

IN THIS ISSUE:

Active vs. Passive Portfolio Management1

Federal Estate Tax Update – Inheriting Property in 2010 2

Eight Financial Aid Myths3

Ask the Experts4

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.

Active vs. Passive Portfolio Management

One of the longest-standing debates in investing is over the relative merits of active portfolio management versus passive management. With an actively managed portfolio, a manager tries to beat the performance of a given benchmark index by using his or her judgment in selecting individual securities and deciding when to buy and sell them. A passively managed portfolio attempts to match that benchmark performance, and in the process, minimize expenses that can reduce an investor's net return.

Each camp has strong advocates who argue that the advantages of its approach outweigh those for the opposite side.

Active investing: attempting to add value

Proponents of active management believe that by picking the right investments, taking advantage of market trends, and attempting to manage risk, a skilled investment manager can generate returns that outperform a benchmark index. For example, an active manager whose benchmark is the Standard & Poor's 500 Index (S&P 500) might attempt to earn better-than-market returns by overweighting certain industries or individual securities, allocating more to those sectors than the index does. Or a manager might try to control a portfolio's overall risk by temporarily increasing the percentage devoted to more conservative investments, such as cash alternatives.

An actively managed individual portfolio also permits its manager to take tax considerations into account. For example, a separately managed account can harvest capital losses to offset any capital gains realized by its owner, or time a sale to minimize any capital gains. An actively managed mutual fund can do the same on behalf of its collective shareholders.

However, an actively managed mutual fund's investment objective will put some limits on its manager's flexibility; for example, a fund may be required to maintain a certain percentage of its assets in a particular type of security. A fund's prospectus will outline any such provisions, and you should read it before investing.

Passive investing: focusing on costs

Advocates of unmanaged, passive investing – sometimes referred to as indexing – have long argued that the best way to capture overall market returns is to use low-cost market-tracking index investments. This approach is based on the concept of the efficient market, which states that because all investors have access to all the necessary information about a company and its securities, it's difficult if not impossible to gain an advantage over any other investor. As new information becomes available, market prices adjust in response to reflect a security's true value. That market efficiency, proponents say, means that reducing investment costs is the key to improving net returns.

Indexing does create certain cost efficiencies. Because the investment simply reflects an index, no research is required for securities selection. Also, because trading is relatively infrequent – passively managed portfolios typically buy or sell securities only when the index itself changes – trading costs often are lower. Also, infrequent trading typically generates fewer capital gains distributions, which means relative tax efficiency.

Popular investment choices that use passive management are index funds and exchange-traded funds (ETFs). However, some actively managed ETFs are now being introduced, and index funds and ETFs can be used as part of an active manager's strategy.

***Note:** Before investing in either an active or passive ETF or mutual fund, carefully consider the investment objectives, risks, charges, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.*

Blending approaches with asset allocation

The core/satellite approach represents one way to have the best of both worlds. It is essentially an asset allocation model that seeks to resolve the debate about indexing versus active portfolio management.

Active Management	Passive Management
Attempts to beat benchmark performance	Attempts to match benchmark performance
Contends pricing inefficiencies in the market create investing opportunities	Contends that it is difficult or impossible to "beat the market"
Securities selected by portfolio manager	Securities selected based on an index
Focuses on choice of specific securities and timing of trades	Focuses on overall sector or asset class
Trading and the degree of liquidity for individual securities may increase portfolio costs	Infrequent trading tends to minimize portfolio expenses

Instead of following one investment approach or the other, the core/satellite approach blends the two. The bulk, or "core," of your investment dollars are kept in cost-efficient passive investments designed to capture market returns by tracking a specific benchmark. The balance of the portfolio is then invested in a series of "satellite" investments, in many cases actively managed, which typically have the potential to boost returns and lower overall portfolio risk.

Bear in mind, however, that no investment strategy can assure a profit or protect against losses.

Controlling investment costs

Devoting a portion rather than the majority of your portfolio to actively managed investments can allow you to minimize investment costs that may reduce returns.

