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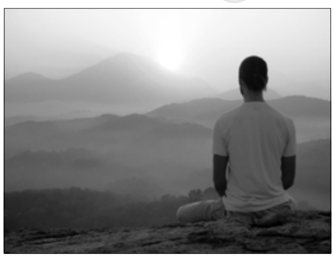
Diversified Asset Management, Inc.

1113 Spruce Street, Boulder, CO 80302

phone: 303-440-2906

Make Your Estate Plan About More Than Just Money

Estate planning often seems to be all about numbers. Maybe you start by figuring out what you have, what it's currently worth, and what its value is projected to be in the future. Then you decide how you want to slice up the pie for your heirs while forfeiting as little as possible in estate taxes. The emphasis is normally on maximizing the tax benefits available under federal and state laws. But the real goal of this process is to establish your legacy and help your family. When you look beyond the numbers, estate planning is all about people.



Part of our job as financial advisors is to help people discover what they hope to accomplish with the wealth they've built. That may involve looking back on your own life and thinking about what you've learned. What were your biggest successes and failures? What are your aspirations for your children, and what are their own goals that you could help them achieve?

Taking the time to reflect upon your personal history may pay off in ways you didn't expect. You may remember a formative episode or period in your life that taught you something that could be valuable to your children, and there might be an opportunity for your estate plan to incorporate those insights. In one case, a parent wanted to leave assets in a trust to pay for the higher education of his children. But as he talked about his objectives with his advisor, he realized that most of his real education had come from life, rather than from what he absorbed in college classrooms. So the advisor worked with the man's attorney to revise the terms of the trust so that it could finance similar experiences for his children.

In another instance, an entrepreneur confided how she had struggled for years before finally achieving success with a business venture. As a parent, she wanted to instill the same entrepreneurial spirit in her own children. Her advisors helped her devise an estate plan that would enable her children to take sensible business risks without jeopardizing their inheritances.

In brainstorming to uncover your own estate planning priorities, you might want to explore questions such as these.

• What was your first job? What lessons did it teach you that have stuck with you through the years? And what was your most successful job? What did you learn from it?

• If you're married, how did you meet your spouse? How has your marriage enriched your life?

• If you're divorced, what lessons, personal or financial, did the breakdown of your marriage provide? In retrospect, were there things you could have done differently?

• If you have children, think about who they are and how they've changed as you have watched them grow up. What are their qualities you like the

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How To Pick A Successor To Run Your Company

Sooner or later, it will be time to hand over the reins of your company to someone else. It might be your child or another relative who has worked for the business, a trusted long-time executive, or a complete outsider.

How to choose? Though your decision may not be easy, these suggestions could help.

- Spell out your intentions to the rest of the family and give them a chance to weigh in. Don't spring your retirement on them without any warning.
- Don't make any hasty decisions. Draw up a list of your candidates' attributes and also consider their drawbacks. Try to avoid preconceptions and concentrate on actual performance.
- Develop a comprehensive job description. This is especially helpful if a clear-cut successor doesn't emerge right away, or if multiple family members seem qualified. Then look again at individual strengths and weaknesses for filling that position.
- Don't wed yourself to the idea of an in-house solution. Selling to an outsider could maximize your profit, and the company might benefit from a brand-new perspective.
- Get away from the office. It will be easier to sort through your choices without the usual distractions.

Finally, seek guidance from your business advisors. We can provide assistance on choosing your successor and can also coordinate other aspects of your succession plan.

Robert J. Pyle, CFP, CFA

7 Reasons To Update Your Financial Plan

Have you developed a comprehensive financial plan? Even if you have, it may need additional attention. Consider these seven reasons to revisit your plan.

1. Keep on track for meeting goals. While having a plan is an important first step, success will depend on staying focused on what's needed to meet the plan's objectives. A review shows how you're progressing and what your next action items need to be.

2. Reflect major "life events." If something significant has happened—you've gotten married or divorced or changed jobs, for example, or you have a new child or grandchild—you may want to consider changes to your financial plan. You'll also need to think about revising beneficiary designations for retirement plans, IRAs, and insurance policies. A review of your estate planning documents and reassessment of insurance needs is also in order.

3. Take the latest tax legislation into account. State and federal tax laws are in constant flux, and it's crucial that your plan reflect recent changes—such as the new estate tax law that provides a larger individual exemption and could require adjustments in the language of your will or any trusts you may have.

4. Re-think your risk tolerance. The stock market continues to be volatile, and a mix of investments that seemed comfortable before may not fit your current needs and risk tolerance. Be sure your portfolio reflects your current risk tolerance.

5. Tighten your budget due to a job loss or reduction in compensation. Not having your normal (or prior) income will throw any plan out of whack. You'll likely need to reexamine your priorities and look for ways to cut back on spending, particularly for major purchases that you had planned to make. Unexpected medical expenses could also require belt-tightening.

