ARK ROYAL
WEALTH MANAGEMENT

Helping Successful People Make Smart Decisions About Money

SPRING **2018**

WHY CAN'T OUR PROFESSION GET IT RIGHT?

For years the financial advisory profession has struggled with embracing a standard of conduct that requires all financial advisors to put a client's interest first. The so-called fiduciary standard has been punted by the Securities and Exchange Commission, embraced by the Department of Labor, largely ignored by Congress and feared by Wall Street.

It's no wonder given the mixed signals from the various constituencies mentioned above that the average consumer has a difficult time understanding what constitutes a fiduciary relationship with an advisor versus misleading marketing lingo. For years brokerage firms, insurance providers and other non-fiduciary investment advisors have purposefully confused consumers with the term "fee-based"—hoping consumers view it synonymously with "fee-only."

FEE BASED ≠ FEE ONLY

Fortunately, the CFP Board, which sets and upholds the professional standards for all Certified Financial Planners (CFP®), is revising the standards all CFPs must abide by. The new proposed standards specifically address disclosures regarding "fee-based" versus "fee-only:"

DUTIES WHEN REPRESENTING COMPENSATION METHOD

A CFP® professional must not make false or misleading representations regarding the CFP® professional's or the CFP® Professional's Firm's method(s) of compensation.

Specific Representations

i. **Fee-Only.** A CFP® professional may represent his or her compensation method as "fee-only" only if:

a) The CFP® professional and the CFP® Professional's Firm receive no Sales-Related Compensation; and

b) Related Parties receive no Sales-Related Compensation in connection with any Professional Services the CFP® professional or the CFP® Professional's Firm provides to Clients.

ii. **Fee-Based.** CFP Board uses the term "fee and commission" to describe the compensation method of those who receive both fees and Sales-Related Compensation. A CFP® professional who represents that his or her compensation method is "fee-based" or any other term that is not fee-only must:

a) Not use the term in a manner that suggests the CFP® professional or the CFP® Professional's Firm is fee-only; and

b) Clearly state that either the CFP® professional earns fees and commissions, or the CFP® professional is not fee-only.

To illustrate how some advisors obfuscate on this issue, here is an actual snapshot from a life insurance representative in Virginia:

Fee-Based Financial Planning

As a fee-based financial planner, I am compensated for the time and expertise put into designing and creating your personal financial plan. Under this fee structure, I have a responsibility to ensure your interests and goals are always put first.

Of course, my role with clients goes beyond just providing expert guidance in the creation of your financial plan. When I work with you during a fee-based financial planning engagement, I follow the fiduciary standard which means that I act in your best interest and put your interests ahead of mine. I'll also help you implement your plan through a combination of innovative investment and insurance solutions.

The website promotes how this representative follows a fiduciary standard "during a fee-based financial planning engagement" but ignores the inherent conflicts of interest in a commission-based compensation model. It also fails to disclose the commissions received. Additionally, this particular insurance salesman has an entire page of client testimonials, a violation of section 206(4) of the Investment Advisers Act of 1940.

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SMART CHARITABLE GIVING STRATEGIES UNDER THE NEW TAX ACT

The 2017 Tax Cut and Jobs Act makes significant changes to the tax code that will impact many taxpayers. While the tax act's main beneficiaries are corporations (a single 21% corporate tax rate now applies), individuals may also benefit from lower rates and a higher standard deduction.

Perhaps the single biggest change for individuals is a $10,000 cap on state and local tax (SALT) deductions. Taxpayers in states with high income taxes and high real estate property taxes—like New York, New Jersey and California—will be most affected. The Tax Policy Center estimates this change will reduce the number of taxpayers who itemize from 37 million to about 16 million. Capping the SALT deduction may have a ripple effect for some taxpayers—meaning their previously itemized deductions (including charitable deductions) won't exceed the new standard deduction.

For taxpayers who have a history of making charitable contributions, making sure those contributions have maximum tax benefit may require some additional planning. Let's review some strategies that could help minimize your tax bill while also helping to do good.

