

WEALTH TRUST

ARIZONA QUARTERLY

Winter 2011-2012 Edition



AN UNBALANCED EUROPEAN ECONOMY:

How What Happens in Europe
Can Affect U.S. Investors

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In order to keep you informed on the latest information about WealthTrust-Arizona, we have established Twitter & LinkedIn accounts to feed you information about upcoming events, educational videos, news releases, and articles relating to your financial portfolio.



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LETTER FROM WEALTHTRUST-ARIZONA'S CEO

Dear Clients and Friends of WealthTrust-Arizona,

I recently began my second year as Chief Executive Officer of WealthTrust-Arizona. While I am a strong believer in looking forward and not dwelling on the past, I also believe that to anticipate the future, we need to understand the past.

When I assumed the role as WealthTrust CEO, one of the first things I did was to implement a Client Satisfaction Survey, with the goal of getting honest feedback from clients. I wanted to hear about what they thought we were doing right – and what they felt we needed to do differently.

I was heartened with the response we got to our inaugural Client Satisfaction Survey. Almost one-third of our clients took part, which is a very high response rate. You told us that, while you appreciated the level of expertise WealthTrust-Arizona professionals brought to their day-to-day duties of wealth management, you also felt we could improve communication. I also received similar feedback via e-mail and in person, from clients I spoke with at WealthTrust-Arizona events and when they came into our offices.

We have taken all of that feedback seriously and have taken significant steps to offer more timely, continuous and efficient communication strategies with clients. We hope you have noticed some of the changes we have instituted in the wake of those survey results:

- We have converted to a more comprehensive portfolio accounting system to provide you with better analytics and information on your accounts.
- We distribute weekly e-mails to keep you updated on the latest financial and economic news.

- We have intensified our social media presence, using outlets like LinkedIn and Twitter to give you faster information on what is going on with the market and WealthTrust-Arizona.
- We have taken steps to improve our website on a continuing basis with new articles, independent political commentaries, market updates and educational videos, to name just a few.

We have also strengthened our lineup of workshops on issues which have a tangible impact on your financial well-being, hopefully bringing you invaluable information. We understand that many of our clients, especially those who live outside of Arizona, are not able to attend these workshops but would benefit from the information presented. As a result, we now videotape our workshops and post them on our website.

Early next year, we will be conducting a follow-up Client Satisfaction Survey as we continuously seek your input into improving our services. The results will help us prioritize further enhancements.

I remind you of our mission at WealthTrust-Arizona – to successfully integrate fee-based financial planning services with effective estate planning strategies, all geared toward creating an holistic, multi-pronged approach designed to help you meet your financial goals.

On behalf of the entire WealthTrust-Arizona team, I would like to wish you a wonderful Holiday season and a prosperous 2012.

Best,

HOLLY D. DEEM
Chief Executive Officer
WealthTrust-Arizona



HOW WHAT HAPPENS IN EUROPE AFFECTS YOUR PORTFOLIO

Europe is a key market for U.S. exporters. Collectively, the members of the European Union are America's largest trading partner (after Canada) with \$240 billion in exports in 2010, accounting for 19% of the total of U.S. exports.

While the United States continues to dig our way out of our own economic mess, more and more of us are paying attention to the economic woes affecting Europe. These days, many Americans are no doubt asking themselves, "Why should I care? How is it possible for the financial problems of countries so small and so far away to lead to such turmoil in the world's markets?"

It turns out that what is happening in Europe is having a tangible impact on your portfolio, no matter how well diversified you are or the quality of your current holdings.

Portugal, Italy, Ireland, Greece, and Spain (which are known as the PIIGS nations) are struggling with the situation that years of deficit spending have created. While a prosperous global economy helped to hide the problem, the burden of sovereign debt

(bonds issued by sovereign governments) has become increasingly unsustainable. Greece is in particularly bad shape, especially after austerity measures imposed by the country's European colleagues added to its economic woes. In turn, it is now harder to achieve mandated deficit reduction targets in order to qualify for additional installments of financial aid from the European Financial Stability Facility (EFSF) which was established last year by 17 Eurozone countries. Currently, Greece's debt stands at roughly 140% of its gross domestic product.

Bank exposure

One of the main concerns about the chance of default on sovereign debt has to do with the financial stability of the banks that hold that debt. Some of France's largest banks have already seen their credit ratings downgraded, due to their vast holdings of debt from Greece and other European countries. A Greek default could make banks reluctant to lend to one another, which could have an adverse effect on worldwide credit markets.

