



Financial Planning for Real Estate Principals

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Topics

- Financial Planning Models
- Valeo Introduction
- Personal Planning
- Cash Flow / Debt / Taxes
- Business and Estate Planning
- Insurance
- Investments

Financial Planning Models

- Commission Only
 - Transaction focused
 - Insurance sales & old stockbroker models
- Fee Only
 - Fee based on investments or net worth
 - No commission received
- Fee Based
 - Combination of fees and commissions
 - Higher potential for conflicts or interest

Financial Planner Interviewing

- How are they compensated?
- Do your interests align?
 - Are they trying to help or sell you something?
 - Who benefits more from their advice?
- What are potential conflicts of interest?
- How many clients are they working with?
- Are they looking at your tax return?

Our Mission

Valeo's **mission** is to improve how clients consume and advisors deliver financial advice. Our service is a continuous process of thoughtfully identifying and implementing **solutions** to ensure all aspects (insurance, cash flow/taxes, investments and estate) of your financial life are integrated with one another, to lower costs (interest paid, taxes and fees), to achieve better risk-adjusted investment results, to become better organized and repeating this process so you have peace of mind to know it is going to stay that way.

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Access our blog on relevant investment and financial planning topics at www.valeofinancial.com/blog



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We regularly post articles on current financial, economic, and investment news. Follow us at www.twitter.com/valeofinancial



Week in Review

Our weekly e-mail summarizes the key weekly news from the industry. Sign up at www.valeofinancial.com/blog

Comprehensive Expertise

True financial planning is more than just investment advice. Advice related to taxes, insurance and estate planning strategies can deliver significant value.

Advice not Products

Advice from someone being compensated for the product they are recommending is simply not objective. We NEVER receive any compensation from anyone other than directly from our clients.

Accessibility

We believe the most common reason a client-advisor relationship fails is a lack of proactive communication. We embrace this industry flaw by limiting the number of clients each advisor is allowed to work with to ensure this does not happen.

Reasonable Fees

Transparent and easily found on our client agreements, invoices, website and other forms of company communications. Reasonable for the work we do and not simply what the market will bear.

Growing with Our Clients and Advisors

While the majority of our clients' situations merit regular, recurring meetings, we can provide substantial value for clients who are in the early phases of growing their net worth.

Giving Back and Paying Forward

We are fortunate to earn a living doing what we love and must give back to the communities that allow us to do so.



Kyle Erb

EDUCATION

Indiana University
B.S., Entrepreneurship and Management

INDUSTRY EXPERIENCE

Since 2005

HOMETOWN

Westfield, IN

CERTIFICATIONS

Certified Financial Planner™

VALEO EXPERIENCE

Since 2007

CHARITABLE INTERESTS

Hope International



David Page

EDUCATION

Purdue University
B.S. Aerospace Engineering
M.S. Aerospace Engineering

INDUSTRY EXPERIENCE

Since 2010

HOMETOWN

Windsor, Ontario, Canada

CERTIFICATIONS

Certified Financial Planner™

VALEO EXPERIENCE

Since 2014

CHARITABLE INTERESTS

White Horse Christian Center



Personal Financial Planning

- Establishing goals, prioritizing and executing
 - Retirement
 - Children
 - Charity
 - Other
- What you should be doing about these now
- What happens to these if something happens to you

Cash Flow, Debt and Taxes

- Tax Bracket Management
 - Current tax rates and what they impact
 - How to control high and low income years
 - Running a tax projection and extending your return
- Account funding
 - Retirement
 - Children / Education
 - Charity

Income Tax Rates

Individual Tax Rates					
Taxable Income		Ordinary Income	Capital Gains and Dividends	Affordable Health Care Act	
Single	Joint			Earned Income	Investment Income****
\$0 to \$9,275	\$0 to \$18,550	10%	0%	0%	0%
\$9,276 to \$37,650	\$18,551 to \$75,300	15%			
\$37,651 to \$91,150	\$75,301 to \$151,900	25%			
\$91,151 to \$190,150	\$151,901 to \$231,450	28%	15%	0%	0%
\$190,151 to \$200,000	\$231,451 to \$250,000	33%			
\$200,000 to \$413,350	\$250,000 to \$413,350	35%	20%	0.9%	3.8%**
\$413,351 to \$415,050	\$413,351 to \$466,950	39.6%			
> \$415,050	> \$466,950				

How to control taxable income

- High income years
 - Deductible account funding
 - Harvesting tax losses
 - Accelerated charitable giving
- Low income or taxable loss years
 - Roth IRA conversions
 - Triggering gains and/or cost basis step-up
 - Prior year tax return amendments
- Run a tax projection to identify planning opportunities

Taxes you may not expect

- AMT (alternative minimum tax) – flat 28%
- Itemized deductions phase-out (over \$311K)
- Affordable Health Care (over \$250K)
 - Additional 0.9% on investment income
 - Additional 3.8% on earned income

Account funding for retirement

- 401k / Profit Sharing
- Traditional IRA / Roth IRA / Non-deductible IRA
 - Everyone can contribute to one of them
 - Consider two-step Roth opportunity
- Solo 401k / SEP IRA – Schedule C income
- Defined Benefit – self funded pension
- Health Savings Account (consider accumulation and self-directing investments)

Self-Employed Plans

- SEP IRA vs. Solo 401k
 - Both available to fund with pre-tax SE income
 - Solo 401k not taken into account when making Roth conversions
 - Solo 401k may allow increased funding if no other 401k plan is available.
- Defined Benefit Plans
 - Self-funded pension
 - Ability to save up to 100% of self-employment income pre-tax

