newWealth advisors

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Style Drift: Do You Know Where Your Assets Are?

Every investment you own should have a specific role in your portfolio. However, even if you've established an appropriate asset allocation, it's a rare portfolio that remains static for years. Even if you don't alter your holdings, style drift may make changes for you.

Style drift occurs when a portfolio undergoes changes in its original approach. It is neither good nor bad, but monitoring changes helps ensure your portfolio reflects your intentions.

Watching for hidden shifts

Mutual funds provide a good example of how style drift can occur. Each fund has an investment objective; however, its manager may have flexibility in how that objective is pursued. For example, an actively managed stock fund may be known for investing in value stocks—those the manager feels are underpriced—while another fund might favor growth stocks with rapidly growing earnings. Depending on a manager's view of the market's future, a fund that has focused on growth stocks may shift toward value—or vice versa. Its style has drifted, even though its investment objective may have stayed the same. The more specific a fund's name, the less latitude its manager may have. For example, a fund with a specific asset class or style in its name—let's say the hypothetical XYZ Small- Cap Fund—must invest at least 80% of its assets accordingly. Be sure to review a fund's prospectus before investing; annual and semiannual reports should show any changes.

Getting caught in a drift

Another common example of style drift is a small-cap mutual fund that has large inflows of new assets. Because there are restrictions on how much of one company's stock a single mutual fund can hold, small-cap fund managers sometimes find themselves unable to invest enough in any individual small company to affect the portfolio's performance, and invest more in mid-caps. Or they may be reluctant to sell a solid small-cap company that has grown to mid-cap size. Still other examples:

- A manager who includes a significant percentage of international securities in a portfolio that has typically focused on domestic issues
- A portfolio that departs substantially from its so-called "neutral mix" of multiple asset classes

Even though it may be within a manager's discretion to make such shifts, style drift can affect your asset allocation. If your portfolio's expected return assumes that you have a certain percentage in, say, small caps or international stocks—or that you exclude them— your allocation and overall strategy can be thrown off without your realizing it.

Drifting away from an index

Style drift also can affect the standard by which you judge a portfolio's performance. Most mutual funds are benchmarked against a relevant index to ensure that you're comparing apples with apples. If a fund's style drifts dramatically, the index may be less useful as an indicator of how that fund compares to its peers. More importantly, determining the level and type of risk to which the fund exposes you may also become more difficult.

About New Wealth Advisors.

New Wealth Advisors is an independent, fee-only, SEC-registered investment advisor, operating as a multi-family investment office. We work with newly wealthy individuals and families to protect, grow and manage assets.

Don't overreact

Style drift may be part of a manager's overall strategy to try to boost performance. Staying on top of whether your investments may be undergoing a makeover, and understanding the reasons behind any style drift, can help keep your portfolio on track.

Universal Life: Insurance with Options

Universal life insurance (UL) can be described as life insurance with options. You decide how much premium to pay, when to pay premiums, how much death benefit you want, and more. Learning about the features of UL will help you decide whether this type of permanent insurance is right for you.

Pay what you want, when you want

When you buy UL, the policy provides for planned level premium payments. But you don't have to make regular or level payments each payment period (e.g., monthly, yearly). You can make larger or smaller payments, more or less frequently than planned. With each payment you make, the insurance company deducts a portion for administrative expenses related to your policy. The remainder is credited to a cash value account, from which the cost of insurance coverage (the death benefit) is deducted, with the balance earning interest.

Did you know:

- *U.S. life insurance sales totaled $12.6 billion in 2006*
- *UL sales comprised 40% of the total life insurance sales in 2006—the next closest was term life insurance with 23%*
- *UL sales grew by 9% in 2006, from the previous year*
- *In 2007, about 3.6 million families with dependant children had no life insurance*

Life Insurance and Market Research Association (LIMRA)

Your policy will remain in force as long as your cash value is sufficient to cover current expense and mortality charges, even if you don't make all the planned premium payments. Your cash value accumulates tax-deferred interest at rates determined by the company (including a guaranteed* minimum rate of interest).

Choose (and change) your death benefit

With UL, you can also increase or decrease your policy's death benefit as your insurance needs change. You can usually lower the death benefit at any time, but if you want to increase the amount of coverage, you'll need to go through the company's underwriting process again, which may include a new medical exam. Adding to UL's flexibility is the option to choose a level or enhanced death benefit.

