



THE COMPASS ROSE

COHEN & BURNETT, P.C. NAVIGATOR WEALTH MANAGEMENT, LLC

ESTATE AND FINANCIAL PLANNING UPDATE

Fall 2008

Volume 2



FOUNDING PARTNER

I. Mark Cohen JD, LLM & CFP™

By the time you are reading this, Kathy and I are empty nesters for the first time. Both Michael and Rachel are now at William and Mary in Williamsburg where Rachel is a Freshman and Michael is a Sophomore. Michael will be staying at the AEPi Fraternity Lodge this year. Although there is a kitchen in the lodge and he is planning on cooking some of his meals, he still has his meal card!

Rachel is keeping busy with academics and social life and getting to know her roommate, Cathy in the Freshman dorm, DuPont Hall. Kathy and I recently took a vacation trip to Cape Cod, MA and Newport, RI. We had a lovely time touring the quaint villages, biking, kayaking, sailing, and walking. We took a fast ferry to Martha's Vineyard on a sunny day and had a great time hanging out at Oak Bluff and Edgartown, watching the boat traffic in and out of the busy harbor.

The weekend before school started, Michael and I went on a backpacking trip in the Shenandoah National Park where for once, it did not rain. We did, however, have a close (but not too close) encounter with a momma bear and her three cubs. Fortunately, our food, which was securely tied in a tree, was still there for us in the morning.

Many of you have been asking if we will be doing seminars again. With all the changes going on in the markets, we thought it would be a good idea to educate our clients about modern portfolio theory and how by adding non-correlated asset classes to your investment portfolio you can expect to reduce risk and increase returns. If you are interested in this topic, please call and reserve space in our next financial planning seminar.

As Thanksgiving fast approaches, I'd like to be one of the first to wish you and yours a happy and abundant season. We are very grateful for your business and your confidence in us. ❖

New Cohen & Burnett Website Showcases Real Client Stories

Although many people reading this newsletter know a thing or two about estate plans and trusts, many others are just embarking, or deciding to start on the journey to safeguard their family legacy and finances.

The recently redesigned Cohen & Burnett (C&B) website: www.cohenandburnett.com is certain to be a valuable source of information for those learning about the firm's areas of expertise and deciding if C&B's services are what they need as told through the eyes of real* clients' real experiences with the firm.

Besides real client examples, the site underwent a dramatic content and visual transformation, now including special sections: **Free Seminars** which lists a schedule of topics being presented at the C&B offices (i.e. How To Leverage



Your Wealth Without Additional Tax, etc.), and **News, Trends and Important Advisories** (which will be updated every quarter with notices and changes in laws that could affect their clients).

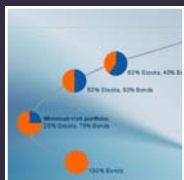
www.cohenandburnett.com also has a site map for the first time ever, along with links to other internet sites of importance (i.e. the IRS, and the Commonwealth of Virginia statutes site). Additionally, the new site hosts a comprehensive library of the firm's archived newsletters dating back to 2002. An easy reference index of the newsletters' individual articles is forthcoming.

"The revised C&B website was designed as a multi-use tool for current clients and potential clients alike," said Susan Greco, Director of Business Development. Any feedback or new ideas for the new site can be sent to susang@cohenandburnett.com. ❖

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**The actual names of clients have been changed to preserve confidentiality and protect their identities.*

