Plan of Action

Strategies to Help You Build and Preserve Wealth

A Collaboration of Financial Professionals from Securities America, featuring

Brett S. Ellen, CFP®

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By a Collaboration
of Financial Professionals
from Securities America

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Introduction

By Marie Swift

As I write the introduction to this book (May 2010), the markets continue to fluctuate. A variety of other factors are cause for concern, creating angst across the country. Investors anxiously look for signs of hope, awaiting confirmation that our economy has successfully rebounded from a tumultuous few years. In 2008 and 2009, numerous scandals and allegations of wrongdoing by major financial institutions rocked U.S. consumer confidence—the fuel of our nation's economic machine. According to the Conference Board, consumer confidence in 2009 plunged to a 41-year low. Low confidence numbers like this tell us that consumers are fearful; some are not convinced that Washington's unprecedented bailout efforts are enough to put the economy back on track. As retirement and college savings accounts drop, calls to professional financial advisors—such as the ones who took time to collaborate on and write this book—increase.

Given that so many financial "experts" saw their predictions crumple in the wake of the recent economic crisis, you might wonder whether or not utilizing a financial advisor is important at all. You may even be thinking, "Why not just handle my finances myself?" Well, it seems that when the water is knee-deep, everyone is an Olympic swimmer, but today's waters are chest-high and that is a different story.

I've worked with and counseled thousands of independent financial planners and investment advisors over the course of my 22-year career serving as a communications consultant in the financial services industry. I've seen all sorts of advisors—the good, the bad and the ugly—as they've developed business plans and PR campaigns. From this vantage point, having been in the trenches helping "the good guys in the white hats" communicate their value and having employed for my own family's personal financial planning needs several financial advisors and investment consultants over the years, I can unequivocally say that having an

independent financial professional at your side, during good times and bad, can make a big difference in how you feel—and how you do. As the waters ebb and flow, a professionally trained and competent financial advisor can help you keep your eye on the horizon and make calm, informed decisions. When calm, informed decisions are made, better outcomes are likely to occur.

Financial Resilience in a Changing Market

What can a professional financial advisor or independent registered representative offer during today's turbulent markets? Acting as your personal chief financial officer, a properly vetted financial professional can help you take a therapeutic, big-picture view of your finances. Yes, market volatility likely will continue, but your advisor can listen to your fears, goals and dreams and develop / implement a plan designed to see you through the ups and downs of your life. Smart investors like Warren Buffet continue to buy low and sell high. You can follow this same strategy and take advantage of buying opportunities when the markets are low. A competent financial professional can help you make these decisions.

No matter what your goals, time horizon or tolerance for risk, a financial advisor has the professional knowledge and insight necessary to help you map out a personal investment strategy designed to meet your financial objectives. As your needs change over time, your advisor will be with you every step of the way, monitoring your investments and guiding you through both smooth and choppy waters. In times of volatility and uncertainty, you'll get the support you need to maintain your long-term perspective and keep your plan on track.

The most comprehensive financial advisors begin by assessing every aspect of your financial life, including your savings, investments, insurance needs and taxes, as well as discussing your long-term retirement and estate planning goals. Most importantly, a financial advisor can work with you to develop a personal plan that's informed by your short- and long-term goals, risk tolerance and investment horizon. Additionally, you meet regularly with your advisor to discuss strategies, review your progress, and determine whether any portfolio changes are necessary. Studies show that investors who have a financial plan and meet regularly with their financial advisors are less likely to panic and pull out of the market at the wrong time.

Why Choose an Independent Financial Advisor?

With the downfall of several big-name banks and high-flying Wall Street institutions, many individuals are looking for an independent financial advisor who is not affiliated with a major bank or national stock brokerage company (also known as a “wirehouse”). That’s a wise risk-controlling move. First, while you’ll recognize the names of the major banks and wirehouses from their commercials on television, it’s important to note that they make money in ways other than providing financial advice to investors. For example, they may work on Initial Public Offerings (IPOs). Accordingly, they have IPO stocks on their books, and the more they and their sales reps sell to you, the more money they may make. If you choose instead to work with an individual who is a registered representative of an independent broker/dealer (such as Securities America, Inc., one of the largest and most stable independent broker/dealers in the nations, member FINRA/SIPC), your advisor may not be entangled in market activities that could lead to conflicts of interest.

What’s more, clients of financial consultants who are not affiliated with independent broker/dealers typically have to choose only from investments and products approved by (and often manufactured by) the parent company. While these proprietary products can present a conflict of interest, more significantly, the wirehouses’ small product universe increases your investment risk. Particularly in this challenging investment environment, why would you want to limit yourself to a handful of investment choices? Instead, investors are turning to professional representatives who, because they work with an independent broker/dealer, can review a much broader range of investment options to select and recommend those investments that, in their professional judgment, will best fit your needs. By working with an independent firm, these advisors can provide fair and objective advice to clients without the undue pressure of sales goals or proprietary product restrictions. In the end, a registered representative of an independent broker/dealer, and/or an investment advisor representative affiliated with an independent registered investment advisory firm, can keep the clients’ financial goals at the center of the financial planning and investing process.

All of the advisor/authors of this book are registered representatives of Securities America, Inc., one of the nation’s largest independent broker/dealers. With a 25-year track record of helping independent financial professionals deliver financial products, services and financial counsel to their

clients, Securities America today has more than 1,900 registered representatives serving clients across the country. Having worked in the financial services industry for over 20 years as an industry speaker/writer and communications consultant to independent financial advisors, thought-leaders and allied institutions, I can say that the contributing authors of this book are some of the best and brightest in the industry. I've worked with several of them for many years. I know their families, staff, business models, ethics and philosophies. In short, they are some of the most knowledgeable and caring individuals I know.

Tips for Interviewing Financial Professionals

If you are looking for a new financial advisor—or think a second opinion on your current situation might be good—do your homework. Talk to several financial professionals and research their backgrounds before settling on the person who you think will be most suited to meeting your personal financial needs.

- As you interview advisors, keep in mind that the majority of advisors subscribe to (1) the foundational advice of spreading your assets among stocks (large- and small-cap, growth and value, domestic and international), bonds and cash to control risk and (2) keeping at least six months of your current income in a liquid, interest-bearing account so you can manage unemployment or unplanned expenses. What might distinguish an advisor in this difficult environment, however, is his or her ability not only to protect your assets through a thoughtful plan, but to identify opportunities you can take advantage of in down markets.