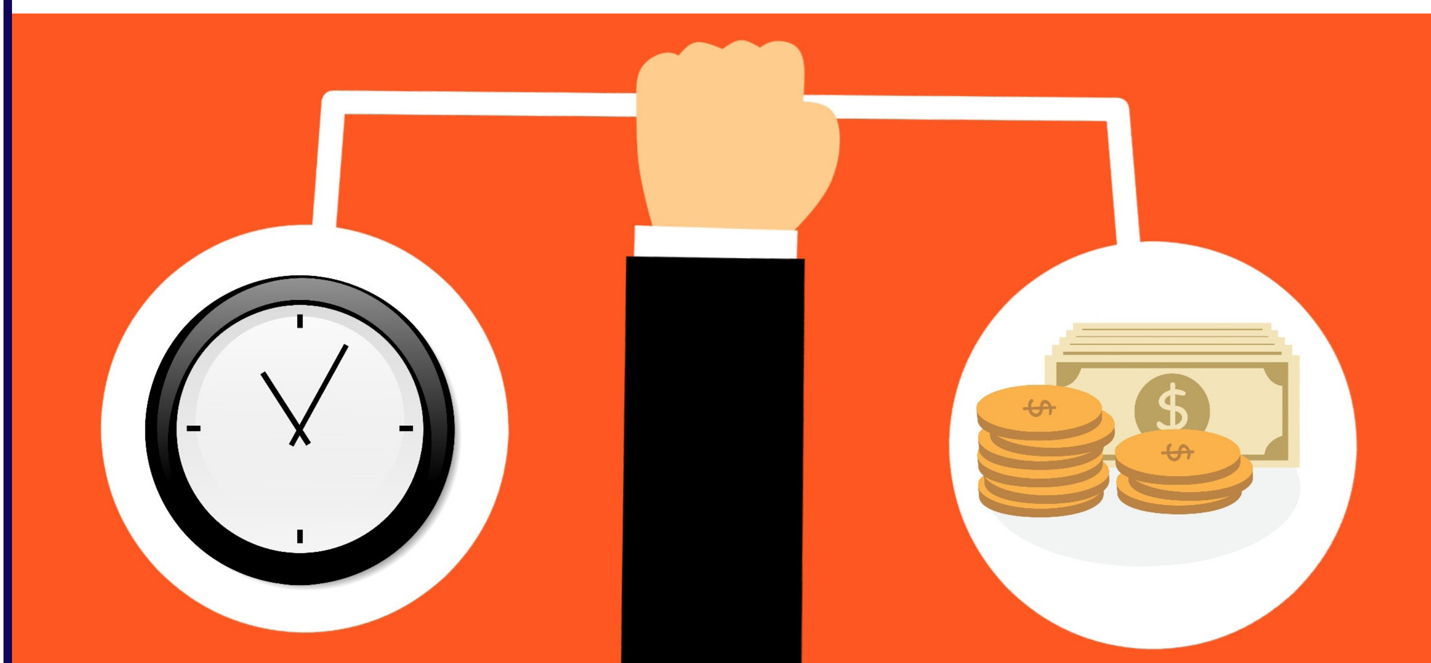
The first strategy involves "chunking" two years of charitable deductions into one tax year. By making charitable contributions in January and December of the same year (think of the December contribution as paying one month in advance), taxpayers may be able to claim itemized deductions in the year of their charitable gifting and take a standard deduction in the alternate year. This need not change one's gifting level, merely the timing.

A slightly different method to take advantage of the "chunking" strategy is to again make multiple-year charitable gifts in one tax year, but this time via a **donor advised fund** (DAF). Contributors to DAFs receive a tax deduction in the year of contribution, while retaining control over the timing of the distribution to the charity of their choice. To illustrate, John & Mary Smith gift $25,000 of appreciated stock to a donor advised fund with their area community foundation in 2018 and deduct this charitable contribution on their 2018 tax return. John & Mary can make distributions from their DAF to support various charities of their choice, perhaps over the next several years.

Finally, another strategy only available for taxpayers over age 70½ and involves making a qualified charitable distribution (QCD) **directly from one's IRA.** A QCD counts towards one's required minimum distribution (RMD) but is not included in taxable income on the tax return. This strategy results in the taxpayer getting the benefit of the charitable contribution (through lower income) irrespective of whether they itemize deductions.