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THE NORTHWEST QUADRANT

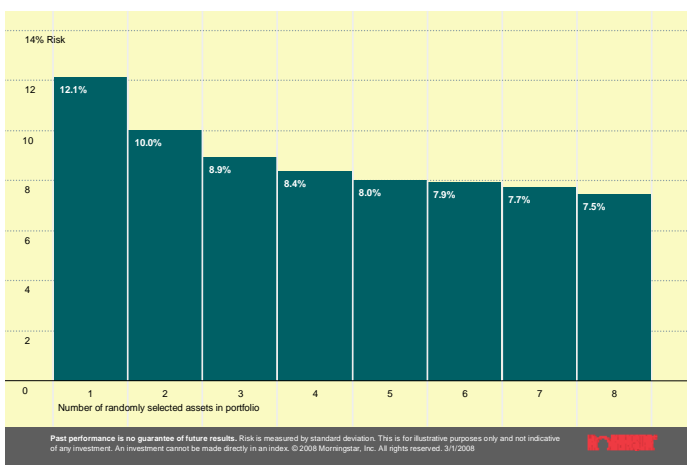
Larry Solomon, MBA, CFP®

Last quarter I introduced the concept of measuring manager risk and return vs. a benchmark, and plotting the results to identify those managers with higher returns and lower risk, (i.e. in the northwest quadrant of the graph). This quarter, I want to demonstrate how to use this same framework at the portfolio level to measure risk and reward, and how to achieve lower risk and higher returns with asset allocation utilizing a “building block” approach to diversification.

Asset allocation is the process of developing a diversified investment portfolio by combining different assets in varying proportions. An asset is anything that produces income or can be purchased and sold, such as stocks, bonds, or certificates of deposit (CDs). Asset classes are groupings of assets with similar characteristics and properties. Examples of asset classes are large-company stocks, government bonds, or precious metals. Every asset class has distinct characteristics and will perform differently in response to market changes. Therefore, careful consideration must be given to determine which assets you should hold and the amount you should allocate to each asset category.

Diversification is the strategy of holding more than one asset class in a portfolio in order to reduce risk.

Reduction of Portfolio Risk



The chart above depicts the relationship between portfolio volatility, measured by standard deviation, and the number of asset classes in a portfolio. Standard deviation measures the fluctuation of returns around the average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

You can limit the effect that any individual security or asset class may have on the performance of a portfolio by investing in a combination of asset classes. As a result, declines in one or two assets may be offset by increases in others. Notice that as the number of randomly selected assets in the portfolio increases, the risk level decreases. While it is impossible to completely eliminate risk, diversifying your investments can reduce the overall volatility experienced in your accounts. ❖

Watch for the AMT!

Greg Armstrong, Manager of Finance

The last several years have been marked by legislation making numerous changes that have been helpful in reducing your regular federal income tax bill; they didn't do much to reduce the odds that you'll owe the dreaded alternative minimum tax (AMT). It is important to review your personal tax situation during this tax changing landscape. Taking a fresh look at the potential contributing factors behind the AMT can suggest traditional planning strategies that may help trim or maybe even eliminate the burden of AMT. Because the AMT rules are complicated (and because they will probably be changed again for the 2008 tax year), you may want our assistance.

Although the AMT was intended to apply to high-income taxpayers who take advantage of loopholes, it can also apply to all taxpayers who have not engaged in some tax planning. In fact, the AMT is hitting more and more taxpayers each year. It's critical to evaluate all tax planning strategies in light of the AMT rules before actually making any moves.

You're likely not familiar with all of the issues surrounding the AMT. That's not a good thing. Ignorance isn't necessarily bliss in this case. So, let's take a snapshot to see where you and the AMT might meet.

The characteristics most likely to give rise to AMT liability for "ordinary" taxpayers who do not operate businesses are:

- large numbers of personal exemptions;
- large amounts of state and local taxes paid;
- large amounts of miscellaneous itemized deductions;
- large deductible medical expenses;
- the bargain element of Incentive Stock Options;
- large capital gains.

2008 Taxable AMT Income	Rate
\$1 to \$175,000	26%
Over \$175,000	28%

NOTES:
\$45,000 for married couples (joint filing) \$33,000 for unmarried.
Exemptions are phased out for higher income taxpayers.
These AMT exemption amounts could be affected by changes in proposed Congressional legislation.

If you have any of these issues on your tax return, or any combination of them, you could have the unpleasant obligation of paying the AMT.

