



A PERSPECTIVE ON WEALTH MANAGEMENT

Lowe, Brockenbrough's primary responsibility to our clients is to understand their financial goals and to provide sound advice in helping them meet those goals. Critical to that effort is structuring an appropriate portfolio asset allocation that contemplates investment objectives, risk tolerances and investment horizons. Equally important in our view is our ability to help our clients navigate through the myriad financial issues that they face outside of portfolio management, what we describe as wealth management. The value of wealth management is that it helps bring clarity to a client's overall financial picture. We consider our efforts and expertise in this regard as one of the hallmarks of our firm.

Pinning down the precise definition of wealth management can be elusive. At Lowe, Brockenbrough, we view wealth management as the intersection of significant decisions in an individual's life and his or her financial resources. These decisions arise as a result of helping our clients solve problems related to key personal, family and business-related pressure points. They may be strategic (estate planning, educational, gifting), tactical (re-financing) or brought on at major inflection points (death of a spouse, sale of a business). Whatever the challenges, we can rely on years of practical experience to help guide our clients through the complexities of these decisions. Our ability to identify and provide sound guidance is maximized when we have complete access to and understanding of a client's financial goals and personal values.

In an effort to capture the essence of wealth management as we see it, we briefly summarize some of the key elements of our wealth management efforts for clients. Our hope is that readers will gain a sense for what we believe is important in helping our clients achieve their financial goals, and to stimulate additional thoughts regarding issues that clients may need help resolving.

Retirement Planning

Virtually all of Lowe, Brockenbrough's individual and family clients are concerned with their ability to retire comfortably, and to budget accordingly. As we discuss retirement with our clients, we focus on two distinct phases - getting to retirement and getting through retirement. For those of our clients who are still in the financial accumulation phase (getting to retirement), we try to ensure that they take advantage of their accumulation opportunities in tax efficient ways. This may involve maximizing 401(k) and other retirement plan contributions, considering alternative retirement structures like Roth IRAs, or consolidating retirement plan assets to allow for more efficient management or asset allocation opportunities.

Proprietary Cash Flow Modeling

As our individual clients move from the accumulation phase to the distribution phase (getting through retirement), their primary concern is whether they are at risk of outliving their accumulated assets. We undertake extensive retirement cash flow modeling to help clients evaluate the likelihood of a positive outcome. Critical to this exercise is input from the client, as it entails a broad understanding on our part of the key factors and variables which will determine the outcome, such as post-retirement income needs and tax situation, risk tolerance and commensurate asset allocation, return expectations, disposition of assets from taxable and tax-deferred accounts, illiquidity of some investments, gifting intentions, educational demands, possible inheritance, etc.

At the end of this exercise, the objective is to structure an asset allocation that meets the income needs and risk parameters of the client over the projected life of the client. To the extent that a desired outcome is not achievable given the client's current and future financial situation set against their retirement expectations, we believe our responsibility to the client is to help them reframe their expectations in order to reach their specific goals, or to adjust those goals if necessary.

Concentrated Positions

For various clients, wealth has been created through concentrated investment holdings. Concentrations can be liquid or illiquid investments. Liquid concentrations are typically in publicly-traded stocks, usually with significant capital gains issues. Illiquid concentrations can be ownership in a private business or private equity position that gets sold to a public company. Very often, our clients with large concentrations of publicly-held securities have a large percentage of their wealth tied up in that security. With clients in this situation, we believe diversification or hedging of that risk is the appropriate strategy, usually implemented over time (though not always) and with great consideration to tax implications. In the case of illiquid concentrated positions, we are well-positioned to help clients identify various options (if so desired) for the disposition of the asset, or to seek alternate solutions for mitigating the potential financial disruption from an undesired event related to the asset.

Estate Planning

In our years of working with individual clients along with their trust and estate attorneys and CPAs, we find that often their most difficult decisions revolve around how and when to pass along assets to heirs or other beneficiaries. It is arguably the most important but least attended to aspect of financial planning, perhaps because it requires facing one's own mortality. However, there are just too many cases of financial hardship caused by a lack of estate planning for clients to ignore. We view our responsibility in the estate planning process as twofold. First, we try to encourage clients to regularly review their estate planning documents with their trust and estate attorney – wills, living trusts, other trust and tax structures – to make sure they are up to date and reflect current tax law. Second, we want to be a sounding board for client questions and concerns as they consider various estate planning strategies. For instance, clients often ask our thoughts on the thorny issues surrounding the transfer of assets to children and other beneficiaries, hoping to strike the right balance between “too much, too soon” and “too late, too restrictive”.

Gifting

Part of the estate planning process may involve acting on individual or family charitable instincts, or taking advantage of tax code structure to maximize the generational transfer of assets during one's lifetime. These gifts can be liquid securities, real estate (developed, raw land, home), a private business, a partnership, or a venture capital stake, to name a few. There are strategies and ramifications for the gifting of each type of asset in order to optimize the intended outcome of the gift. As the gatekeeper for a client's financial assets, our role is vital in working with a client's attorney and CPA to ensure that such gifting does not adversely impact the client's current and future cash flow requirements. Our proprietary cash flow analysis mentioned above is a key component in devising the appropriate strategy for implementing a gifting plan.

Educational Planning

Some of our clients have chosen to help their children and grandchildren with the spiraling costs of education. Private high school and college/graduate school tuitions are a significant financial burden. Worse still is the rise in future tuition costs, as educational inflation ranges between 6% and 9% a year. At a 7% education inflation rate, tuitions double every 10 years. Modeling these costs over time, and incorporating the resulting expenses into our cash flow analysis, is an integral part of understanding a client's ability to undertake such a generous and estate-smart gesture.

Family Governance

We serve as an impartial third party for many of our individual clients as they solve tough family problems that are vital to their current financial security, as well as that of future generations. For over 40 years, we have partnered with our clients through almost every financial and non-financial issue imaginable, giving us the necessary perspective to help shape family goals and values, analyze business and wealth transfer considerations, and work through fairness questions.

Family Business

As it relates to family governance, we also work with many family businesses in an advisory capacity. Our executive team has over twenty years experience managing our own firm. In addition, several of the firm's partners assist in the management of other family businesses. As such, we have first-hand knowledge of generational transfer issues as well as management change issues. We have extensive experience working with investment bankers, CPAs, attorneys and valuation experts to tackle the natural issues that arise for families who are exploring an exit strategy or inner-family transfer.

Debt Management and Restructuring

Like the asset side of the balance sheet, a client's debt and associated expenses can compound over time, creating a meaningful and perhaps unnecessary leakage of cash flow. Managing this debt is a critical component of growing a client's net worth. Where possible, we help clients focus on opportunities for improving the liability side of their balance sheet. This can take the form of evaluating mortgage or other loan refinancings, utilizing inner-family loans to take advantage of more favorable AFR (Applicable Federal Rates) rates, considering swaps on floating rate debt, or restructuring business or partnership loans.

Legal Issues

Over the years, we have been able to assist clients in finding appropriate legal counsel for the sale of businesses, establishing various trusts, breaking trusts, replacing corporate/bank trustees, handling other complex estate-related work, and dealing with litigation of all types. Given this past experience, our added value is not in solving a client's legal issue, but in identifying and introducing the proper counsel who can partner with them to solve the issue.

Summary

While the above discussion of key wealth management elements is not meant to be comprehensive, we believe it frames the broad issues on which we have advised clients for over four decades. We enjoy the complexity of wealth management and working toward solutions of all sizes that are important to our clients. Delivering dependable and judicious guidance is a critical component in a world that continues to evolve in complexity. We invite you to contact us on any wealth management issues with which we can help you or your family.