Option 1 or option A pays a level death benefit that remains the same as long as you don't ask to change it. As the policy's cash value grows, the net amount at risk (the amount the insurance company has to pay out of its own pocket at your death) decreases. As the net amount at risk becomes lower, so too does your premium cost.

For example, if you own a $200,000 policy with $50,000 of current cash value, your premium is based on $150,000 of insurance coverage, even though the total death benefit is $200,000.

Option 2 or option B, the enhanced benefit, allows you to add the cash value to the face amount of the death benefit. For example, if your $200,000 policy has $50,000 of cash value when you die, your beneficiary receives $250,000. With this option, your premium cost is based on $200,000 of insurance, but you get more death benefit ($250,000) for your money.

Getting to the policy's cash value

As with most types of permanent life insurance, you can generally obtain loans from your insurance company by using the cash value of your universal life policy as collateral. Loans are charged interest at current or fixed rates. Be aware that if you don't pay back a loan, the death benefit payable to your beneficiary will be reduced by the amount of any outstanding loans plus accumulated interest at your death.

A unique feature of universal life insurance is that it allows you to take partial withdrawals from your policy's cash value. Depending on the policy, you may be able to withdraw up to 90% of the cash value. However, such withdrawals are regarded as permanent withdrawals and will reduce your policy's death benefit. Partial withdrawals are taken from principal first and are not subject to income tax. Withdrawals are usually not allowed in the first few years of the policy. Withdrawals of amounts exceeding your policy's principal may be subject to tax. There may be a surrender fee charged for full or partial surrenders. Talk to your insurance company, agent, broker, or tax professional before making a withdrawal.

*Any guarantees associated with payment of death benefits, income options, or rates of return are subject to the claims-paying ability of the insurer.

Tips for Selling Your Home in an Uncertain Market

Will the combination of lower mortgage interest rates, higher inventory, and falling prices send buyers to open houses in droves this summer? No one knows for sure, but here are some ways you can increase the odds that your home will be sold at the best possible price before the leaves fall.

Price your home to sell, not sit

Pricing your home correctly is extremely important. Although it's tempting to "test the market" by setting a high asking price, this may turn off prospective buyers, or result in lowball offers, and your home

may continue to sit on the market. A better alternative? Ask a real estate agent to do a comparative market analysis to help determine a realistic asking price, taking into consideration how much similar properties have recently sold for, and the average number of days homes have been on the market. It's especially hard to pinpoint the right asking price in areas where sales are slow and prices are falling, so remain ready to adjust your asking price later if necessary.

Sellers are often afraid of shortchanging themselves by setting their asking price too low, but a lower asking price may actually generate more interest, potentially leading to a much higher sale price if buyers submit competing offers. Even if no bidding war is triggered, you may end up selling your home quickly, an advantage if you've already found another home to purchase.

Advertise, advertise, advertise

Whether you're selling your home yourself or using a real estate agent, advertising is key, especially when there are many homes on the market. Make sure that any sales materials you or your agent prepare emphasize the features that might convince someone to choose your home over another. Target the right audience, too. For example, if your home is right for a growing family, why not highlight the flexible floor plan, the child-friendly neighborhood, and the large yard?

Buyers today expect to begin their search for a new home without ever leaving home, and online advertising has become an indispensable tool for marketing real estate. According to the National Association of Realtors®, 74% of people who used the Internet to search for a new home eventually drove by or viewed a home that they saw online, so make sure that your home is prominently featured on a real estate website. And remember, a picture is worth a thousand words. Buyers will look more closely at homes with numerous high quality photos, and may bypass homes with none. For maximum exposure, consider adding a virtual tour that shows off your home's best features, even if it costs a little bit more to do so.

Is it a beautiful day in your neighborhood?

An often-used phrase in the real estate industry is that "real estate is local." Though the news may be full of stories about nationwide housing trends, what's really important is what's going on in your area. A real estate agent can help you identify local housing patterns, such as which homes are selling (and for what price), so that you can maximize your chances of success.

Sweeten the deal

To really make your home stand apart from the competition, consider offering incentives such as cash back at closing, payment of homeowners association dues, a home warranty, or even a gift card to a local furniture store. Incentives may help increase the number of home showings and encourage potential buyers to choose your home over another.