- Ask about the advisor's investment philosophies, background and history. How long have they been in the business of advising people like you? Ask about formal education and ongoing education. How do they keep up to speed? Are they a member of a professional study group? Who do they turn to when they need another opinion or expert advice?

- Ask for and carefully review the firm's ADV Part II (an SEC-required disclosure document that must be completed and submitted annually). You will learn how the individual and/or firm is compensated

and get facts about their business model, education, background and experience.

- You can check the individual's FINRA records by visiting *www.finra.org*.
- If the individual has earned professional designations, such as Chartered Financial Consultant® (ChFC®), Chartered Financial Analyst (CFA) or CERTIFIED FINANCIAL PLANNER™ professional (CFP®) marks, do an online search and visit the corresponding website for the granting organization to learn what earning that credential entailed.
- If the individual is a member of a professional association, such as the Financial Planning Association (FPA) or the Investment Management Consultants Association (IMCA), do an online search to see what those membership standards mean.
- If the firm or individual has received some sort of award or industry ranking, such as Dalbar, Barron's or Five Star Wealth Manager, conduct an online search to find out the criteria for that status.
- Ask for information about the firm's business partners or strategic alliances. Do they custody client assets at a reputable independent entity such as Pershing, Schwab, TD Ameritrade, Fidelity or National Financial? (Side note: if you work with an independent advisor, you should never write a check to their financial advisory firm or to the advisor personally.) Are they a registered representative of a tenured independent broker/dealer such as Securities America, Inc.? How does that work? Do they bring in trusted partners from local or national accounting, business valuation, insurance and/or law firms when needed? Who, when and why? Do they engage in revenue sharing arrangements? (That's not necessarily a bad thing but it should be disclosed to you.)
- Is the advisor "in the news," active in the community, or involved in charitable work? Does he or she share your values? What turns up about them in a Google search?
- Also check with business colleagues, friends and family members: Whom do they work with and what are their observations?

- Visit the office and meet the advisor's staff. Will you feel "at home" and confident working with these people? Make sure you understand the firm's process for getting to know you and working with you over time. Who will be working with you and when?

- Ask about the advisor's clientele. Do they serve people like you (e.g., other doctors or small business owners, independently wealthy families, the classic "millionaire next door" who has wealth but doesn't flaunt it, widows or divorcees, suddenly wealthy inheritors, professionals within a certain company, etc.)? If the advisor focuses on working with a particular market segment, you are likely to get better information and tailored advice.

Remember, while some of the economic realities we have been experiencing may be unprecedented, a look back in time shows that we are a resilient, resourceful nation capable of surviving enormous challenges. The bottom line is you want to work with an independent, professional advisor who is committed to spending the time it takes to fully understand your goals, hopes and fears and to develop a financial plan and investment strategy that will enable you to meet your goals over time, no matter what the market has in store. If you are not already doing so, consider working with an independent advisor.

Here are a few things you can learn from the independent advisors who collaborated on this book.

Insights from the Collaborative

Learning from the Past

Our book begins with "This Time Isn't Different, but We Should Be," by Kris Flammang of LPF Advisors. Kris starts off with a personal story about a surfing accident that parallels the circumstances of many Americans in the wake of the economic calamity. While asking, "Why did I put myself in that position when I was so unprepared," he ponders how often individuals respond to near-catastrophic events by making permanent changes while, for others, the severity of the event has little or no effect on their behavior.

At the time this book goes to print, we're not yet out of the woods with the current crisis, and financial disasters will certainly come again. The recent

upheaval may be unique, but is it really different from the numerous other financial calamities that have befallen our country throughout history? Most likely not. But what can be different is what we choose to learn from and how we plan to change our behavior in response to this crisis. Kris discusses our personal responsibility in how we arrived at where we are today and then proposes 15 tips and principles that he suggests could be helpful for at least the next 50 years.

The Art of Balance

As Tom Hines of Capital Wealth Management explains in his chapter titled, "Balanced Wealth Approach to Planning™ — for a Truly Rich and Fulfilling Life," focusing exclusively on your financial security, may leave you feeling incomplete. Although you might prosper in a financial sense, your life may otherwise feel out of balance. Tom believes that true contentment usually requires much more than setting financial goals, creating a budget, making appropriate investments and building monetary wealth. In an effort to help his clients achieve a more satisfying balance in their lives, he has expanded his focus as a financial advisor to go beyond the scope of money management to include health and relationship planning into the work they do together.

Having spent 20 years in the financial services industry and 25 years studying martial arts, Tom has applied the lessons he's learned from both experiences to develop The Balanced Wealth Approach to Planning™. Through this framework, he helps clients discover their passions—financial as well as health, the activities they enjoy, and strong links to family and community, then align their beliefs with their actions, in order to live a more complete, more fulfilling life.

Entrepreneurially Yours

It is widely agreed that the growth of small businesses contributes greatly to the nation's economic expansion. Entrepreneurship is linked to creation of jobs, increases in productivity, improvements of living standards, and economic growth in general. Small businesses help create new jobs, introduce new products and provide specialized expertise to large corporations. Unfortunately, according to the U.S. Small Business Administration, over 50 percent of small businesses fail in the first year and 95 percent fail

within the first five years, largely due to poor financial management. The one simple reason to understand and observe business financial planning is this: it is necessary to avoid failure.

Andrew Oster of Oster Financial Group works with business-owners on a range of business planning issues, from establishing the most effective structure and ensuring peak operation to planning for retirement and succession. In the chapter called "Taking Care of Business," Andrew addresses each of these issues in addition to risk management and the importance of tracking strategic relationships. Also, he explains how a competitive benefits structure is often the key to attracting and retaining good employees. Business owners will want to develop a benefits strategy that strikes a balance between looking out for employees and protecting their own bottom line. That balance must also include a business owner's own retirement plans. Andrew has found that while many business owners work hard to ensure that they offer a retirement plan for their employees, they are less focused on saving for their own retirement. The current economic struggles serve as a sore reminder that we all need to be saving for an uncertain future. The business owner who understands these concepts and uses them effectively is practicing sound financial management, thereby increasing the likelihood of success.

Show Me What This Means

Financial professionals use all kinds of tools and techniques, or have even developed their own processes, to help clients grapple with complicated concepts associated with wealth management. Peggy Rouillier has found mind mapping to be a particularly effective tool in helping her clients understand complex financial situations and associated relationships. In her chapter titled, "Planning with the Power of Visual Thinking," Peggy explains how a picture really can be worth a thousand words.

