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Bear markets in perspective

How long do they last?

How do we know when they are over?

Since 1929 investors have had to cope with 12 bear markets. A bear market is defined as a decline of 20% or more in stock prices, and for our illustration we'll use the S&P 500-stock index as a surrogate for the stock market as a whole. The average bear market has lasted for 21 months, but some have been as short as three months and as long as 62 months, going back to the Great Depression.

The average decline during a bear market has been 38% from peak to trough. From July through October of 1990, the S&P 500 lost 20% of its value, the mildest of the recent bears. The worst bear market was the astounding 86% decline from September 1929 to June 1932. The table below lists the six worst bear markets since 1929, their

duration in months and the total price change.

Our current bear market began in October 2007, and so is already 17 months old, still below the average duration. However, from October 2007 to November 2008, stocks fell 52%, making this the worst decline since the 1930s.

The rebound

The table below also shows the bull markets that followed the six worst bear markets. Overall, bull markets since 1929 have lasted an average of 57 months, nearly three times the duration of bear markets. They have experienced an average gain of 164%. That potential for gain is what keeps investors from abandoning their stock positions altogether.



Early returns are strongest

Date of bull market	12-month return		Percentage of bull market in first 12 months
	from bear market bottom	Total bull market return	
June 1932 - March 1937	121%	324%	37%
April 1942 - May 1946	54%	158%	34%
May 1970 - January 1973	44%	74%	59%
October 1974 - November 1980	38%	126%	30%
December 1987 - July 1990	23%	65%	35%
October 2002 - October 2007	34%	101%	34%

Source: M.A. Co.

What's more, a disproportionate amount of the gain comes in the early stages of the recovery from a bear market. The table above shows the overall gain in a bull market, how much gain there was in the first 12 months of recovery, and what percentage of the entire bull market gain came during that first year. As you will see, it comes to roughly a third of the gains.

Calling the turn

Everyone would like to get back into the market at its bottom, but the problem is that the bottom is not so easy to identify. November 2008 might have been the bottom of the current bull market—indeed, stocks finished the year 20% higher than their November lows.

There is reason to believe that we could have farther to fall, because the economy remains severely stressed. Home and auto sales remain sharply down, with home values continuing to fall precipitously in some markets. The jury is still out on whether the financial sector has

received enough assistance to stabilize. Jobs are scarce, and most experts project unemployment rates that haven't been seen in decades.

Still, in the past the stock market has begun to recover about six to 12 months before the economy does. Investors who wait until the economic indicators have all come back into alignment will have missed the powerful beginning market uptick.

Falling stock prices have brought price/earning ratios back down to earth as well. There are many companies whose share prices appear undervalued by historical standards—that's a fancy way of saying that stocks are on sale. The investor who finds those companies that are well positioned to weather the current stock market decline may enjoy significant gains in the eventual recovery.

Would you like a second opinion on the health of your portfolio?

If you need help with the management of your investment portfolio, please consider enlisting our services. We offer unbiased investment advice for a fee, or we can assume responsibility for full portfolio management, consistent with your goals and risk tolerances. We can't make down markets turn up, but we have had some experience in rowing against the current.

To learn more about what we have to offer, why not make an appointment to meet with one of our officers this month? □

Trustworthy advisors


Just when investor confidence had been shaken by the most serious bear market in years, news came that a highly respected man in the investment field, Bernard Madoff, was in fact a con man. His investment firm had been running an enormous Ponzi scheme for years, and even the SEC failed to pick up on the problem during its audits. An estimated \$50 billion has vanished. One result is that a number of charitable foundations have been forced to close, and many prominent families have suffered catastrophic losses.

What's more, a number of additional, smaller-scale Ponzi schemes have been uncovered around the country, from Minnesota to New York.

Many investors are uncertain where to turn next.

We'd like to suggest a corporate fiduciary, such as us. Bank trust departments and trust companies are governed by a body of law built upon the concept of *fiduciary duty*. There's a lot to that, but the short summary is this: The fiduciary must put the client's interest first, and there can be no conflict of interest.

If you'd like to know more, please give us a call.



Preventing exploitation of the elderly

The names have been changed, but the story is true.

Gladys Smith owned a valuable farm. In 1980, when the amount exempt from federal estate tax was just \$175,000, she and her husband Roy created a limited partnership to own

the farm. The couple and their son were general partners; the couple's three daughters were limited partners. A trust was created for Gladys when Roy died, naming their accountant

as the trustee to manage the rest of their assets. Later, when Gladys needed to have an operation, she gave the accountant a durable power of attorney.

Gladys suffered an injury in a car accident, which led to a physical and then a mental decline as she grew older. She began reporting conversations with deceased relatives and sometimes had trouble recognizing her children and grandchildren. About this time her children began to ask for and receive large checks from Gladys; eventually, they just wrote the checks themselves and had her sign them. However, the more serious financial exploitation began in 2002, when the daughters decided that it was time to sell the farm. A developer offered \$1.7 million, then \$3.5 million, then \$5 million for the property, and the daughters obtained Gladys' signature on a sales agreement.