Popular core investments often track broad benchmarks such as the S&P 500, the Russell 2000® Index, the NASDAQ 100, and various international and bond indices. Other popular core investments may track specific style or market-capitalization benchmarks in order to provide a value versus growth bias or a market capitalization tilt.

While core holdings generally are chosen for their low-cost ability to closely track a specific benchmark, satellites are generally selected for their potential to add value, either by enhancing returns or by reducing portfolio risk. Here, too, you have many options. For example, satellite investments might include hedge funds, private equity, real estate, stocks of emerging companies, or sector funds, to name only a few. Good candidates for satellite investments include less efficient asset classes where the potential for active management to add value is increased. That is especially true for asset classes whose returns are not closely correlated with the core or with other satellite investments. Since it's not uncommon for satellite investments to be more volatile than the core, it's important to always view them within the context of the overall portfolio.

New Wealth Advisors uses a style-agnostic approach to portfolio management which allows each customer to enjoy a highly customized portfolio, driven by their unique perspective or objective relative to investing. Feel free to contact us to discuss the investment style most appropriate for you.

Federal Estate Tax Update – Inheriting Property in 2010

Currently, there is no estate or generation-skipping transfer (GST) tax for 2010, but both taxes are scheduled to be reinstated in 2011, with a \$1 million estate tax exemption, a GST tax exemption of about \$1,340,000, and a top rate of 55%. The federal gift tax, however, remains in effect for 2010, with a \$1 million lifetime exemption and a top rate of 35%. Of course, it's still possible that we'll see legislative action in the next few months. For example, Congress could extend 2009 rates and exemption amounts. The result would be a \$3.5 million exemption amount for both estate and GST taxes and a top rate of 45%. It's impossible to predict specific action, however, or whether any such action will be applied retroactively to 2010.

Current 2010 rules

While the joke may be that this is a good year to die, in reality, it's not that simple. True, there's no federal estate tax – at least for the moment – but the rules that now apply in 2010 change the way inherited property is taxed – in a way that's not always favorable. This means that some individuals who inherit property in 2010 may be in for a surprise when they sell the inherited assets. It's all because of a change in the way cost basis is calculated for property inherited as a result of a death.

New cost basis rules for 2010

What's cost basis? The cost basis of an asset is generally its purchase price, and it's used to calculate taxable gain (or loss) when the asset is sold. For example, if you own a share of stock, your cost basis is generally the purchase price plus any costs incurred in the purchase (e.g., any commissions). With real property, your cost basis is increased if you make capital improvements.

Prior to 2010, the cost basis of any asset you inherited was generally "stepped up" (or "stepped down") to what the asset was worth (its fair market value) on the day that the person who left you the property passed away. So, for example, if you inherited a piece of property worth \$100,000, that property would generally have a basis of \$100,000, even if the person who passed away had purchased the property for \$10,000. If you sold the property years later for \$115,000, any taxes due would be based on \$15,000 gain (\$115,000 minus \$100,000).

If you inherit property as a result of a death in 2010, however, this step-up rule doesn't apply. Instead, your basis in the inherited property is the lower of the property's fair market value as of the date of death or the deceased owner's cost basis. In the example above, that means that your basis in the property would be \$10,000, resulting in a \$105,000 gain if you sold it for \$115,000.



There are two very important exceptions. First, every estate gets a \$1.3 million increase in basis that can be allocated among assets (up to fair market value) by the executor of the estate, increased by unused built-in losses and loss carryovers. Second, there is



generally an additional \$3 million increase in basis available for assets (also up to fair market value) passing to a surviving spouse, either outright or through a qualified terminable interest property (QTIP) trust (but only \$60,000 basis increase for nonresident alien decedents). This means the basis of assets in an estate with a surviving spouse as a beneficiary can potentially be increased up to \$4.3 million.