While it is true that American banks hold relatively

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Europe is a major market for many American companies, and a recession there would not help an already slowing global economy.

little debt compared to their European counterparts, they could face other challenges. To understand why, you need to have a basic understanding of what is called a credit default swap, which is a type of derivative. Investors with extensive bond holdings from one borrower will often try to protect themselves against the possibility that borrower will default, by buying a credit default swap on their debt, as a type of insurance. The company which issues the credit default swap agrees that, in the case of a default, they will cover the bondholder's losses. The more risky the issuer (like Greece, for example) the more likely it is that bondholders will turn to swaps for protection. In some cases, though, a company may have issued so many default swaps on a particular issuer that it might be overwhelmed by the claims resulting from the issuer's default. Such derivatives can create a ripple effect in some financial markets. If the issuing company cannot make good on their swaps, the institutions which relied on that protection can also find themselves in trouble. This can multiply the impact of a major default.

United States financial institutions are major issuers of credit default swaps. The potential impact of a Greek default is unclear. Since the 2008 financial crisis, U.S. banks have been forced to hold greater capital reserves to deal with contingencies. Recently, United States Treasury Secretary Timothy Geithner said that banks in this country have reduced their exposure to the debt of troubled countries.

The potential for tighter credit leading to a recession

Lending on a worldwide basis has yet to recover from the 2008 financial meltdown, helping to keep the global economic recovery anemic, at best. Fiscal austerity measures designed to reduce deficits have also taken their toll, as they have impeded economic growth and made it even more difficult for countries like Greece to balance their budgets. If the lending ability of banks were to be restricted by a financial crisis brought on by

a default on a sovereign debt, the resultant tighter credit could increase the odds of renewed recession. Europe is a major market for many American companies, and a recession there would not help an already slowing global economy.

Is Greece the tip of the iceberg?

While Greece is, understandably, at the center of attention in the current conversation about sovereign debt, other European countries could actually represent a larger threat to the world's economy. For example, Italy and Spain are both facing deficit problems and sovereign debt issues.

Spain's economy is more than four times larger than Greece's, and Italy's is more than five times larger. If either Spain or Italy were to decide to restructure their debts as Greece is attempting to do – which ratings agencies could perceive as being a form of default – it would have a much bigger impact than Greece's actions. If a Greek default could be said to have a ripple effect, a default by either Italy or Spain could cause waves.

As investors have become more and more concerned with the possibility of debt contagion in Europe, borrowing costs for both Spain and Italy have risen.

Nervous investors at recent auctions have been demanding higher interest rates, to compensate them for the higher risk – or at least, perceived risk – of buying that sovereign debt. As anyone with a credit card can tell you, when you pay a higher interest rate, it makes it more difficult to pay off debt and balance a budget.

If Greece defaults, investors could become nervous about buying the debt of other nations, and being frozen out of credit markets could worsen fiscal problems overseas.

All politics is local

In the recent past, voters in countries with stronger economies, such as Germany, have begun to question why they should continue to show support for countries which have been undisciplined when it comes to balancing their budgets.

Investors seem to be concerned that the available financial support from the EFSF may not be sufficient, or available quickly enough to head off problems. There have been several suggestions for ways to deal with this situation, including issuing euro

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bonds backed by Eurozone members, leveraging the existing assets of the EFSE, stronger fiscal integration among countries and Greece returning to its own currency. But there have also been questions about the willingness and ability of other nations to support the weaker members of the Eurozone, which has caused anxiety among investors around the world.

It is a maxim that financial markets dislike uncertainty, and European financial issues have contributed to volatility in a variety of asset classes which are not

always in sync. Europe had the advantage of watching from afar as the U.S. dealt with the 2008 financial crisis. For the most part, European political leaders have made it clear they will defend the Euro at all costs.

Uncertainty about Europe could persist for months, but it is important to keep it in perspective. While you should monitor the situation, do not let every twist and turn derail a carefully constructed investment game plan. **WTAZ**

A MINUTE WITH...DON BERTRAND

VICE PRESIDENT - SENIOR FINANCIAL ADVISOR

Q: *Why did you become a financial planner?*

A: This job requires strong analytical skills, and a broad understanding of the investment landscape. Less well-appreciated though, I think this job requires good people skills inasmuch as you need to show empathy and understanding, and be able to articulate a message in a clear and understanding way. I think that is why I gravitated to this business. I do like people, and I care enormously about doing a good job for my clients.