The son, the other general partner, did not want the sale to go forward, so he brought a lawsuit to block it, alleging Gladys was not competent to sign the contract. An independent appraisal of the farm that he obtained showed its fair market value to be \$7.5 million. In the lawsuit, the judge ruled that the sale could not proceed without the consent of both general partners, and he authorized the accountant to exercise Gladys' duties as general partner.

Happy ending? Not quite yet. The farm was sold for \$7.9 million to pay for Gladys' continuing care and to provide liquidity to satisfy the requests of the limited partners. But two years later, the accountant was charged with stealing nearly a quarter million dollars from Gladys' accounts and the trust. He pled guilty, was sentenced to six months in prison, and partially reimbursed Gladys for the theft.

Mitigating the risk

This story is told in more detail by attorney Matthew Christiansen in "Unconscionable Financial Exploitation of Elderly Persons With Dementia," published in *Marquette*

Elder's Advisor. He recommends a four-step process for reducing the potential for financial exploitation such as Gladys suffered:

- expect worst-case scenarios;
- do advance planning;
- engage in periodic communication; and
- create layers of protection to guard against the worst-case scenarios.

Attorney Christiansen analyzes Gladys' situation in some depth. He speculates that favoring the son as general partner, leaving the daughters as limited partners, may have contributed to their feeling "left out" of decisions and made them willing to accept a below-market bid for the farm. He notes that it was unwise to grant the accountant the power of attorney in addition to his responsibilities as trustee. This was the power that permitted his theft to occur undetected.

A better system of checks and balances was needed for Gladys' finances, says Christiansen.

Clearly, Roy's will did not provide adequate layers of protection against fiduciary breach. Given Gladys' disabilities, a trust with a division of trustee obligations between a corporate fiduciary responsible for investment management and a two-to-four-person Co-Trustee Committee responsible for disbursements would have been better.

We are just such a corporate fiduciary. When family harmony is jeopardized by financial disagreements, we can be a neutral, independent party for conflict resolution. We are staffed and equipped for investment management, with a variety of checks and balances already in place for our operations.

If you believe that a trust should be in your financial future, we invite you to meet with us to learn more about our capabilities. □

Control freaks

Duncan Bannatyne is a British multimillionaire businessman and author. He established a trust for his daughters, and each receives the equivalent of \$545 per month from it.

Apparently, Bannatyne is the trustee, and he retains broad discretionary control over the trust. When he discovered that one daughter had begun smoking, he cut off her trust distributions. "She had probably smoked for a couple of weeks when I caught her four years ago. I smelt it in the bedroom and opened her window and saw ash on the windowsill.



"I didn't confront her about it, I just stopped her direct debit. She called me and said her money hadn't come through, and I said, 'I know, I stopped it because you broke the rules of the trust.'"

When the daughter quit smoking after two months,

Bannatyne reportedly resumed her monthly stipend from the trust.

Compare that to the last will and testament of a Romanian man who left his surviving wife his house and \$30,000, subject to one condition. She must smoke five cigarettes a day. According to the will, "She could not stand to see me with a cigarette in my mouth [and] I ended up smoking in the bathroom like a schoolboy. My life was hell."

Wide latitude on trust conditions

The creator of a trust can include any sort of condition for beneficiaries, but some conditions will not be enforced by a court if they are challenged. It is most unlikely, for example, that a court would agree to deny a bequest or trust distribution on the basis that the beneficiary failed to smoke or refused to do an illegal act.

Similarly, an insistence that a beneficiary not marry someone of another race or religion will not be enforced. A trust income that terminates upon a surviving spouse's remarriage may be enforced, but the trust will not then qualify for the marital deduction.

On the other hand, a trust interest may be cut off if a beneficiary becomes a drug addict or a criminal. Extra trust distributions may be conditioned upon the achievement of certain life goals, such as completing an education or beginning a professional practice. The creator of a trust has considerable power to shape the uses to which the trust assets will be put, provided that those uses are not against public policy.

If you would like to learn more about what can and cannot be done with a trust, we would be pleased to consult with you at your convenience. □

**Need to
squeeze
more
income
from your
retirement
portfolio?**



In today's financial markets, investing for income poses real challenges. Interest rates are very low, and all dividends are not created equal.

If you would like help with the management of your portfolio, come talk with one of our investment professionals.

Call our trust professionals for an appointment.

Randy J. Dickinson
Vice President
& Trust Officer

Michelle Mease
Assistant Vice President
& Trust Officer

Miles Coffland, CPA
Trust Officer



Phone: 989-772-9471 Fax: 989-773-3735