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Two options, one choice

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Two options, one choice

As retirement nears, should you keep funds in your employer's 401(k) plan or roll over into an IRA?

You're finally retiring, or you will be in a few years. You face a choice — keep your tax-deferred savings in your current employer's 401(k) plan or roll over the balance to an IRA.

Both options let you defer income taxes and keep your money potentially growing during the long term. The rollover must be reported on your tax return, but won't increase your taxes. But some key differences can make one of them more appropriate than the other for your situation.

The cost of choice

All things being equal, your investment fees may be lower in a 401(k) plan than with a rollover IRA — especially if you work for a large organization with the leverage to negotiate a more favorable price structure. That difference in cost may be trivial in the short run but can really add up during the long term — possibly tens of thousands of dollars or more, depending on the size of your account.

That said, the costs of an IRA can vary widely, so you may well be able to find an attractively priced option that fits your needs. And if you already have a substantial IRA account, adding funds to that account may be ideal and cost-efficient. Note that IRA fees tend to be more transparent than those of 401(k)s, so making apples-to-apples comparisons between the two is challenging.

IRAs usually provide greater investment flexibility, giving you more opportunities for diversification. You can choose virtually any investment vehicle for your own IRA. With a 401(k), you're restricted to whatever investment options the plan makes available. That's not

necessarily a problem if you and your financial advisor are comfortable with those options and believe they'll continue to meet your needs throughout your retirement.

When to withdraw

Projecting how and when you'll likely tap your retirement funds can help you decide whether to roll them over. For example, if you plan to leave the workforce at age 55, you'll be able to take penalty-free withdrawals from your 401(k) account. IRAs, in contrast, generally impose a 10% early withdrawal penalty for any money you take out before age 59½. But one exception allows you to tap into an IRA earlier penalty-free if you annuitize it by setting up a series of equal withdrawals over time.



Unlike IRAs, many 401(k) plans allow you to borrow from your retirement account and pay back the loan with interest. Of course, borrowing from your retirement accounts often isn't a good idea because it generally isn't deductible and you may be reducing your potential tax-deferred appreciation. But it can be nice to have this option in an emergency. Be aware that, if you stop working or are laid off before age 55, you'll owe the money you borrowed plus a

10% early withdrawal penalty. (You won't be required to pay back the loan or pay the penalty if you're 55 or older and permanently leave the workforce, voluntarily or not.)

IRAs permit funds to be temporarily withdrawn once per year, but you'll owe the tax and 10% early withdrawal penalty on whatever amount you don't replace within 60 days.

Unique situations

Certain special circumstances might make one account type better suited for your situation. If, for example, you own a large amount of highly appreciated company stock in your 401(k), you may be better off leaving those holdings alone. Why? Because if you roll over the shares to an IRA, they'll be taxed as ordinary income when they're withdrawn.

In contrast, if you leave the stock in your 401(k), on withdrawal you'll owe income taxes on your cost basis but not the appreciation. Moreover, when you sell, the transaction will be treated as a long-term capital gain — taxed at a rate likely much lower than your ordinary income tax rate.

On the other hand, the rules for inherited assets are significantly less flexible for 401(k) accounts than for IRAs. For example, 401(k) assets will pass immediately to your heirs on your death — potentially saddling them with income tax issues to sort out during a difficult time. In addition, federal law requires 401(k) assets to pass directly to a spouse on the account holder's death. That can create challenges in complex family situations, such as those involving multiple marriages and children.

An IRA generally provides more freedom in naming beneficiaries. If inheritance issues are a concern for you, rolling over your 401(k) assets might make sense.

Choosing the best option

There's no one right answer about whether to roll over retirement assets or leave them in your 401(k). But one thing is true for everyone — your choice can make a difference in your ability to achieve your long-term financial goals. Discuss your needs with your financial advisor to make sure you get this important decision right. ■

Is it time to refinance your mortgage?

After the Federal Reserve Board slashed interest rates last spring, it triggered a new wave of mortgage refinancing applications from homeowners seeking to lock in the historically low borrowing costs.

Refinancing can save homeowners a lot of money. But not in all situations. That's why it's important to review the pros and cons for your



specific situation before taking the refinancing plunge.