Q: *What is the biggest issue facing clients today?*

A: With interest rates at historic lows, people are searching for a steady, predictable stream of income. It sounds obvious to say that interest rates have nowhere to go but up; but here at WealthTrust-Arizona, we are also concerned about the prospect of rates continuing to fall from here.



Q: *What are you doing to help them overcome that issue?*

A: With the Fed committing to keeping interest rates exceptionally low at least until 2013, we feel comfortable keeping some of the longer duration investment in client portfolios. Also, dividend yields on stocks look attractive when compared to treasuries, certificates of deposit and cash.

Q: *What is one thing everyone should know about you?*

A: I try to think globally. Some of the most influential moments of my life came from time spent in a small village in East Africa, and again from my experiences in Belgium. What I took away from those experiences was that while we may all have different values, and different points of view, most people all want the same things out of life.

Q: *When you are not at work, you can be found....*

A: I have two energetic boys at home, and a beautiful wife. So when I am not haunting the halls of WealthTrust-Arizona, I can probably be found chasing the monsters up in Desert Ridge.

PORTABILITY AND TAKING ADVANTAGE OF CURRENT ESTATE AND GIFT TAX LEGISLATION

Written by Megan Thornes, Attorney at Colby & Thornes, PLLC

For 2011 and 2012 only, within nine months of the death of a spouse, a surviving spouse can elect to rollover for use on the surviving spouse's death, any unused portion of the \$5 million estate tax exemption of the first spouse to die (which is called "Portability".) Capturing Portability allows the surviving spouse to add the unused portion of the estate tax exemption of the first spouse to die to increase the amount of estate tax-free assets passing to the heirs of the surviving spouse. Since the estate tax exemption of the surviving spouse reverts to \$1 million in 2013, Portability is an important tax benefit that should not be ignored. To capture Portability, a surviving spouse must make a timely election on a timely filed estate tax return - within nine months of first death. If you would like more information on Portability, please contact your WealthTrust-Arizona Financial Advisor.

In addition, 2011 and 2012's generous gifting allowances provide opportunities for tax-free gifts to your children and/or qualified public charities that have not previously been available and likely will not be available in the future. Here are those opportunities:

- **Estate Tax Exemption for 2011-2012.** The estate tax exemption is increased to \$5 million per person with a top tax rate of 35% on property in excess of \$5 million.
- **Estate Tax Exemption for 2013-Forward.** For 2013 and moving forward (absent Congressional change) the estate tax exemption goes down to \$1 million per person with a top tax rate of 55% on property in excess of \$1 million.
- **Lifetime Gift Tax Exemption for 2011-2012.** Each spouse can utilize their lifetime gift right of \$5 million (this is a one-time gift right, per spouse and not per beneficiary, available only in 2011 & 2012.)
- **Lifetime Gift Tax Exemption for 2013-Forward.** In 2013 and moving forward, (absent Congressional change) the lifetime gift right goes back down to \$1 million per spouse (again, this is a one-time gift right, per spouse.)

...a surviving spouse can elect to rollover for use on the surviving spouse's death, any unused portion of the \$5 million estate tax exemption of the first spouse to die...



- **Annual Gift Tax Exemption.** Each spouse can utilize the \$13,000 annual gift tax exclusion by making gifts of \$13,000 per donee, to an unlimited amount of donees.
- **IRA Charitable Rollover.** The IRA Charitable Rollover is available through the end of 2011, allowing individuals over age 70½ to rollover up to \$100,000 directly to qualified public charities. These rollovers are not included in the donor's income but do count towards the donor's required minimum distribution.

If you have questions or would like additional information please contact your WealthTrust-Arizona Financial Advisor.

NEW EDUCATIONAL WORKSHOP VIDEOS AVAILABLE ONLINE



Webcast videos of the 2011 WealthTrust-Arizona Fall Educational Workshop Series are now available on our website in an effort to keep you up-to-date on the latest news and trends in the wealth management field.

To view the videos that are currently available, follow these easy steps:

1. Visit www.wealthtrust-arizona.com
2. Click on our events page
3. Select the video you would like to view
4. Click Play and enjoy

We intend on continuing to offer educational workshops on various topics, designed to deliver real-world advice on important issues. We look forward to working with our exclusive partners on another series of workshops in 2012, and will keep you informed of the details once a schedule is set.

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