January 2010

NATIONAL ADVISORS TRUST

TRUST Connection

A Monthly Report on Trust News and Information

We are pleased to welcome in the new decade by underscoring our commitment to providing valuable and locally responsive trust services to our mutual clients. We are doubly committed to delivering a world-class, clearly different trust services model in conjunction with you, the local estate planning professional, National Advisors Trust as the trust administrator and Matrix Wealth Advisors as the local investment management professional. We observe every day, confirmation of this structure being the preferred model going forward for more and more clients to meet their unique trust needs. If you haven't already, I want to personally invite you to take a closer look at the trust services model we have collectively created. You are definitely an important and critical part of that model. Happy New Year!

— *Ron Ferguson, CEO of National Advisors Trust*

Investments in Alternative Asset Funds: Advising the Deceased Client's Estate

By: S. Brian Farmer and Lisa J. Hedrick*

When an investor dies holding an investment in a hedge fund or other alternative asset fund, significant complications can arise to the estate, the executor and the investment advisor advising the executor. As an estate planning professional or CPA, you will work with the investment advisor as they serve a key role in assisting the executor, who is tasked with managing and disposing of this non-marketable, difficult-to-value asset. Common difficulties include the following:

Ongoing Capital Obligations. The obligation of an investor to contribute additional capital to an alternative asset fund usually becomes an ongoing obligation of the estate. Non-payment typically results in severe penalties, including forfeiture, suspension of distributions and/or interest on unpaid contributions.

Manager Claw-Back. A claw-back allows the fund manager in certain situations to "claw-back," or recover from the investor, cash distributions previously paid to the investor.

Voting and Transfer Restrictions. Generally, a transferee of a fund investment, such as the estate, holds economic rights only and not voting rights. Additionally, liquidation and transfer of fund investments is likely restricted or prohibited. The inability to redeem or sell a fund investment could force the estate to remain open for the term of the fund, when liquidity is finally accomplished.

continued, page 2

Matrix Wealth Advisors

TRO Contacts

Giles K. Almond, CPA/PFS, CFP®, CIMA®, President

Janice McGunnigle, CTFA, CFP®, Financial Planner

About Us

Matrix Wealth Advisors uses a personalized, principle-centered process to offer comprehensive financial planning and investment management services that help clients achieve life goals. Matrix is a fee-only, fiduciary firm and is compensated solely by its clients.

Continuing Education Teleconferences

Feb 4: 12:30 - 3:00 pm
Planning Under New Estate Tax Legislation
[2.0 CE/CLE Credit Hours]

Feb 23: 12:30 - 2:30 pm
Creating Wealth by Legal Means, Through Shifting Wealth by Legal Means
[1.5 CE/CLE Credit Hours]

Space is limited.
Please RSVP via email:
dbarrow@matrixwealth.com

Free parking available, lunch will be provided.

Valuation and Estate Tax Concerns. The entire fair market value of the investment is includable in the estate for purposes of calculating the estate tax. Valuation of investments in private equity and real estate funds is often difficult because those funds typically invest in hard-to-value business ventures and other illiquid property. Hedge fund investments are typically easier to value because most hedge funds invest in marketable securities.

Competing Interests. The executor's fulfillment of fiduciary duties to the estate may be challenged if one heir wants the estate to continue holding the fund investment and another heir wants the estate to liquidate or stop making contributions to the investment.

Investment advisors have the unique opportunity to guide executors by developing information on a fund investment related to capital contribution obligations, claw-back risks and valuation indicators. Additionally, investment advisors can facilitate communication between the estate and the fund management regarding transfer and liquidation opportunities. Investment advisors may be able to access buyers on the secondary market to purchase the fund investment from the estate. Investment advisors may also be able to provide data to assist the executor in valuing the fund investment for estate tax purposes. By assisting the executor in becoming fully informed of all of the benefits, consequences and implications of owning an alternative asset fund investment, the investment advisor ultimately assists the executor in determining a course of action that will achieve the best overall results for the estate's beneficiaries.

* *Mr. Farmer is a partner and Ms. Hedrick is an associate at Hirschler Fleischer, Richmond, Virginia. They regularly counsel registered investment advisors, including those managing proprietary client funds investing in alternative assets.*

CASE STUDY

A Trust That Weighs the Alternatives

As many estate planning professionals and financial advisors know – but many investors do not – transferring assets in alternative investments upon death can be a messy process at best. At worst, it can result in the conversion of a client's assets at a fraction of their potential value. Either can happen if a beneficiary's institution is not equipped to manage such investments.

Sheila Chesney, CFP®, CAIA℠, principal of Chesney & Company in Sheldon, S.C., explains a recent case in which a client's complex, diversified portfolio was transferred fully intact, and his children now benefit from the firm's consistent management of those investment assets on their behalf.

"We had worked with this client for only a few years but in that time put together a nicely diversified portfolio, including many alternative investments like oil and natural gas, timber, real estate partnerships and some private equity.

While revisiting his estate-planning goals with us, the client, then a recent widower, stated he wanted his assets to be accessed equally by his two children. As a Registered Investment Advisor and a Trust Representative Office, it enabled us to place his sizable assets into a trust held at National Advisors Trust for the benefit of his son and daughter.

It's a recommendation we make to nearly all our clients, due to the sophisticated nature of their investments. By naming National Advisors Trust as trustee, we avoid the risk of those assets being transferred upon death to something like a trust department at the local bank or some other institution that couldn't handle those types of investments. In such cases, an institution often has to sell the assets – sometimes at fire-sales prices – and convert them into a type of investment they can manage. As it turned out, the client passed away in late 2009. It was a shock to both children, but they were calmed by the fact that a plan was already in place, one that saved them a lot of strain, uncertainty and annoyance. The trust is administered with fewer costs, and we can continue to manage the assets with the same approach on the children's benefit, so that the value of their father's estate can live to see its potential."

Find Out More

Find out more about working with Matrix Wealth Advisors today and get started recommending a better trust solution to your clients tomorrow. Please call us at 704-358-3322 or visit us online at www.matrixwealth.com.