Account funding for children

- 529s (know about state sponsored plans)
- UTMAs (unrestricted dollars at 18 or 21)
- Roth IRAs (based on child's earned income)
- Annual gifting (\$14,000 per person per year)

Account funding for charity

- Assets to use
 - Appreciated assets to avoid capital gains tax
 - Avoid cash and never give away assets with tax losses
 - Qualified Charitable Distributions from IRA if over 70 ½
- Ways to give
 - Direct
 - Donor Advised Funds
 - Private Foundations

Personal debt management

- Mortgage interest only deductible up to \$1.1M
- Fixed rate vs. ARMs (ARMs can offer advantages if managed)
- Consider shopping outside of your local banks
- Zero closing cost transactions remove break even period
- Investment income is deductible too
- Most other personal debt is not deductible

Cash management

- Having cash outside of business is important
- Cash secured line of credit alternatives
- Maintain accounts you can borrow against
- Online bank vs. brick and mortar bank yields
 - Average bank savings - 0.1% APY
 - Online – 0.9%+ APY
 - Electronic links allow wires or free two day transfers between accounts

Business Planning

- Exit strategy / transition plans
- Keep your options open
- Business agreements
- Key man planning

Exit strategy / transition plans

- Most successful plans are formed years in advance
 - Know what are you working to
 - Know what you want from your business
 - Consider cultivating a successor
- Include experts early in the process
 - Specialized attorney and CPA
 - Valuation experts (helps remove emotion and provides IRS defense)

Keep Your Options Open

- Strategic sale – external buyer
- Internal sale - family members, key individuals, management team, etc.
- Exit types
 - Cash / stock exchange
 - Installment sale
 - Seller financing
 - Leveraged buyout
 - Employee Stock Ownership Plan (ESOP)
- Tax Impact – asset vs. stock sale

Business agreements

- Operating Agreements
- Buy / Sell Agreements
 - Important even if you have no plans to sell
 - Establish an exit and valuation for you / partner upon death or disability
 - May avoid taking business partners' spouse as partner
- Key man planning
 - Disability and life policy options
 - Ownership opportunity

Estate Planning

- Documents you need
- Current taxes
- Estate tax pitfalls
- Other estate planning vehicles

Estate Planning Documents

- Incapacity documents (POAs, living wills, etc.)
- Last will and testament (public document)
- Revocable trust (private document)
 - Pour over will transfer everything to trust at passing
 - Trust can own assets during lifetime
 - Simplifies estate and lowers cost

Current Estate Taxes

- Federal
 - 2016 - \$5.45M per spouse
 - Indexed for inflation
 - Portable if unused (with proper planning)
- State Taxes
 - 15 states with estate tax
 - 6 state with inheritance tax

Estate Planning Pitfalls

- Dying without a will
- Documents are out of date, drafted in another state or still “in progress”
- Out of date beneficiary designations
- Unfunded estate plans
- Personally owned life insurance is estate taxable (even if payable to someone else)

Estate Planning Pitfalls (cont'd)

- Missed step up in basis opportunities
- Giving the wrong assets away
- Unused portability of exemption
- Out of state property ownership
- Use of estate tax-free assets for spouse's lifetime (risk of double taxation)

Other Estate Planning Vehicles

- Grantor Retained Annuity Trusts
- Irrevocable Trusts
- Charitable Trusts
- Generation-Skipping Trusts
- Family LLCs

Insurance

- Personal
 - Disability Insurance
 - Life Insurance
- Property & Casualty
 - Home
 - Auto
 - Umbrella

Long Term Disability Insurance

- Most overlooked personal coverage
- Insures your paycheck and retirement plans
- Group – inexpensive and usually guaranteed
- Supplemental – based on job and current health
- Definition and benefit period are important
- Taxed either on premiums or benefits
- Revisit need as supplemental income grows

Life Insurance

- Risk mitigation tool – not an investment
- Needs analysis
 - Personal – survivor income, debt coverage, etc.
 - Business - Key man, buy/sell, etc.
 - Estate planning
- Term vs. cash value
- It pays to shop around
- Find the right type of coverage as your situation changes

Property & Casualty

- Potential gaps in home and auto coverage
 - Underinsured coverage limits
 - No guaranteed replacement cost
 - Limited water and sewer backup
- Potential gaps in Umbrella insurance
 - No coverage or less than net worth
 - No uninsured / underinsured policy riders
- Captive carriers vs. brokers
- It pays to shop every few years if not annually

Investment Diversification

- Maintaining assets outside of your business
- Diversification of strategies within portfolio
- Diversification of strategies within different accounts

Investments – ETFs

- Exchange Traded Funds are passively managed with low expenses (SPY = 0.09% annually)
- Tax efficient relative to mutual funds
- Trade intraday which allows for additional trading capability and options
- 86% of mutual fund managers failed to beat their benchmark in 2014

Investments – Municipal Bonds

- Tax-free income – 3% muni yield = 5% taxable equivalent yield
- Average default rate - .03% (50 times less than corporate bonds)
- Yield to call and yield to maturity locked at purchase
- Individual municipal bonds help protect against rising interest rates if held to maturity

Investments – Alternatives

- Real Estate
 - Higher risk / higher reward than equity and fixed income
 - Income producing with potential inflation hedges
- Private Equity
 - Underwrite the deal sponsor before the deal
 - Make sure sponsor has skin in the game and similar terms
 - Be prepared to invest 2 – 3 times original investment
- Diversify within alternative types, sponsors, geographic, etc.

In Summary

- Focus on your business - your financial success has nothing to do with traditional investment returns
- Surround yourself with people you can trust who can help with your inefficiencies
- Have an executed plan, you will not get to it later