Weighing the factors

Low interest rates are just one of the considerations to go into your refinancing decision. Here are some others:

How long you expect to be in your home. Refinancing can lower your monthly mortgage costs, perhaps significantly, and the longer you remain in your home, the greater your overall savings.

But if you have near-term plans to move, you might not realize much of a benefit after you take closing costs — averaging \$3,000 nationally on a \$200,000 mortgage, according to a Bankrate.com survey — into account.

If you're unsure whether the math is in your favor, ask your financial advisor or use one of the many refinancing calculators available on the Internet.



Your existing mortgage rate. The lower your current mortgage rate, the less room you'll have to lower your payments by refinancing, and the longer it will take you to make back the closing costs. In contrast, if your rate is significantly higher than today's options, you're more likely to benefit from refinancing.

Home equity matters

When evaluating borrowers, mortgage lenders generally like to see relatively low loan-to-value (LTV) ratios. Historically, lenders have looked for an LTV of 80% or lower, which reflects a 20% down payment on a home. The higher your LTV, the less attractive a risk you'll represent to lenders.

If the value of your home falls while your mortgage stays the same, it results in a higher LTV. For example, let's say you established a \$400,000 mortgage on a home valued at \$500,000 — an LTV of 80%. If your home's value were to drop to \$450,000, you'd be left with an LTV of 89%.

If you continue to have good personal credit scores and sufficient equity in your home, you're more likely to obtain better refinancing rates. With weaker credit and lower equity, expect higher rates and fewer lenders competing for your business.

How long you've had your existing mortgage.

Remember that with every mortgage refinancing you're restarting your debt clock. Your financial advisor can help you weigh the benefits of lower monthly payments against the costs of starting from scratch with a new mortgage.

If lowering monthly payments isn't a priority, low interest rates can provide an opportunity to *reduce* the overall length of your mortgage — for example, by moving from a 30- to a 20-year mortgage. Even though this may even mean *higher* monthly payments, it will allow you to substantially reduce your interest costs over the life of the loan. So it can make sense if you're confident in your long-term ability to make the same or higher monthly payments.

Whether your mortgage rate is fixed or adjustable. Adjustable rate mortgages (ARMs) present a particularly tricky refinancing decision. The biggest risk with an ARM is that, when the economy recovers and becomes more inflationary, your mortgage rate will reset significantly higher.

Once again, how long you expect to remain in your current residence should be a big factor in your decision. If you plan to move soon, you

might still be better off keeping your existing loan. But if you plan to stay put for a while, you could benefit from refinancing to a fixed-rate loan — perhaps paying slightly more in the near term but locking in a historically low rate over the longer run.

Check your credit

If you decide to refinance, be prepared to provide extensive documentation of your financial situation. Compared to previous years, it's become much more difficult to get a mortgage these days, as lenders' credit standards have tightened dramatically. Your ease in refinancing

will depend on having good credit scores and sufficient equity in your home.

Refinancing can lower your monthly mortgage costs, and the longer you remain in your home, the greater your overall savings.

Before you apply for a new mortgage, it's a good idea to ensure your financial history is as clean as possible, which can help you get the best available rates. ■

On the same page

Communicate your estate planning motives with a mission statement

There are several reasons to create an estate plan, such as to reduce estate tax liability, protect assets from creditors, make charitable donations and distribute your wealth according to your wishes. And there are many estate planning techniques and strategies to help you achieve your estate planning goals.

An important final estate planning step is communicating your intent and wishes to your family. The last thing you want is for your estate plan to create intrafamily disputes after you're gone. To help avoid this unfortunate outcome, create a mission statement.

Write it down

The idea behind a mission statement is to communicate a basic set of values and principles — on anything and everything, from philanthropy



to education to religion to the future of the family business — that guide your estate plan and to memorialize them in a written document. Your family members may still not agree with the result, but they will at least understand the motivation.

There are no special rules that govern the format or length of a mission statement — it can be a single sentence or a 20-page monograph. The important point is to make sure that everyone is on the same page and that there are no surprises when it comes time to implement your estate plan.

A mission statement is particularly valuable if you own a family business, plan to give a sizable portion of your estate to charity, have children from a previous marriage, or have established one or more “incentive trusts” designed to shape the behavior of your heirs.

When a family business is involved, for example, you may struggle to balance your desire to treat all of your children equally with your interest in preserving the business and rewarding those children who are committed to working in it. If most of your wealth is tied up in the business, it may be difficult to provide for children who don't work in the company without giving them an equity interest. But this may be objectionable to the children whose hard work contributed to the business' success.