So, if the appreciation of assets in the estate is \$1.3 million or less (or \$4.3 million for a surviving spouse), then the basis of those assets can be increased to fair market value as of the date of death. This means if you inherit an asset in 2010 with its basis stepped up to fair market value, and you sell that asset for no more than its date-of-death fair market value, you'd realize no tax on the sale.

Eight Financial Aid Myths

Do you have a child going off to college next fall? The federal government's financial aid application (the FAFSA, which stands for Free Application for Federal Student Aid) is due as soon as possible after January 1, 2011. Here are some common myths about financial aid eligibility.

Myth #1: My child won't qualify for aid because our family makes too much money

Fact: While it's true that family income is the main factor that determines aid eligibility, it's not the only factor. The size of your family, the age of the older parent, and the number of kids you'll have in college at the same time all play into the equation. Even if you think your child won't qualify, you won't know for sure unless you apply, and it costs nothing to file the FAFSA. Besides, states and colleges typically require the FAFSA – in addition to any state and college specific forms – before they'll hand out their own aid.

Myth #2: The form is too hard to fill out

Fact: Years ago, the FAFSA was cumbersome to fill out. But ever since it went online at www.fafsa.ed.gov, it's easier than ever to submit. The online version has detailed instructions and takes you through step by step, asking only the questions that apply to you. If you need help, there are customer service representatives standing by with whom you can chat online. There is also a toll-free number you can call with questions: 1-800-4-FED-AID. All advice is free. Once you submit the form, it only takes about one week to process (compared to four to six weeks for a paper FAFSA).

Myth #3: If my child applies to a more expensive school, we'll get more aid

Fact: Not necessarily. The federal government determines your expected family contribution, or EFC, based on the income and asset information you provide on the FAFSA. Your EFC stays the same, no matter what school your child applies to. The difference between the cost of a particular college and your EFC is your child's financial need. The more expensive the college, the greater your child's financial need. But a greater financial need doesn't automatically translate into a bigger financial aid package. Colleges aren't obligated to meet 100% of your child's financial need (if they don't, you've been "gapped" in college parlance). Keep in mind, too, that there are annual borrowing limits on federal Stafford and Perkins Loans. Once your child has borrowed the maximum

amount for the year, his or her only chance for more aid has to come from grants, scholarships, and/or work-study jobs.

Myth #4: My child probably won't qualify for aid because of mediocre grades

Fact: The federal government does not take grades into account when determining aid eligibility. However, colleges will consider a strong academic record when awarding certain merit scholarships.

Myth #5: A minority student has a better chance of getting aid

Fact: The federal government does not consider race when determining aid eligibility. It doesn't collect this type of information.

Myth #6: I lost my job shortly after I filed the FAFSA, but there's nothing I can do about it now

Fact: If your financial circumstances change after you file the FAFSA, you can ask the financial aid officer at your child's school to revisit your aid package; the officer has the authority to make adjustments if there have been material changes to your family's income or assets. If you have a material change that you can support with documentation, politely request a "professional judgment review" in a letter addressed to the financial aid officer.

There are no guarantees, but you won't know if you don't ask.

Child not in college yet?

If you have younger children, the federal government's FAFSA4caster tool is for you. It provides families with an early estimate of eligibility for federal student aid, and allows families to transfer all of their data to the online FAFSA once their child is ready to apply for aid. You can check it out at www.fafsa4caster.ed.gov.

Myth #7: We own our home, so my child won't qualify for aid

Fact: The federal formula for determining aid does not take home equity into account (it also excludes retirement accounts, cash value life insurance, and annuities from consideration). However, colleges typically consider home equity when distributing their own institutional aid.

Myth #8: Our smart/athletic/talented child will likely get a scholarship to cover most, if not all, college costs

Fact: A vast majority of financial aid officers believe that parents overestimate the amount of scholarship and grant money their children will receive. While it's true that some students end up getting a free ride (or close to it), they're in the minority. Scholarships can fill the gap, but they probably shouldn't be relied on as the main funding source.



Does homeowners insurance cover personal liability?