6. Utilize new sources of income. On the other hand, if you've landed a high-paying job, sold a business, or come into an inheritance, you may be able to save more for retirement or your children's education or set aside cash for a memorable vacation.

7. Review options as retirement nears. If you're retiring soon, it's a good idea to review your financial plan and make sure you're on track for a secure retirement. We can project your annual retirement income and adjust your portfolio risk as you enter your golden years.

How often should you review your plan? While your investment portfolio should be reviewed at least once a year, your financial plan can be reviewed every two to three years to keep it on track. If you're nearing retirement or facing major life events, an annual review is best. If your plan is out of date or if it's been a while since your last review, please give us a call. ●

Evaluating An Employer Buyout Package

Getting a buyout offer from your company is obviously preferable to being laid off. But in choosing whether to give up your job and accept the package you've been offered, you have to consider both your current financial situation and what comes next. The bottom line question—will you be better off accepting the buyout or staying with the company?—is also complicated by the fact that if you turn down today's voluntary offer, you could still be terminated in the future, perhaps on less generous terms.

Here are several steps to help you analyze your financial circumstances and the buyout package itself.

1. Revisit your long-term goals. Opting for a buyout could be a turning point in your life, and not just financially. So look again at what you want to do. Will you immediately look for another job, or is this an opportunity to take a different course, launching a new business, pursuing philanthropic interests, or retiring early? Would the financial package be enough to get you started on a new phase of life?

2. Consider your expenses. Toting up your non-discretionary spending—on a mortgage, utilities, food, education payments for your kids—will help you see how much income you have to get from the buyout package and other sources. Will there be enough to pay for the lifestyle you want? How long could you afford to live on the package before going back to work?

3. Take stock of your savings. You may need to tap taxable or tax-deferred retirement accounts to supplement buyout income, and some assets will be more accessible than others. If most of your money is in a retirement plan, pulling it out could generate income taxes plus a 10% early withdrawal penalty if you're not yet 59½. This can push the effective tax rate on withdrawals to as high as 45% plus state income taxes. Potential taxes on the buyout package could reduce its value

4 Reasons To Update Traditional IRAs

If you're like most people, you probably set up a traditional IRA (as opposed to a Roth IRA) years ago and you may have continued to make contributions on a regular basis. Depending on your personal situation, the money going into the account may have been fully tax-deductible, only partially deductible, or not deductible at all. But regardless of any tax break you got on your contributions, you haven't had to pay tax on any investment income or capital gains generated inside the account.

You may also have used the same or a different IRA to receive rollovers from a 401(k) or another employer-sponsored retirement plan after you switched jobs. If it's done correctly, such transfers aren't taxable. With a traditional IRA, your only tax obligation comes when you take money out.

Often, IRAs get little scrutiny over the years. You may have left yours alone as you focus on more immediate financial priorities. Yet there are several reasons why it pays to look again at your IRA.

1. Investment allocations may need to be adjusted. Your retirement accounts undoubtedly suffered during the stock market decline of a few years ago, and depending on how the money is invested, the account balance may or may not have since regained lost ground. If you haven't already revisited your investment allocations, now would be a good time. Do the assets in the account—normally mutual funds or individual stocks and bonds—support your long-term financial goals? Does the investment mix feel comfortable in terms of the financial risk it entails? Do you need to rebalance, trimming allocations that have grown too large and adding to those that fall short of the ideal percentage in your portfolio?

2. Beneficiary designations could be out of date. When you set up your IRA, you had to indicate who would receive the account assets if you died. But your financial circumstances may have changed since then. A divorce would have obvious implications, and retirement plan assets are often a part of the financial settlement when a marriage breaks up. Other family changes, however, can be easy to overlook. You and your spouse may decide to divide the account among your children, and if they're minors, the beneficiary designation would be different than if they've already reached the age of adulthood in your state. The important thing to remember is that you're not bound by your original choices, but it's important to know what your beneficiary form says.

3. Additional rollovers or transfers may be in order. Consolidating your retirement accounts in one place has several potential advantages. Getting allocations right in a single account is easier than trying to mix and match investments in several, and you can hold all of your money in an account that meets your priorities regarding investment choices, fees, service, and other factors. Just keep in mind that rollovers must be completed within 60 days to avoid current taxes, and in order to avoid having taxes withheld in a transfer from an account at work, you need to arrange for a "trustee-to-trustee" transfer in which you never touch the money. (Otherwise, you'll have to wait until you file your taxes to recoup the withheld amount.) The same rules apply whether you're moving from a 401(k) to an IRA or moving money between two IRAs. But if you rollover funds from one IRA to another, you can't do another rollover involving those accounts for at least a year.

4. A Roth IRA might be a better fit. If you established an IRA before 1998, a Roth IRA wasn't an option, and before 2010, converting a traditional IRA to a Roth may not have been possible because of a $100,000 ceiling for modified adjusted gross income in the year of conversion. But now, anyone can convert an IRA to a Roth IRA, which provides tax-free distributions during retirement. To get that advantage, you'll have to pay income tax on the previously untaxed funds you move from a traditional IRA. Whether a conversion makes sense for you depends on several factors, including whether you expect to be taxed at a higher or lower rate during retirement, and whether you intend to leave all or part of your retirement account to your heirs. You can also decide to make only a partial conversion, or to move the money gradually over several years.