One potential solution is to divide the equity equally among your children but to provide those working in the business with management

control by issuing voting stock to them and nonvoting stock to the others. Another solution may be giving real estate or a life insurance policy instead of shares in the business to children not involved in the business. Whatever strategy you come up with, the key to success is to discuss it in advance with those who have a stake in the outcome.

If one of your goals is to leave a philanthropic legacy, it's even more important for your family to participate in the discussion. Warren Buffett is famously leaving the bulk of his multibillion dollar estate to charity, and his children are fine with that. But imagine if they didn't learn of his intentions until the reading of his will.

By discussing these potentially divisive issues in advance and outlining your plan in a mission statement, you can avoid unpleasant surprises and disputes.

Build understanding

After all of the work that goes into creating an estate plan, you don't want to still be worrying about your family members fighting over your assets after you die. A mission statement can be an effective way to help your loved ones understand your motives and the values and principles underlying your estate plan. ■

21st century financial services

Go online to manage your personal finances

As the 21st century's first decade draws closer to its end, the Internet likely affects almost all facets of your life, including managing your personal finances. There's a wealth of information literally at your fingertips, including the current balance of

your bank account and up-to-the-minute prices of your stocks.

What other financial information can you glean from the Web? Let's take a closer look at a few technological options that you may either not

have heard of or never have fully considered.

Banking made easier

When first introduced, online banking and bill paying were met with some reluctance as users were concerned about the security of their transactions. Today, many people can't imagine life without the ability to log into their bank accounts to check the balances, view recent credit card activity or pay their bills from their computers or mobile devices.

Banks have responded to customers' needs and concerns by building robust and secure Web sites. In addition to checking account balances and online bill pay, many banks' online services include viewing cleared checks; receiving a variety of e-mail account alerts, such as when a direct deposit has been made or the account balance drops below a set amount; and transferring funds between accounts. Keep in mind that some of these services may require a service fee.

Listen up

Podcasts, often associated with Apple's iPod or iPhone, are simply a radio show saved as an audio file you can download and listen to. Numerous personal financial podcasts are available, including those produced by the *Wall Street Journal*, Kiplinger.com and Bloomberg.com.



While listening, you may learn about a strategy or financial tool you can then discuss with your financial advisor, who can help you assess whether it's applicable to your specific situation.

Banks have responded to customers' needs and concerns by building robust and secure Web sites.

Go surfing, with caution

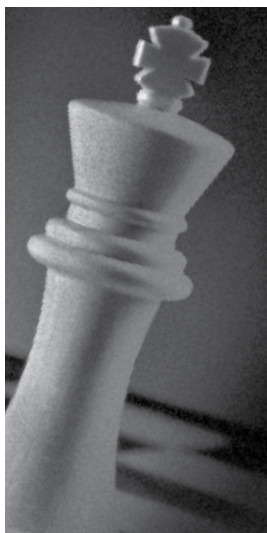
There's a vast amount of personal financial information available on the Web, but not all of it is credible. When seeking information, consider the source, and before taking any action, talk to your financial advisor to determine the best course for your situation. ■

Choose the Right Advisor to Make the Right Moves

"We believe in a comprehensive financial perspective.

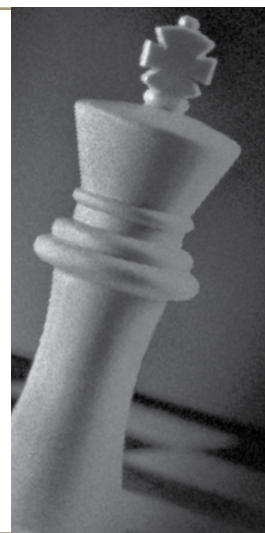
We provide our clients with an integrated approach to income, estate, business and investment planning.

*Upon completion of a comprehensive plan, we proactively implement the plan
to achieve the desired outcome."*



OUR SERVICES INCLUDE:

- Comprehensive Financial Planning
 - Estate Planning
- Business and Business Succession Planning
- Investment Planning & Consulting
 - Retirement Planning
 - Income Planning
 - Insurance Planning
- Gift and Charitable Contribution Planning
 - Employee Benefit Planning



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Our Alliances

