaign finance.

An individual donor may give \$2,300 to each presidential candidate per election. This year, since there is a primary election as well as a general election, the total you could give would be \$4,600 to a candidate (\$2,300 x 2 elections). An individual can also contribute up to \$28,500 per calendar year to a national party committee; up to \$10,000 combined per calendar year to local, district, and state party committees, and up to \$5,000 per calendar year to any other political committee. You also need to consider that any donation, even providing food for a party, or supplies and other materials for a rally, may count as contributions.

Taken together, all of your political contributions are subject to a biennial limit of \$108,200. If you think you



could even be in the ballpark with respect to this limit, we would suggest that you obtain appropriate counsel, so that you don't wind up on the evening news, or even worse, watching the election results from Alcatraz.

Election 2008: How To Support Your Candidate, Part II

The 2008 elections are just a few months away, and the campaign is really beginning to heat up. With that, comes fierce debate about which candidate to support. In some recent reading, we found a joke showing how candidate loyalty can be taken to the extreme...

"The other day I went downtown and into a shop. I was only there for about 5 minutes and when I came out there was a cop writing a parking ticket. I said to him, 'Come on man, how about giving a retired person a break?' He ignored me and continued writing the ticket. I called him a 'pig'. He glared at me and wrote another ticket for having worn tires. So I called him a 'doughnut eating Gestapo'. He finished the second ticket and put it on the windshield with the first ticket. Then he wrote a third ticket. This went on for about 20 minutes. The more I abused him the more tickets he wrote. Personally, I didn't care as I had come downtown on the bus and the stranger's car that he was putting the tickets on had a bumper sticker that read, "_____ (fill in the blank with your least favorite presidential candidate) for President in '08."

IN PURSUIT OF THE TRIVIAL

The question for this quarter is: "Since 1900, what is the lowest number of days the Tax Foundation has figured it has taken an average American to cover this annual liability?" (Hint: It is even lower than the 22 day example mentioned in the article). The winner of our contest will receive a \$150 Lowe's gift certificate to help with your springtime projects.

We will take answers through 5pm Eastern Time on April 30th. You must respond to either kraus@financialdirection.com or johnb@financialdirection.com with your answer. If you do not have email, you may call us. In the event of a tie, we will include those names in a drawing to determine the winner. Staff from the accounting firm of Bridges & Dunn-Rankin will conduct the drawing and certify the results.

Answer for Winter 2008. Last quarter's question was, "Phil Knight, the founder of Nike, considers this person, who was one of the first athletes to wear the Nike shoe, the 'soul (not sole) of Nike'. Who is this athlete?" The correct answer was Steve Prefontaine, a legendary track star from Nike's home state of Oregon. Larry and Anne Furse won the drawing from correct answers and took home the Canon digital camera.



200 Galleria Parkway
Suite 1950
Atlanta, Georgia 30339

Kevin Kraus, CFP®, CPA
John Bochniak, CFP®, CPA
Kent Bridges, PFS, CPA

Phone: 770-563-8895
Fax: 770-563-8885

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