As with any tax strategy, one needs to consult a tax professional on whether certain strategies apply to their specific circumstance. The good news is with advance planning you can make the new tax law work to your benefit.

> "For taxpayers who have a history of making charitable contributions, making sure those contributions have maximum tax benefit may require some additional planning."



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COMMUNITY SPOTLIGHT

We are pleased to announce a new feature in our newsletter, **Community Spotlight**. In the Spotlight we will periodically explore something new and exciting in our community completely unrelated to personal finance.

YMCA SOUTHEAST RALEIGH INITIATIVE

In this issue we are shining the spotlight on the YMCA of the Triangle's Southeast Raleigh initiative known as the YMCA Beacon Site. The goal of the Y's Beacon Site is to create a community focused on health, education and economic advancement.

The project is modeled after a successful effort in Atlanta's Eastlake led by *Purpose Built Communities*, a venture created by Warren Buffett, Julian Robertson and Tom Cousins that aims to bring holistic community revitalization through dynamic partnerships.

Four years ago, the YMCA of the Triangle made a significant investment in the Beacon project with the purchase of 32 acres in the Rock Quarry Road corridor near I-440. This property will serve as the nucleus of Beacon, and will include the joint YMCA and public school, mixed-use housing and commercial spaces. Nearly 29,000 people live in the six census tracts that surround the YMCA Beacon Site. Nearly 7,900 are under the age of 18. And, 54.1% of the residents live in poverty. The future Southeast Raleigh YMCA and Elementary School will be located at 1436 Rock Quarry Road, and will serve nearly 500 children in grades pre K–5, with a planned opening in the fall of 2019.

"We are excited about this unique project and the opportunities the school and the YMCA can provide to children and families in Southeast Raleigh," said Doug McMillan, YMCA of the Triangle CEO. "For more than 30 years, our YMCA has partnered with Wake County Public Schools to help bridge education gaps during the school year and times in between." The joint facility will include features unique to most elementary schools including a community kitchen and extra pre-kindergarten classrooms. The YMCA will offer free swim lessons to families of all students. The school may offer a longer school day and opportunities to connect families with social services.

YMCA leaders knew there was a need in Southeast Raleigh. Community leaders and volunteers pushed the Y to serve in unique ways. "For more than three years, Y staff, community leaders and volunteers gathered community input and data about expanded YMCA service," said McMillan. "It became clear that the community's need, and desire, included much more than a new YMCA with traditional Y services and programs."

Currently, the YMCA is securing anchor partners to deliver core services. While the Y will deliver programs for Beacon, *Southeast Raleigh Promise*, an independent nonprofit, will serve as the quarterback organization to support children, families and neighborhood needs in Southeast Raleigh.

This bold vision requires a bold investment. The YMCA has raised $19 million towards the $25 million goal. To learn more about the project or to get involved, contact Jon Mills, YMCA of the Triangle Regional Vice President at *Jon.Mills@YMCATriangle.org*.

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Advisors who are purposefully misleading do not make good advisors. Alas, they can easily mislead consumers who don't understand the differences between real fee-only comprehensive financial planners and the fee-based insurance salesmen that say all the right words on their website.

As this example points out, it's no wonder most consumers are confused by the advisory landscape. And its long past time that our industry get it right and fully embrace putting the client's interest first—always.

"In the next 53 years our shares (and others) will experience declines resembling those in the table. No one can tell you when these will happen. The light can at any time go from green to red without pausing at yellow."

WARREN BUFFETT, *Berkshire Hathaway Shareholder Letter*

The CORNERSTONES *of*
ARK ROYAL WEALTH MANAGEMENT

To nurture a culture that puts our client's interest first—always

To be truthful at all times, to be intellectually honest with ourselves and with our clients, even if it isn't what they want to hear

A commitment to lifelong learning, and a passion for applying our wisdom efficiently and effectively every single day

Align what you say, what you do and what you think to honor yourself, your family and our firm