Mind mapping is the technique of arranging ideas and their interconnections visually. While visual thinking and visual learners are not synonymous, those who think in pictures have generally claimed to be best at visual learning. Although learning and thinking styles differ from person to person, it is believed that most people employ a variety of methods in order to effectively understand a concept, whether they are conscious of

doing so or not. Peggy's chapter offers several example scenarios in which a mind map could be beneficial.

Insurance—The Overlooked Asset

As Howard Slater of Cedar Brook Financial Partners reminds us in his chapter, "A Most Essential Portfolio Review," there is more to a portfolio review than asset allocation, market risk and correlation analysis. Insurance assets, perhaps the most critical pieces of a total portfolio, are often overlooked during a regular review process. In fact, Howard asserts that insurance products are assets that need to be reviewed thoroughly and regularly. Unlike traditional investments where you can change course in response to market conditions, a serious mistake or omission in your insurance portfolio can leave you and your beneficiaries without a second chance to recover and move forward.

No matter your age or level of wealth, overlooking risk management can be a serious threat to your financial security. Howard provides a plethora of information about disability, long-term care, health, life and property casualty insurance plans, as well as where you can begin researching various benefits and policy features so that when you sit down to review your investment portfolio, you can also include a knowledgeable review of insurance assets.

The Couple Factor

Having moved way beyond "The Newlywed Game," many of us could play the "Too Many Years to Count Game" with our spouses. But unlike newly married couples who are surprised to discover they have a lot to learn about their spouse, those of us who have been united for years probably know all there is about the other, right? The truth is, that's not necessarily so, especially when it comes to personal finance and retirement planning.

As Kirk Hulett of Securities America Financial Corporation explains in his chapter, "Retirement Planning for Couples," spouses don't have a great track record for being on the same page when it comes to important issues like how much money they will need to fund retirement or even when they plan to retire, much less the strategies they should follow to get to that point. Marital discord in this respect could be reduced through honest and regular communication. Kirk describes Securities America's

"Imagine" Retirement Workshop designed specifically to get the conversation rolling as couples explore their visions for retirement. And there is a lot to talk about—including life expectancy issues, health care, unique needs of the surviving spouse, as well as the emotional, physical and spiritual changes that can occur during our golden years.

It Takes a Team

If just one trusted advisor can offer insight and guidance in areas where you lack the desired confidence or knowledge, just image what a team of advisors could do. Most people have collaborated at some point in their life. People do not hesitate to join forces in support of a worthy cause. Business owners demand coordination among various sites, departments and personnel. But too often we fail to see the benefits of collaboration when it comes to our advisors.

Rusty Cagle of ASE Wealth Advisors understands the value of collaboration and its role in increasing the effectiveness of his clients' plans. In "Aligning Your Championship Team of Advisors," Rusty looks at the ways teamwork can be particularly beneficial in managing finances, the approach he subscribes to and how you can create your own team. Finances thread through various parts of our lives and intrinsically create an overlap across specialties: legal, taxes, insurance, real estate, investments, etc. Not only can multiple advisors help provide a reassuring checks-and-balances system, but their broad range of expertise may help translate into more strategic financial decisions.

Distribution—The Money Shift

After years of earning and saving, we eventually arrive at the event many of us have dreamed about, and others (the workaholics among us) have dreaded—retirement. Just as retirement is often referred to as our second phase of life, so too does distribution become the second phase of retirement planning. In "A New Model—and Mindset—For Income Distribution," by Patricia Hinds of Granite Financial, we learn the value of working with an advisor to develop a distribution strategy to fund our retirement throughout the remainder of our life. In order to generate a reliable, guaranteed income stream during retirement, investment portfolios must be structured to maximize growth potential and withdrawal opportunities.

Often, the shift from accumulation to distribution planning requires a complete shift in mindset. It means leaving behind many of the financial strategies and techniques that have been counted on in the past. In this chapter, Pat focuses on a new approach, a time-segmented investment and distribution strategy. She advocates that this saving approach becomes even more essential as the baby boom generation prepares to face a storm of challenges that include longevity, low interest rates, inflation, sub-par investing results and taxes. In the end, how you take money out and the resulting effects on asset longevity, tax implications and estate considerations is just as important as how money is invested.

Leaving Your Legacy

Known as an advisor who promotes social responsibility, Brett Ellen of American Financial Network delves further into the need for finding and living our priorities. Although individual dreams and goals are very different, he has found a common thread among most people. We all want to live with purpose and passion, and hope that doing so teaches future generations to do the same. Brett's own endeavors to create a lasting legacy involved the creation of a non-profit organization teaching children of all ages the value of community service and financial responsibility.

In his chapter, "Leading a Life of Purpose and Passion," Brett discusses strategies for leaving a legacy to community or family. Explaining there are essentially two classes of charitable planning, tax-related charitable planning and true philanthropic planning, Brett says the best situation is naturally when the two work in tandem. This is often accomplished through the creation of trusts. Uniting assets and investing in this way requires the exploration of a range of issues—from the more philosophical, such as the impact of an inheritance on prospective heirs, to the more practical discussions of how to minimize taxes.

Parting Words

My team and I have enjoyed working on this collaborative project with Securities America, Inc. and this talented group of independent financial advisors. We've worked on and brought many books to market in the past, but this one is memorable in so many ways. The enthusiasm for the

project, the attention to detail and the vision this group brought to bear was remarkable. I know you will enjoy reading this book and telling others about it!

With many good wishes for your continued success,

Marie Swift
President and CEO
Impact Communications, Inc.

To reach Marie Swift and her team:

Impact Communications, Inc.
2007 West 91st Street, Suite 201
Leawood, Kansas 66206
(913) 649-5009

Email: info@impactcommunications.org
Website: *www.impactcommunications.org*

Chapter 9

Leading a Life of Purpose and Passion

By Brett S. Ellen, CFP®

Leaving a Legacy

What do you want to leave as your legacy? That's a tough question, and one that, due to the dueling pressures of work and family, many of us fail to reflect on in a meaningful way. However, at some point in the planning process, I challenge all my clients to dedicate the time necessary to answer the legacy question. What do you want to be remembered for? Interestingly, while their individual dreams and goals are very different, I see a common thread. We all want to live with purpose and passion—and hope that doing so teaches our children to do the same.