Computing AMT is complex. We can help you evaluate your potential exposure and provide further tax saving suggestions to help you with your 2008 tax reporting needs. Strategies will be effective only if they are implemented before the end of 2008. So make your move now and focus on tax planning. We stand ready to help! ❖



MANAGING PARTNER

Weston D. Burnett JD, LLM & CFP®

I have the honor of serving as a member of the Board of Directors for St. John's Community Services, Inc., which was founded in 1868 by the parishioners of St. John's Episcopal Church, the "Church of the Presidents," in Washington, DC to assist people in the aftermath of the Civil War. From its beginnings as a hospital, then an orphanage and later a school for children with intellectual disabilities, SJCS has grown into a not-for-profit, nonsectarian human service agency that provides innovative community-based services to children and adults with disabilities in D.C., VA, PA and TN. On November 6, 2008 from 5:30 to 9:30pm, SJCS has reserved DAR Constitution Hall in D.C. for its 140th year Anniversary celebration bringing together representatives of the visual and performing arts to celebrate the achievements of all people living with disabilities and those who provide support for their full inclusion into the community. The evening will feature: 1) a VIP reception with eight-time blues piano award winner Henry Butler; 2) a nationally renowned art show and sale of pieces by established and newly discovered talent for a wide spectrum of people with and without disabilities; and 3) followed by a concert by internationally acclaimed, four-time Grammy award winners, The Blind Boys of Alabama. A sponsor for \$140 buys a ticket to all three events and supports the admission of people living with disabilities from throughout the area, including wounded veterans from Walter Reed Medical Center. For further details, please get in touch with me or visit the SJCS website at www.sjcs.org.

Our office has had some exciting changes since our grand opening and rebranding in June. We unveiled our new Cohen & Burnett website (learn more on page 1) and have begun distributing our new Navigator corporate brochure which outlines the benefits of our holistic approach to wealth management while incorporating our new look and identity. For those of you who are Dunham investors, you should have all received your invitation to our Client Appreciation Event with Jeffrey Dunham, on October 10, 2008 at the Cosmos Club in D.C.

On the family side, the last few months were fantastic. Barb's clan gathered in Pensacola for her parents' 60th wedding anniversary. Fourteen of us had a terrific time at the beach and driving her brother's gearless electric prototype motorbike. My mother's clan, over 37 of us, gathered at Sky Top in northeastern PA in late July. In early August I was with 20 plus relatives from my father's side in NH for a weekend reunion. In between all of that, Barb and I snuck off for a cruise in the Baltic visiting nine countries, many of which we had not visited before, since the last time we did the Baltic there was still an Iron Curtain. We were celebrating our 35th wedding anniversary. For myself, I will do the Seagull Century 100 mile Bike Ride on October 4 with Mark and both of my sons. I intend to draft behind my sons the whole way. In late September, I have the enviable task of presiding for the first time as President over the meetings of the Board of Directors for the 22,000-strong George Washington University Law School Alumni Association.

I hope you all had a great summer. ❖

Alternative Investments: Unique Avenues to Allocate Your Wealth

Weston D. Burnett JD, LLM & CFP®



Last quarter I wrote about equipment leasing. This quarter, we will discuss managed futures funds. We have found that well-managed futures funds offer risks and returns that are comparable to diversified equity portfolios. In addition, managed futures historically have had low correlations with traditional stock and bond investments. These low correlations are exactly what we find attractive from a diversification standpoint. In studies most managed futures funds will either enhance return, decrease risk or both when combined with traditional mixes of stocks and bonds.*

In numerous studies, managed futures have the potential to provide downside protection (although losses are of course possible) along with producing positive returns. These studies also indicate the financial instruments used by managed futures are not available to stock and bond managers. History has shown that managed futures also perform well in rising interest rate markets, unlike bonds and stocks. This is a particularly important due to the fact that we are most likely in a long-term bear market to experience rising interest rates, which will eventually have a negative impact on the market for stocks and bonds. They also have a record of lower draw downs during downturns.

Futures have been used for centuries both as a risk management tool and a return enhancement vehicle. Managed futures as an investment alternative have been available primarily since the 1970s. Assets under management for managed futures have grown from \$21 billion in 1994 to about \$135 billion at the end of 2005. In 1980, agricultural futures trading approximated 64% of market activity and metals trading comprise a total of 16% currency and interest rate futures accounted for the remaining 20%. Today, global futures markets are dominated by financial futures for currency, interest rates and stock index futures and agricultural represents less than 10% of the total.