Your retirement accounts are an essential part of your overall financial picture, and we'll work with you to make sure your money is deployed in a way that makes the most sense for your situation. ●

as well, and may vary depending on how it's structured.

4. Evaluate the payout options. Your company may let you choose how to take your money, perhaps in a lump sum or in a series of annuity payments. If you take the cash, how will you invest it, and how much income can you expect it to generate? How does that compare with the annuity option? And which seems more secure?

5. Assess the whole package. You probably get health insurance and other benefits through your employer. Does the package include any of those perks? If not, think about how much it will cost to replace them on your own. Health care premiums, in particular, can be extremely costly, and you won't qualify for Medicare until age 65.

6. Map out your alternatives. Though you'll ultimately have to decide whether to accept the buyout offer, knowing how it may affect your life will give you the tools to make an informed decision. We can help you weigh the impact of different scenarios on your current financial situation and your long-term plans. ●

Children In College Need A Health Proxy

Have you just sent your child off to college for the first time? For your offspring, this marks a new, exciting chapter in life. But your child will also face new challenges and perils, and it makes sense to take precautions, such as obtaining a "health care proxy" (also known as a "health care power of attorney") for your son or daughter. This document will give you access to your child's medical history and enable you to make health care decisions in the case of a serious illness or injury.

Although health care proxies are frequently used for elderly relatives, the same basic premise applies to a child in college. Once your child turns age 18, he or she is treated as an adult for legal purposes. Under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), your child is entitled to full confidentiality unless you have a health care proxy. Without a proxy, you might not even learn of a child's health problem at school or receive information about the child's health status.

The health care proxy is a legally binding document appointing someone—usually another family member such as a parent—to make health care decisions for an individual if he or she is temporarily or permanently incapable of making those decisions. It's a narrow power of attorney that gives authority to the designated party and allows you to take action on behalf of your child.

Of course, you can't execute a health care proxy unilaterally. Your son or daughter will need to sign the document, thus giving up his or her right to complete medical privacy. But you can reassure children that you'll have access to information about them only under very specific circumstances. A health care provider may discuss only the immediate medical condition, and only when prompt attention is needed for someone who is incapacitated. Very likely your kids will see the wisdom of having a health care proxy and may even be surprised to learn that otherwise you would have no say about their care even in life-threatening situations.

Once the proxy has been signed and notarized, you'll need to make sure that everyone who might be involved in a child's care knows that it exists. Give a copy to your child's college health service as well as to physicians and hospitals in your town from whom your son or daughter might receive care. If your child has a car, you could put a copy of the proxy in the glove compartment, and you might want to give copies to close friends or roommates.

To get a form for the proxy, check online or with your physician or attorney. You can also file a HIPAA release form that gives you additional access to information about your child's health. ●

More Than Just Money

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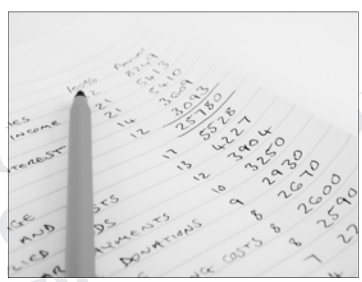
most? What things about them do you wish were different?

• What values and principles would you pass on to your children if you could? Why are those things important to you? How might they make a difference in the future happiness of your kids?

• What circumstances led to your current financial status? Did you work your way up the corporate ladder? Are you an entrepreneur? Did you inherit a large amount of money?

• What is your greatest financial success? How did you achieve it? And what has been your greatest failure? What do you wish you had done differently?

• What is the smartest financial decision you ever made? What factors—your education, your work experience, things you learned from your parents, other relatives, or friends—put you in a position to make the right choice. What has been your worst decision?



• Where does philanthropy rank on your list of priorities? What organizations or institutions do you routinely support, either with financial gifts or by serving as a volunteer? Do you hope to leave a charitable legacy?

• What religion or spiritual tradition, if any, do you practice? How have your raised your children? How important is religion or spiritual tradition to your family?

• What is your educational background? What opportunities have you given your children? Do you want to help your children and other heirs pay for their schooling?

Answering these and similar questions may suggest ways in which your estate plan could support your heirs in their quests for fulfilling, meaningful lives. And while it's important to structure your estate to minimize taxes, other goals are just as crucial. We can work with you and your attorney to create or revise a plan that addresses your priorities. ●

Robert J. Pyle **Diversified Asset Management, Inc.** **1113 Spruce Street, Boulder, CO 80302**
Phone: (303) 440-2906 **Fax: (303) 539-9880** **E-mail: rpyle@diversifiedassetmanagement.com** **www.DiversifiedAssetManagement.com**