For many clients, the process of discovering what they care most deeply about, going about their life's work, and considering the legacy they wish to leave involves some significant charitable planning. As an advisor, this is some of the most challenging and rewarding work I do. Like anything else in life, I believe that we can achieve the best results in the charitable planning arena when there is an accord between thought and action, a convergence of the client's vision and philosophy with our comprehensive planning and investing strategies.

In my mind, there are two classes of charitable planning: tax-related charitable planning and true philanthropic planning. The best situation, of course, is where the two marry each other, and we create tax-efficient philanthropy, often via the creation of trusts. Uniting assets and investing in this way requires that we explore issues from how much control the client wants over their assets to the impact of the inheritance on the client's heirs. Practically speaking, however, most of our charitable planning conversations begin with discussion of how to minimize taxes.

Time was when we primarily discussed the charitable remainder trust or CRT. A CRT is an irrevocable trust whereby you gift an asset to a charity that then pays you an amount of income and/or principal from the CRT. The remainder interest is irrevocably payable to charity. What are the tax advantages? You get a deduction for the value of the asset you gift, and the CRT pays no income tax on the gain on the income or on the gain upon the sale. Therefore, the CRT is not taxed on any gain it realizes upon selling appreciated property, either when you gift it or after your gift has appreciated.

In my experience, CRTs worked incredibly well when the capital gains rates were up. Now that capital gains rates are lower, we don't see as many CRTs.[1] In fact, I wouldn't recommend one. Instead, with capital gains rates down and tax rates up, we're using a lot of charitable lead trusts or CLTs.

Think of a CLT as the inverse of a CRT. That is, a CLT is an irrevocable trust that provides a fixed amount or a percentage of the trust assets paid to a charity, such as a private foundation, for a term of years or for the life of an individual or individuals. The remainder interest is either retained by the donor or given to a non-charitable beneficiary, usually a family member. What I particularly like about a CLT is that it facilitates lifetime giving and can therefore unite multiple generations of a family through various philanthropic endeavors.

Generally, the income tax benefits of a CLT may not be as significant as other trusts. However, if set up properly, the client can receive an income tax deduction for the discounted present value of the annuity that the charity will receive during the term of the grantor CLT,[2] even if it is set up on December 30, with a day left in the tax year. If you put $1 million in a CLT, in California you could save $460,000 to $470,000 in taxes. Of course you could accomplish the same thing by making a gift, but, again, I point to the fact that the CLT leads to some pretty incredible family philanthropic planning opportunities. Keep in mind, too, that CLT limits can be quite generous. CLT interest is considered to be a gift for the use of charity, which means you can claim an income tax charitable deduction against no more than 30 percent of your adjusted gross income. Also, you can fund a CLT with appreciated assets, such as land or stocks. You do not have to fund the trust with cash.

Once the CLT is set up, the charity will receive an annual annuity payment. The actual percentage rates vary and should be verified with your advisor, but for this example, let's say it is 8 percent. Some CLTs simply would distribute that 8 percent (or $80,000) in year one to your favorite charities. However, instead, I advise many of my clients to take that $80,000 and set up their own family foundation or legacy trust. Now, instead of giving to one charity and losing control over how the money is spent, the family can direct the money on an ongoing basis throughout the year. Having family members participate and determine where their money goes is a wonderful tool that never fails to pull a family together and help them think about how they can work together to make the world a better place. In my experience, while clients derive satisfaction from giving a significant sum of money and having their name placed on a plaque or auditorium chair, the positive impact and sense of accomplishment of forming and managing a family foundation is unsurpassed.

And there is an extra bonus to the CLT. Remember in our example, that 8 percent (or $80,000) of the $1 million gift that we directed to a family foundation? Using the IRS expectation that the trust would earn 4 percent each year, and make an 8 percent distribution, the trust would be insolvent after 18 years. But what if you earned more than 4 percent? The amount will pass to the donor's children at the end of the CLT term free of federal and state income taxes, because they are receiving the interest as a gift from the trust. (However, estate taxes may still apply.) Therefore, not only does the CLT provide you with an income tax deduction and enable you and your family to further your charitable interests, but there is potential for additional value to return to your estate, or your kids' estate.

Remember, this is just an example of how a CLT might look. Keep in mind that your advisor can design the terms to help meet your unique needs.

Maybe you see a theme emerging. While check writing is an admirable way to make charitable donations, this easy after-tax gifting method is often the least beneficial from a tax standpoint. With a little extra effort, we can create tax-effective trusts or even take advantage of a little-known provision of the Pension Protection Act of 2006 that excludes individual retirement account (IRA) distributions to charities from your income. Specifically, if you are age 70.5 or older, you can transfer up to $100,000 from your IRA directly to your favorite eligible charitable organizations tax-free. Because this contribution counts toward your IRA's required

minimum distribution, but is not added to your taxable income, your gift could make you eligible for other tax breaks. Note that distributions must be from IRAs. Employer-sponsored retirement plans, including SIMPLE IRAs and simplified employee pension (SEP) plans, do not qualify. This benefit expired in 2009. However at the time this book went to print there was pending legislation in Congress to permit this distribution to charities in 2010 as well.[3]

As our charitable planning intersects with estate planning, the down markets may be able to create some once-in-a-lifetime opportunities, especially for small business owners. During slow economic periods, it may be advantageous to turn non-liquid business assets that have plummeted in value into capital. In fact, if you own a family business, that can be the best time for an interfamily sale.

Let's say that today your business is worth $10 million, while three years ago its value was $20 million. Obviously you want to pass maximum value along to your heirs. One major hurdle in that race is that estate planning laws are in a constant state of flux. While we can never predict what will happen on a federal and state level, at the time of publication, U.S. income tax rates were at a historic low and likely had nowhere to go but up.

With that premise as background, let's return to your $10 million business. Perhaps with a 45 percent discount because of non-liquid assets, its true worth is $5.5 million. Now, what if rather than waiting until your death to pass the business along to your children, you carve off roughly 25 percent or $1.4 million. Your kids' cash flow won't be an issue, because we will set up a trust for the business revenue to flow through. Your children should make some initial down payment, and take a loan for the purchase price which they pay back as 25 percent of the business revenue flows to them. Nothing changes from your perspective. Simply, the business revenue that would have flowed to you as the business owner before the sale is just re-directed and now flows from the business to the kids and then to you. An added bonus is if interfamily loans are at a low interest rate. (Consult the current Applicable Federal Rates (AFR) index for current rates.) If your children are in a lower income tax bracket, the tax advantages are further enhanced.