Typical homeowners insurance provides limited coverage for personal injuries or property damage to others for which you or members of your family living with you may be legally responsible. The injuries or damages don't have to occur on your property. Your policy will describe what types of claims are covered, and coverage may vary by state, policy type, and insurer, so check with your carrier or agent for particular coverage questions.

Liability protection is comprised of two parts: personal liability and medical payments. Personal liability covers claims or lawsuits against you arising out of bodily injury or property damage to others caused by an accident on your property, or by accidents away from your property, caused by you or family members who live with you. The coverage also pays for your legal defense should you be sued for a covered claim. However, coverage does not extend to losses caused by intentional acts, business related incidents, accidents covered by auto insurance, or claims covered by worker's compensation insurance.

Typically, personal liability provides a minimum of \$100,000 of coverage "per occurrence." Also, unlike other types of property coverage, there is no deductible for personal liability or medical payments coverage. If you need more coverage, you might consider increasing your personal liability coverage limits, or buying an umbrella policy that provides additional personal liability coverage in excess of your homeowners' coverage.

Medical payments pays medical expenses incurred by people accidentally injured on your property, regardless of fault, up to policy limits. Injuries to you or family members living with you are not covered, nor are injuries resulting from activities that involve your business.

Examples of types of liability claims homeowners insurance may cover include: your dog wandering into your neighbor's yard and biting the house painter; a neighborhood child getting hurt climbing your fence, despite your repeated warnings; and your errant golf shot accidentally striking another player in the head.

This newsletter contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

New Wealth Advisors, LLC ("New Wealth Advisors") is an SEC registered investment adviser with its principal place of business in the State of Massachusetts. New Wealth Advisors and its representatives are in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which New Wealth Advisors maintains clients. New Wealth Advisors may only transact business in those states in which it is notice filed or qualifies for an exemption or exclusion from notice filing requirements. Any subsequent, direct communication by New Wealth Advisors with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides.

Will my homeowners insurance cover tree damage?

The answer is yes and no. Throughout the year, many areas of the country face powerful storms that often result in significant property damage caused by downed trees and limbs. If you fall victim to this type of property damage, here's some information that may be helpful in figuring out what your insurance will and won't cover. Bear in mind that homeowners insurance coverage may vary by state, policy type, and insurer, so check with your carrier or agent for particular coverage questions.

If there is damage to your property caused by trees, your homeowners insurance is the policy to file a claim with – regardless of whether the tree was on your property or a neighbor's. Likewise, if your tree causes damage to a neighbor's property, their policy will cover the claim (although exceptions may apply, depending on the circumstances).

If a tree falls on your property but does no actual damage to any structure, then there is likely no coverage to provide for the cleanup. There must be damage to "real property," which usually includes your home and its contents, a fence, shed, outdoor play equipment like a swing set, a patio, or a driveway.

Most homeowners' policies cover the entire cost of repairs to your home caused by downed trees or limbs, subject to any applicable deductible. Damage to other structures or property like a detached garage, shed, or fence is covered under the "Other Structures" part of your policy for up to 10% of the available coverage for your dwelling.

Homeowners insurance typically also covers the cost of actually removing the downed tree or limb from your property, up to a cap per tree. And if a tree or shrub is damaged, your homeowners insurance may pay a limited amount to replace the damaged tree or shrub, depending on the circumstances. However, your homeowners insurance will not cover damage to your car caused by fallen trees or branches. Rather, your auto insurance will cover the cost of repairs if you have comprehensive (fire and theft) coverage, up to applicable policy limits and deductibles.

For more information or to discuss the content of this newsletter, please contact:

Jeffrey R. Arsenault, CPA/PFS, MST, CFP®, RLP®
Partner and Senior Wealth Advisor
(978) 557-5395
jarsenault@newwealthadvisors.net

New Wealth Advisors, LLC
1 Highwood Office Park
Tewksbury, MA 01876
www.newwealthadvisors.net

