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Wealth Management For Senior Partners

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This is the third article in a three-part series exploring wealth management issues for law firm attorneys. Last week, investment adviser and recovering attorney Stuart Riemer shared wealth management insight for mid-level partners. Here, Riemer speaks to senior partners.


Stuart Riemer

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You are a senior partner with a large law firm and it's quite likely your net worth is "significant." In addition to your investment portfolio, you may have real estate holdings outside of your primary residence, and possibly a family trust or partnership, or perhaps even a foundation.

Regardless of the amount of wealth you have accumulated and where it now "resides," you undoubtedly are concerned about these critical issues:

- Maintaining your standard of living in retirement
- The prospect of potentially outliving your money
- Making the right decisions regarding your estate and how your plans will impact your beneficiaries, possibly over multiple generations

The Tax Man Cometh …

While you have driven the wealth that resides on your balance sheet, it is the manner in which the liquid assets in your investment portfolio have been allocated that will drive the returns on those investments.

The question you and your financial adviser must ask and answer is how and when to recognize those returns in a way that's most appropriate for your tax situation. That determination is referred to on Wall Street as "asset location."

In the simplest terms, executing proper asset location means making certain your most tax-efficient investments are residing in a personal account or accounts, and your least tax-efficient investments are tucked away in tax-deferred accounts.

Time for a New Game Plan

Because we are now experiencing the first Federal Reserve tightening in nearly a decade, investors will not receive the same return on their fixed income holdings they generally experienced over the last 30 years. As we know, interest rates have trended downward since the early 1980s and, because bond values move inversely to rates, these values have increased and added incrementally to fixed income returns over and above the income they've generated.

Even if the Fed continues to tighten and the Funds rate reaches 1 percent over the next year, we will remain at a historically low tick on interest rates. Consequently, make certain your fixed income allocation is properly laddered and pay close attention to the credits, liquidity and opportunities in the municipal and corporate markets in particular.

In light of current and anticipated market conditions, your fixed income portfolio should be designed to:

- Act as a shock absorber during periods of volatility in the equity market
- Potentially produce (some) income but, more importantly, provide ballast or stability should there be a significant correction in the equity markets
- Via a tactical rebalancing, afford you access to capital without affecting your portfolio's return profile

In sum, it is time for you and your financial adviser to map out a new game plan for the long term. The old rules that governed how we managed our wealth over the past decade or so are no longer viable. The new rules are a reflection of a stronger dollar, global uncertainties, low interest rates, and a volatile market.

This all begs a very good question: Where do we look for our return?

Don't Go There …

The key is knowing where to look and where not to look.

For example, avoid asset classes — such as emerging market debt and equities — that historically perform poorly when energy prices are low and the dollar is strong. And make certain you are aware of the real risks of investing in high-yield bonds depending on where we are in the economic and credit cycle.

That also goes for understanding the sum and substance of your liquidity risks if you're investing in fixed income mutual funds or ETFs. On the equity front, active managers tend to outperform their benchmarks in "choppy" markets. (The good managers have done their homework on companies with strong balance sheets and differentiated businesses and business prospects).

And, hedge funds (that actually hedge) will provide equity participation with some downside protection, much like an insurance policy.

The bottom line: carefully define your liquidity and cash flow requirements, construct targeted return expectations for your portfolio, and build an asset allocation customized to your unique objectives. Be sure to establish periodic reviews to assess your allocation and performance and to make necessary changes as market and economic conditions dictate.

The Tax Man Redux — Estate Planning

We are all aware that the business of estate planning can be and typically is a complex, emotionally charged process. And structuring the estate plan is, by its nature, very situational regardless of whom you intend to name as your beneficiaries.

In this context, it is evident you and your professional advisers must take into account a multitude of factors, including:

- Your overall balance sheet
- The opportunity for and the potential advantages of creating a trust or trusts
- Making outright gifts to certain of your beneficiaries during your lifetime

And, of course, there's the important question of where you will be residing when you're retired. (Because as much as $5.45 million in assets — double that for a married couple — will be exempt from federal estate taxes this year, only the extremely wealthy face that issue from a planning perspective).

Sixteen states and the District of Columbia presently impose an estate tax; seven states impose an inheritance tax. Each of these jurisdictions has their own rules as to how these taxes are assessed, and these rules continue to evolve from year to year.

However, it should be noted that there is a trend among many of them to increase estate tax exemptions as a means of discouraging retirees from moving to more tax-forgiving jurisdictions. So, the caution here is to stay abreast of the evolving estate tax rules in your state and in any other state in which you may or eventually will establish your permanent residence.

In the event a tax will be due on your estate, there are certain insurance products that can provide an excellent source of cash should your balance sheet be overextended on assets that may be difficult to liquidate in a timely fashion. There also are trust-planning strategies that might reduce any potential tax burden or be of relevance in administering your tax situation more efficiently. Explore these strategies with your financial adviser and/or tax attorney.

To Thine Own Self …

You have worked hard to get where you are, and you are not done yet. As you continue along whatever path you have chosen, take a moment every now and again to enjoy the dividends resulting from your hard work. You have certainly earned the right to do so.

—By Stuart Riemer, Treasury Partners

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