Most likely by the time the loan is paid off, in three or four years, your kids will own 25 percent of a family business which has returned to its $20

million value. The bonus, especially looking forward as the value of your business continues to grow, is the interfamily sale has taken 25 percent of the value of your business out of your estate.

If your kids set up an intentional defective trust, then once the loan is paid off, the income does go to the kids. But the parents pay the tax on that, which gives them even more opportunity to give more money from the larger estate to the kids. This allows the next generation to create and build new wealth of their own. Perhaps they co-invest with the family, start a second business, or buy life insurance. Of course, they could also direct some of the business assets to form a foundation.

Note this is a strategy we've used for all age groups. We've even formed trusts for children born only six months ago. Just remember if your child is under age 18, you will need to appoint a trustee.

If you're thinking the same strategy would work with a home, you're right. In fact, there's a trust for that—a Qualified Personal Residence Trust or QPRT. In this case, you would transfer your primary residence or second home to your children to get the asset out of your estate. Of course, you could still live in the home. Advance planning such as this can help mitigate anger and fighting among your children after your death, as well. I've found the more parents can explain and share with their children during their lives, the better off the kids are when the parents pass away. That is, I've seen horribly negative situations where the parents are reluctant to relinquish any control and the kids seem to be waiting for them to pass on in order to get control of the assets. The more you can enjoy together, the better. Parents I have worked with have expressed great satisfaction at watching their kids benefit from the family wealth.

As we discuss trusts with clients, I like to share my favorite two words in the estate planning process—"precatory language," which means you can express a wish or desire to have your property disposed of in a certain way or to have some other task undertaken by your heirs.

Suppose you want to encourage your grandchildren to attend college. You could set up a trust that rewards the grandchildren for reaching various educational milestones. This trust might affix a monetary value if the grandchild maintains a certain grade point average or reaches the dean's list. The bottom line is that it will help ensure that the grandchild does something that will better him in the long run. These kinds of trusts are an

easy way to ensure that your wishes are carried out after (and even before) you're gone. You affix a value to the things that will help stabilize your children and heirs throughout life so they don't end up being dependent on your money.

There are also a number of clauses that can be inserted into trust documents to ensure that a dose of values-based thinking accompanies an inheritance. You can stipulate that an heir donate a certain amount of time or money to a particular charity before receiving a lump some of money. This tactic, like those espoused in the popular book and movie *The Ultimate Gift*, can help heirs understand that there is more to life than their inheritance.

The ability to share hopes and set limits is comforting for clients who are wrestling with the notion of just how much control over their estate they wish to surrender. Of course, we've all seen those movies where the kids band together and vote mom and dad off the board, so it's important to put some serious thought into the formation of trusts.

The Irrevocable Life Insurance Trust (ILIT) is another important estate planning tool and, as I tell clients, it is one of the few investments where the result is known. Say mom and dad simply gift assets to their children to buy a second-to-die life insurance policy. That works well enough when the estate is small and the policy premium is therefore relatively low. But what happens when you are looking to gift $200,000 to fund the life insurance policy you would need to cover taxes on a $50 million estate? Even if you had four children who were all married, a gifting exclusion of $13,000 per year per person doesn't get you where you need to go. Here's the math.

4 children x $13,000 = $52,000

$52,000 x 2 (to include the children's spouses) =
$104,000 max gift exclusion

This still falls short of the $200,000 needed in our example.

To solve this problem, we often set up a de facto trust that could be funded with income coming to the kids from a family business instead of mom and dad gifting to pay the premiums. Another technique we are using quite a bit is premium financing, where you take a bank loan to cover the premium. The bank pays the premiums, and the parents or kids pay only the interest on the loan. This takes the worry of gifting out of the equation.

Premium financing is also ideal if you are a successful business owner with substantial value in your business, but very little in the way of excess liquidity. With premium financing, you can purchase the high-face-value life insurance plan you need now, while your health is still good, without selling assets for liquidity and incurring that tax liability.

However, keep in mind that the bank loan must be paid back. Repayment usually comes from the death benefit of the life insurance policy. Premium financing relies on the insurance policy to keep pace with the outstanding loan balance so that the remaining death benefit is sufficient to provide the borrower with the coverage they need. If loan interest rates rise, collateral value falls and the death benefit does not grow as needed, then the borrower would have a significant problem. This could result in either a lower than expected death benefit for the family or no death benefit for the family and the family owing money to repay the loan without the funds to do so. (See the end notes at the completion of this chapter for a list of risks associated with premium financing.*)

Educating the Next Generation

For many people, building their wealth has taken every ounce of their mental and physical energy over the majority of their lifetime. Long hours at the office, time away from family, and countless distractions dominated their life in order to provide comfortably for themselves in their golden years and leave some of their assets behind for their heirs. These are good providers who give everything they can to their children. Yet, so often I have seen these well-intentioned individuals burdened with guilt for not having taken a more active role in teaching their children about financial responsibility.

We've all heard the horror stories of adult children inheriting large sums of money from estates and blowing through it on extravagant lifestyles and irresponsible purchases. What one generation has worked so hard to build, another takes for granted. I truly believe the time and effort we invest in designing trusts to maximize wealth transfer will be useless if we don't provide the proper financial education to the next generation.

I meet with my clients four times a year, and generally in one of those meetings we invite children, of any age, to attend. I meet with families with children as young as five years old. We might start with a discussion about what a bank is, but those simple conversations quickly evolve over the years

to encompass the family's broader mission. My goal in involving children in these meetings is to help avoid problems of entitlement down the road. I've learned, too, that it's easier to deal with adult children of clients if they have had some foundation in money management. Since this is a subject that's not frequently taught in schools, the task falls to parents.

I've spent many years coaching my children's sports teams. I've seen parents spend lots of time and money coaching kids on how to be better athletes, but how much time do they spend on coaching personal finance? In reality, only a very small percentage of kids will grow up to be professional athletes, but all of our kids will grow up needing to be skilled in personal finance.