Enhance your home's appeal

How many times have you seen a home for sale that has obvious shortcomings— overgrown shrubs, peeling paint, or a jarring color scheme, for example? That's a home that may languish on the market while other similar homes sell quickly, because the owners are unaware that the appearance or condition of their home is the reason it isn't selling. Take a close and impartial look at your home, or better yet, ask your real estate agent to do so. Potential buyers may be noticing something that you're not. Often, completing simple tasks such as painting, cleaning, and getting rid of clutter can make your home more appealing to buyers. If your home needs updating, prioritize areas that are the most important and visible, such as the front of your home, the kitchen, and the bathrooms.

Don't curb your enthusiasm

One hazard of having a home on the market for a while is that your enthusiasm may wane over time. Buyer interest often peaks quickly (within the first few weeks after your home is listed), and it's easy to get discouraged if you don't receive any acceptable offers. But if you really want to sell your home, it's up to you to keep the momentum going. Schedule another open house, keep your home in good repair, and look for new ways to advertise. If your home hasn't sold within a reasonable time, you may have to reevaluate your asking price or even your decision to sell, but before you throw in the towel, make sure that you've done all that you can to attract qualified buyers.

ASK THE EXPERTS

What is concierge health care?

Concierge health care is a primary-care arrangement that requires you, the patient, to pay your physician an annual retainer fee (often over and above your health insurance premiums) in exchange for improved access and services.

Such retainer fees may range from a low of $1,500 to as much as $20,000 per year. (The more you pay, the more services you get.) In exchange, you receive same- or next-day appointments (with no reception-room waiting), extended office visits, 24/7 telephone and/or e-mail access to your doctor, an annual intensive physical, and (if you pay the higher fees) house calls, home delivery of prescribed medications, and continuous personalized care. Your primary care doctor may even accompany you to appointments with specialists, and will coordinate your care even during hospital stays, rather than handing you over to the hospital's staff physicians.

In a concierge health-care plan, your doctor sees fewer patients (the average caseload is 300, compared to 2,500 for doctors in managed-care

plans). While some concierge plans don't accept health insurance, most do. Whenever possible, your doctor will bill your health insurance provider (or Medicare) for payment for services provided.

However, most health insurance plans require participating doctors to accept the plan's rates as payment in full for the covered services, and Medicare generally prohibits doctors from charging Medicare recipients anything more than what Medicare pays. As a result, concierge health-care providers who participate in Medicare must be careful to charge annual retainer fees only for services health insurance or Medicare won't normally cover.

While concierge health care obviously has its perks, you should make sure you understand exactly what is covered by the annual retainer fee before you sign up for it.

What is the difference between an HMO and a PPO?

Both health maintenance organizations (HMOs) and preferred provider organizations (PPOs) are types of managed health-care systems that attempt to reduce costs through preventative medical care and various utilization management techniques.

As an HMO member, you pay a fixed monthly fee for health-care coverage, no matter how much or little medical attention you require. The HMO contracts for services with specific hospitals, clinics, physicians, and other health-care providers. With few exceptions, you must receive treatment from providers within the HMO "network." With the exception of a small co-payment, the HMO pays the providers directly for the services you receive.

Most HMOs also require you to choose a primary care physician (PCP) from the list of doctors under contract. Your PCP provides your general medical care and must often be consulted before you seek care from another physician or specialist (although this may vary, depending on your plan and state of residence). This screening process helps reduce costs to both you and the HMO.

While a PPO provides a list of "preferred" health-care providers you may choose from, you don't have to; you aren't required to select a PCP, and you may see any doctor or use the services of any clinic or hospital you wish. You are then reimbursed for the expense according to the terms of your PPO contract.

PPOs help keep health-care costs down by offering you financial incentives to seek services from "preferred" providers. For example, you may be reimbursed 90% of the cost of seeing a doctor selected from the list, but only 60% of the cost of seeing one not on the list.

In most cases, you must first meet an annual deductible (out-of-pocket) expense before your PPO insurance coverage begins. Beyond that, you may be required to make copayments for services; however, your total annual out-of-pocket expenses (deductible and co-payments) are generally capped.

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