	CISM CTA EQ	CISDM HFI	S&P 500	Lehman Gov/Corp	MSCI	Lehman Global
Annualized Return	8.14%	13.36%	10.52%	6.35%	8.40%	6.03%
Annualized Standard Deviation	8.61%	7.34%	14.77%	4.50%	13.84%	5.21%
Sharpe Ratio	.49	1.29	.45	.55	0.33	0.41
Maximum Drawdown	-8.75%	-11.61%	-44.73%	-5.76%	-46.31%	-7.43%
Correlation with CISDM CTA EQ	1.00	-0.03	-0.12	0.34	-0.12	0.31

The chart above shows the historical return and diversification of managed futures (noted as CISDM CTA EQ) when considered an addition to widely diversified asset portfolios. As you can see, managed futures have had a similar return to traditional (i.e. stocks, noted as S&P 500) and non-traditional (i.e. hedge funds, noted as CISDM HFI) investments.

Please don't hesitate to contact me if you have any questions about managed futures and how this alternative investment could potentially enhance your investment portfolio.❖



Optimize Your Real Estate Potential Using a 1031 Exchange

Second in a Three-Part Series About Potentially Increasing Cash Flow and Eliminating Property Management

I. Mark Cohen JD, LLM & CFP®

In the first part of this series, we met Ann and Larry Silver and learned about their Bethesda rental property. Their pre-tax net rental income was \$717 per month which gave them a current annual yield on their \$500,000 of equity of 1.72%. They were getting tired of the management issues associated with the property and were looking to improve the return on their equity. In this issue, we will outline the three options they considered.

One option, of course, is to do nothing now and hope for continued growth in the value of the property. Although real estate is generally a good investment for keeping pace with inflation, their current yield is so low that it would take significant growth to give them a reasonable total return. They do not see such growth in residential real estate here anytime soon, so this option is not favored. They could borrow more equity out of the house, but (i) the current lending environment is not favorable, (ii) they do not want more debt on their balance sheet, and (iii) they do not want more complexity in their lives.

The second option is to sell the property and reinvest the proceeds in better producing investments. If liquidity is needed, this is the only option. They figure that the costs of sale, including commissions, repairs/improvements, and seller incentives will be about 7% of the value of the property, or \$42,000. After paying off the debt, federal and state capital gains and recapture taxes, their net proceeds from sale would be \$335,250. Invested at 7% this would yield \$1,956 per month, which is a 4.69% yield on their original \$500,000 of equity. This is a significant improvement over the “do nothing” option, and it simplifies their lives, but it irritates the Silvers to be paying over \$138,000 in taxes, leaving them wondering if they have any other options.

The third option is to exchange their property for a part interest in a large commercial property in a transaction that meets the requirements of Section 1031 of the Internal Revenue Code (like-kind

exchanges). They still need to sell the rental property, but they move their proceeds of sale (\$458,000) into a tenant-in-common interest in a large commercial property (it could be an office building, retail, multi-family, etc.) that is yielding about 7% and pay no federal or state income taxes. Their monthly yield will now be about \$2,672, a significant improvement over the other two options and one that keeps them invested in real estate with its potential for growth but leaves them free of the rental management issues.



In the next issue of *The Compass Rose* I will tell you about Like-Kind exchanges and what option the Silvers ultimately decided to pursue.*

If you or someone you know has a rental property that they want to discuss the possibility of a 1031 Exchange, feel free to contact Bob Muldoon, Investment Professional at Navigator Wealth to schedule a complimentary phone consultation: bob@navigatorwealth.com. ❖

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A compass rose is a figure displaying the orientation of the cardinal directions, north, south, east and west on a map or nautical chart. We found it fitting to name our newsletter after this recognizable symbol of navigation and direction.

If you prefer not to receive our quarterly newsletter or if you have any feedback or ideas for topics, please email Susan Greco: susang@cohenandburnett.com.

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