Aim to establish a foundation for financial concepts by focusing on the basics: allowance and spending practices, the difference between needs and wants, how and why to start saving money. Ease into the topics of credit, debt and investing, using the local and global economy as examples. Most importantly, set up a time (once a month works well) to have a family meeting about finance. In advance, pick a few topics to cover such as how writing a check is different than using a debit card, how interest rates work, etc. and make it fun for everyone. Let your children guide the discussion, too, as their questions will often start the most interesting conversations.

Above all, model good behavior. If you are likely to run up charge cards beyond your means, that is behavior your children may mimic later in life. Teaching your children about money is an ongoing process not a onetime activity. The lessons and concerns change as the children mature.

For example, allowance is a controversial topic. Some experts believe an allowance should be contingent on doing household chores. Others insist that chores are a family obligation and should have nothing to do with the child's allowance. If you give an allowance, I suggest you insist that your children be responsible for certain expenses. This teaches them to make choices, the building block of sound money management. Lay out your ground rules in advance. How often and how much will you pay your child? Under what circumstances would you increase the allowance? Will you allow advances on allowance? Will you pay more if your child does extra chores?

Whether they've earned or been given money, deciding what do with it is a critical component of money management. The age-old lesson of need versus want is too often lost in today's vast world of consumerism. The

newest, greatest version of everything is coming at us with such unprecedented speed that it is easy for us to get confused about what we really need to spend money on and what is just too cool to pass up. As soon as my children were old enough to point and ask for a toy or candy bar in the check-out line, my wife, Mandy, taught them to say, "How can I earn that?" rather than, "I want that." It was so easy to implement but had a profound impact on how my kids viewed the stuff that surrounded them. If it wasn't worth doing an extra chore to get it, then maybe it really wasn't that important to have after all. Sometimes, parents will need to sit back and allow the impractical purchases in order for the child to discover important financial lessons the hard way while they are young and the cost is relatively low.

To teach young children about the four quadrants of money management—save, spend, invest and donate—we use various tools, such as a piggy bank with multiple slots. With a visual reminder of how money should be proportioned, this piggy bank gives children a sense of control over their money and eventually builds confidence in their ability to manage financial decisions on their own.

But what if your children are beyond the piggy bank and allowance stage? I say it's never too late to learn responsible money management, but the lessons learned might hurt a little more the older they are. With adult children, a frequent area of discord and discussion involves how often you should help a child out of financial trouble. Bailing out a kid "just this once" may be the right thing to do. However, bailing them out a second or third time, in my opinion, is never really a good idea. You simply become their crutch, which teaches them nothing about financial management. Sure, you want to make your child's life easier, and it pains you to see them suffer consequences, but don't deny your children the satisfaction and self-confidence that come from overcoming challenges.

One idea for financially assisting adult children and grandchildren involves establishing a family bank. I'm not talking about a real bank here—no Federal Exchange Commission SEC guidelines need be consulted. A family bank is actually just a savings or brokerage account with a predetermined amount of money deposited for the specific purpose of loaning to family.

Here's my thinking: I'm seeing far more clients being asked for loans by their adult children. Of course it's difficult to say no, yet often clients who give or

lend money to family members are putting their own financial security at risk. Besides, having someone to step in and bail them out actually encourages ongoing reckless money management. I've also seen how a parent's support of one financially needy child can often cause friction between siblings who come to resent their parents' overinvesting in one child.

A family bank can prevent anxiety and ease family conflict over money. The parents simply open an account and list qualified children and grandchildren who can apply for loans. Those eligible to receive loans sit on the board of directors, deciding guidelines for requests and determining who receives loans and on what terms. The beauty is that the family bank takes mom and dad out of the financial assistance equation, helping reduce the emotional turmoil associated with deciding to whom and when to make the loans. There is only the set amount of money to loan, reducing the financial risk of being negatively impacted by the loans. Additionally, since any sibling could apply for a loan, the process is deemed fair.

Adding written contracts to the process further assists all parties involved. It's more likely the loans will be repaid, thus ensuring the money is there to support the future needs of other family members. Also, a re-payment plan or charging a low interest rate can teach financial responsibility to those borrowing and may have tax benefits for those doing the lending.

Where to go to learn more?

While teaching lessons in finance at an area school, I witnessed first-hand how children's minds absorb information like sponges. They hear about financial issues in the news and are far more aware of some of the topics than we, as adults, think they are. So I began a program called Kids Finance Coach™ to give kids a fun way to learn material to which they might not otherwise have access, and to help them become financially literate. The program consists of interactive workshops and the *www.kidsfinancecoach.com* blog, where I try to answer basic questions about money, post video lessons from my workshops and link to a number of other informative sites. I combine my professional knowledge of wealth management with my extensive experience in parenting and coaching children, to provide information and

education kids need to become fiscally responsible and successful as adults. It's particularly satisfying to see parents and teachers attending workshops and visiting the blog.

There are plenty of resources available on this subject. Congress even established a Financial Literacy and Education Commission to coordinate federal agencies' financial education efforts. MyMoney.gov is the U.S. government's website dedicated to teaching all Americans the basics about financial education.

No More Entitlement Generation

Along with the confidence of being able to make responsible financial decisions comes an awareness of what can be done with the wealth we are so fortunate to have. Therefore, in addition to teaching children about stocks, bonds and purchasing power, it is equally important to explore and impart your values as they relate to finances. Whether it's growing a family business, running a family foundation, or continuing the support of a worthy cause, your legacy reaches far beyond the money you leave your heirs.

I've seen far too often, the lessons of giving and giving back pushed aside in favor of teaching children about competition and getting ahead. However, philanthropy, too, is easier taught when children are young so that it becomes a natural part of their existence. After all, today's childhood volunteers are tomorrow's societal leaders. Many schools and scouting organizations offer community service opportunities, which is a good start. But I strongly suggest families undertake a lifestyle of volunteerism together. Doing so teaches children that donating time and money is not just an assignment to be fulfilled, but rather a significant family value that extends into adulthood.

I can testify that early volunteer experiences have a powerful impact on philanthropic interests later on. When we work with 20-something trustees who are starting to accept a more active role on the family foundation's board, they often have a vivid picture in their minds of a time when they volunteered as young children with their family. Shared volunteerism is important because it empowers the next generation with the passion and tools to do something about the problems they see. With this kind of experience and

skills, they will begin to think of themselves as philanthropists ready to make a difference in their world.

The most profound transformations come when parents are willing to surrender control of some of the cash. Let's say, for example, you have a family foundation. You might form a junior board comprised of family members in the age range of 12 to 21 as an ad hoc charitable committee. A $10 million family foundation may allocate the junior board $25,000 to distribute for the year; a small amount of the total distribution requirement, but large enough to have weight. In addition to feeling part of the philanthropy, your young board members will learn valuable skills, from how to read an annual report to how to set disbursement policies and benchmarks.

Ideally, we teach our children that supporting a cause involves an investment of time as well as money. In an effort to teach our youngest children about giving back to the community, Mandy and I helped our sons Keanu and Tristen form their own non-profit organization. Not only have my children and the numerous other kids that have joined the effort learned empathy, but their eyes have been opened to what the world is like for so many other children, locally and internationally. They want to make things better.

Turn Kindness On

In 2001, my family launched the non-profit foundation Turn Kindness On (TKO). Our mission has been to motivate children of all ages to change their world through volunteer work, and to channel their naturally empathetic spirit so that they may begin to build a lifelong enthusiasm for community service. TKO embodies our belief that the best way to teach children about the power of service is to engage them in meaningful projects within the community.

As the world changes, it's easy to become isolated from each other and forget that each of us is connected in our humanity. I truly feel that active community involvement helps children learn that the elements that make us all similar are far more important than those that divide us. It also lands the lesson that philanthropy can be an essential part of personal financial management.

Once a month my sons, along with other children and their families, get together to make and distribute sandwiches to the homeless in downtown Los Angeles and Santa Monica. Other TKO activities include collecting and distributing gifts and necessities to underprivileged children; organizing play days with children who have muscular dystrophy; and helping with local beach cleanup projects.

The foundation launched a Kindness on the Go program that seeks to inspire random acts of kindness. This can be as simple as making a point to smile at someone or hold a door without being asked. What's most impressive is to see how these little efforts inspire others to show a bit of kindness to the next person.

We also organize special giving projects with a personal and memorable twist. For example, on the heels of National Grandparents Day, my sons brought their grandparents back to their childhood home of New York City to give back to that community. In the weeks before heading out on the red-eye from Los Angeles, our TKO team reached out to friends and asked them to collect any gently worn business attire they were willing to donate. Thousands of dollars of custom suits, ties and women's business wear were collected, filling two huge duffle bags for my boys to take to The Hope Program, a Brooklyn-based non-profit organization that helps New Yorkers transcend poverty and prepares them to find careers.

During their visit, the TKO team got a chance to talk to both the staff and members of the program. One gentleman in particular really touched Keanu and Tristen when he said, "It is a wonderful thing that you are doing at such a young age. I wish I had done something like this when I was younger. I probably would not have made the poor choices that I made in my life which put me into this position. God bless you and thank you."

When teaching our kids to have empathy, we extend beyond our local geographic area. We encourage our sons and their friends to research global issues and to reach out and help needy children around the world. Like anything else in life, if someone is not exposed to something, they are afraid of it. We are trying to share with our children that the life they are privileged to have is not the life that everyone in the world is fortunate enough to experience.

Mandy's blog entry from our visit to an Indonesian Birthing Center:

"We visited the Widya Guna Orphanage and we were overwhelmed with the sweet and gentle words of the young children. At this orphanage, there is a one-classroom school for over 85 students and the kitchen (only 8 feet by 6 feet) is where all their meals are prepared. We arrived with a truck load of fruits, vegetables, rice and powdered milk to donate. We also distributed basic supplies such as soap and toothpaste, after learning that the children share their toothbrushes with 10 others and replace them every three months. While at the orphanage, we also learned that it only takes $1 to educate a child for two months and $27 to sponsor a child's needs for an entire month (covering housing, food, medical and education). The children we met were happy and polite and when offered the toys and school supplies we had brought, they made sure that the handicapped children received items first, then the girls, and then lastly, the boys. The children were all so appreciative and thanked each of us with brightly beaming eyes."

"One of the most eye-opening things for us was learning that the amount of money our family spends on a week's worth of groceries in California can supply food and drink for all 85 orphans at the Widya Guna Orphanage for an entire month. In addition to the food, we were happy to bring them stuffed animals and sports supplies."

-Mandy Ellen, TKO Founder, *www.TurnKindnessOn.org*

Through a TKO program called Kids-to-Kids, we visit poverty-stricken areas of the world's most beautiful destinations to donate money, food, toys and supplies. We are fortunate enough to have the financial means that allow us to travel to luxurious and fascinating locations. However, within just a short walk from our hotel, we are almost always struck by significant hardship and scarcity. During a visit to Bali, in addition to enjoying the

splendor of the island, we visited their local orphanages. Watching my 11-year-old son reach into his wallet and hand over $100 of his own money to the director of a birthing center meant more to me by a landslide than any business success I could achieve in a lifetime.

Although the hours Mandy and I put in to create, coordinate and execute the events have been long, the rewards have been well worth it. Over the years, we have traveled around the world, from Hawaii to Kenya to Indonesia, taking time at each venue to serve the communities we visit. We feel blessed to have an opportunity to use our gifts to help others and teach our children how they can make a difference in their world. Without a doubt, we know our travels far and near make our hearts bigger, and we are encouraged as our sons always want to do more for others. It is important as parents to be good role models, and now our children and the friends of TKO have become role models as well, who understand they can change their world through volunteering and making a lifelong commitment to community service.

We were put on this earth to do more than just make money—to make a difference in the world. For our family, TKO and these types of activities are our passion. I urge you to take the time to identify what is important to you and where your real passion lies. Once you've done that, you can explore and articulate the values and vision behind your financial or charitable goals and intentions. When you model this kind of behavior, you will inspire and empower your heirs to carry forward and build upon the foundation of your vision.

Teamwork!

Whether working with business colleagues, family or the community, I am convinced we are better and achieve more together.

Business

Since no one can be an expert in all areas, for more than 25 years we at American Financial Network have been bringing great minds and resources together in the form of two national networks to help other advisors step up their game. The first is the Financial Solutions Alliance (FSA), which gathers experts from financial,

business and legal areas to work together on behalf of clients. Each expert brings a different type of expertise, and the client's specific situation and needs determines which member of the alliance is brought in to work on a particular project. The second network is the Collaborative Services Platform (CSP). The CSP is an initiative through which already successful advisors can learn how to expand the services they provide to their high-net-worth and business-owner clients and provide even more value. As part of the CSP, these advisors have access to the FSA team of experts who can partner with them to provide consulting, solutions and implementation in complex tax and benefits areas.

Family

I urge clients to include family as part of their decision-making team when it comes to long-term financial planning. This kind of group effort ensures that children understand the family's financial situation. Young children will learn to understand financial issues and will become more financially responsible. Older children can begin to understand the family's values and how to manage their own personal finances as well as the family legacy. Adult children, especially if they've been involved from their early years, will be active participants in decision-making.

Community

As mentors, volunteers, fundraisers and leaders, we lend our unique skills and perspectives to the challenges and opportunities facing our neighbors. If we truly care about making a difference, we need to involve ourselves in the work of the causes we care about. Taking on the serious social challenges we face requires a team approach in which we each embrace the hard work necessary to have a real impact. And remember, our power to make a meaningful difference grows exponentially as we pass on the value of service to our heirs so that they may continue the effort.

End Notes

[1] Tax Code Section 408(d)(8)(A).

[2] Tax Code Section 170(f)(2)(B).

[3] The Staff Of The Joint Committee On Taxation, "Technical Explanation Of The Revenue Provisions Contained In The "American Jobs and Closing Tax Loopholes Act Of 2010," For Consideration On The Floor Of The House Of Representatives," May 28, 2010.

* Disclosure: Securities America and its representatives do not provide tax or legal advice. Any tax or legal information provided here is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Tax law is subject to frequent change; therefore it is important to coordinate with your tax advisor for the latest IRS rulings and specific tax advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation prior to undertaking an investment plan.

Disclosure: The risks associated with premium financing include:

- Interest rate risk—if loan interest rates increase more than projected, the client could be required to pay more money into the program and/or provide more collateral than originally anticipated. If sufficient funds and/or collateral are not available to make up the shortfall, the entire loan could be called, causing an early repayment of the loan.
- Collateral risk—if the value of the collateral falls below the level required by the lender to satisfy the loan, the client could be required to provide additional collateral. If sufficient collateral is not available to make up the shortfall, the entire loan could be called.
- Asset risk—if sufficient funds and/or collateral are not available to repay the loan, other assets of the client may be at risk of being forfeited to satisfy the outstanding loan balance.
- Earnings risk—if the cash surrender value of the life insurance policy does not grow sufficiently to keep pace with the outstanding loan, the client is at risk of not getting as much coverage as expected once the loan is paid off or having no insurance coverage at all and having to come up with additional funds to repay the balance of the loan.

- Policy Design risk—policy pricing in regard to the cost of an increasing death benefit can effect the policy's premium requirements and not guarantee that the policy will keep pace with the outstanding loan balance.

- Loan Underwriting risk—loan renewal is subject to the lender's underwriting guidelines; the lender's appetite for continuing to fund insurance premiums, and the client's financial situation. There is no guarantee that the lender will renew the client's loan nor that any lender will offer a new loan to continue the premium financing. In this event, the client would be required to repay the loan at a time other than death and from funds other than the insurance policy.

- Reinsurance risk—if an increasing death benefit is used to keep pace with the outstanding loan balance, the ultimate death benefit may have to be underwritten upfront. If the client does not qualify for the required amount of reinsurance due to medical or other reasons, they may be limited to the amount of coverage available to repay the loan. Even if they do qualify, there may not be sufficient reinsurance available in the marketplace to satisfy the ultimate need, which would limit the amount of insurance that could be purchased up front.

Brett S. Ellen
CFP®

Brett S. Ellen, a financial advisor promoting social responsibility, is the president and chief executive officer of American Financial Network (AFN). Regarded as a visionary leader in the financial services industry, Brett has been successfully providing financial planning solutions to clients for more than 25 years.

American Financial Network (AFN), an independent financial solutions firm, offers custom and comprehensive financial planning, wealth management, risk management and corporate benefit planning services through Securities America Advisors. As advisors with Securities America Advisors, Inc., AFN provides unbiased investment advice and has the ability to partner with other accomplished financial service professionals, offering more options and financial planning solutions. As a result, American Financial Network has effectively grown to support both individual and corporate clients representing a great number of highly successful corporations, executives and business leaders.

Individual clients have entrusted Brett and the professional advisors at AFN to set up comprehensive financial plans focusing on key areas such as retirement planning, college planning, estate planning, tax strategies and insurance. Corporate clients have grown to rely on AFN for compensation and benefit planning solutions; including qualified 401(k) and

profit sharing plans, deferred compensation, executive bonus plans, captive insurance, exit strategies and more.

Brett upholds a proactive hands-on approach to his practice, staying in-touch and involved with his clients and the communities where they reside. He has been an active participant in Business Forums International, in addition to founding and running his own networking business group, the Financial Solutions Alliance (FSA).

Over the years, Brett has supported many charities including the American Cancer Society, Big Brothers and the Muscular Dystrophy Association (MDA). He and his wife Mandy, inspired by their children Keanu and Tristen, formed their own non-profit called Turn Kindness On, an organization that fosters community involvement and social responsibility in young children. As a frequent volunteer for schools and educational causes, Brett has taken on the role of The Kids Finance Coach™, and through his online blog, KidsFinanceCoach.com™ and classroom appearances, he offers fun interactive programs that teach kids about money, finance and helping others. Recognized for his philanthropic endeavors and dedication toward making a difference, in recent years, Brett received the prestigious Humanitarian Award from the MDA and was presented with The Community Leadership Award in Mentoring Excellence from *Investment News* magazine.

With mounting accomplishments as a financial planner, Brett has been repeatedly recognized as a top producer and financial representative year after year by broker/dealers, investment firms and financial industry magazines.

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American Financial Network

An Independent Financial Solutions Firm

23975 Park Sorrento, Suite 250, Calabasas, CA 91302
(800) 585-3326 | bellen@afn-net.com | www.afn-net.com

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Ellen, who believes strongly in giving back to his community, received the 2009 Investment News Community Leadership Award in Mentoring. He and his wife Mandy, inspired by their children Keanu and Tristen, formed their own non-profit called TurnKindnessOn.org which promotes community involvement and social responsibilities in young children. Ellen also writes a finance blog for children, KidsFinanceCoach.com™ to help them understand important concepts and become financially literate and responsible adults. He has been featured in and contributed to numerous consumer and industry publications including *The Wall Street Journal, L.A. Business Journal, Investment News, Morningstar Advisor* and *Forbes.com.*

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