Cypress Financial Planning, LLC

First Quarter 2014

Cypress Financial Planning
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Cypress Rings in 2014 with a New Financial Planner

Cypress Financial Planning is excited to welcome and introduce our newest Financial Planner, Evan Powers. Evan joined us to help expand our services to more families and improve our organization's capabilities. Having spent the majority of his career as an active trader, Evan relishes the opportunity to transfer his knowledge and expertise in finance and investing to individuals and families. Evan brings his deep experience in statistics and risk management, enhancing the rigorous, thoughtful financial planning services that we seek to deliver to clients.

Prior to Cypress, Evan co-founded and managed Phase Three Capital, LLC, a private investment company with a focus on low-volatility investing and absolute return strategies. At Phase Three, Evan managed all derivatives trading and general risk management. He honed these skills in his previous role as a Senior Trader for Consolidated Trading, LLC, for whom he traded equity index options on the floor of the American Stock Exchange.

Evan attended Harvard College as an undergraduate, earning a Bachelor of Arts degree cum laude with a concentration in Economics; he subsequently earned his MBA at the University of Virginia's Darden School of Business. He resides in Charlottesville with his wife Meggie and daughter Eliza.

In addition to his work at Cypress, Evan remains an avid competitive athlete. While in business school, he completed internships with the Washington Nationals and the University of Virginia athletic department. A Boston native, Evan ran the 2010 Boston Marathon while raising money for the Bay State Games charity program.

Market Update

(all values as of 12.31.2013)

Stock Indices:	
Dow Jones	16,576
S&P 500	1,848
Nasdaq	4,176
Bond Sector Yields:	
2 Yr Treasury	0.38%
10 Yr Treasury	3.04%
10 Yr Municipal	2.77%
High Yield	5.64%
YTD Market Returns:	
Dow Jones	26.50%
S&P 500	29.60%
Nasdaq	38.32%
MSCI-EAFE	19.43%
MSCI-Europe	21.68%
MSCI-Pacific	15.25%
MSCI-Emg Mkt	-4.98%
US Agg Bond	-2.03%
US Corp Bond	-1.57%
US Gov't Bond	-2.36%
Commodity Prices:	
Gold	1,202
Silver	19.37
Oil (WTI)	98.42
Currencies:	
Dollar / Euro	1.37
Dollar / Pound	1.64
Yen / Dollar	105.22
Dollar / Canadian	.93

Numbers to Consider in 2014

7.1 Billion	World Population
317 Million	U.S. Population
327 Million	Cell Phones In The U.S.
$ 25 Trillion	Total Value Of U.S. Stock Market
10%	Percentage Of Americans Holding 74% Of U.S. Wealth

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There Is Currently Over $10 Trillion In Cash & Money Markets

Current Environment - Macro Overview

After months of uncertainty, the Federal Reserve finally decided to start scaling back its stimulus program known as quantitative easing (QE). The past year had been influenced by a "good news is bad news" dynamic, where any positive economic data was interpreted as bad news because of anticipated Fed stimulus reduction.

Improving economic conditions prompted the Fed's unexpected decision, which the markets reacted to positively because the Fed confirmed an improving economy and reiterated that it would continue to keep short-term rates near zero. The promise to maintain a continued low rate environment is projected to last through 2015/2016 according to Fed governor projections.

It is expected that the Federal Reserve will employ a sequential tapering to occur over the next few months as economic conditions improve. Its bond-buying program of treasuries and mortgage bonds will be reduced to $75 billion dollars from $85 billion per month starting in January.

An important measure of consumer sentiment improved as net worth for households and non-profit groups rose by $1.92 trillion in the third quarter to $77.3 trillion. Rising home prices in addition to an increase in the equity markets helped propel household net worth to a new record high.

U.S. consumer credit rose in October at its fastest pace in five months, a positive sign for consumer spending in the fourth quarter. The increase in consumer credit by $18.2 billion to $3.08 trillion, allows for additional purchases of goods and services thus accelerating economic activity.

The commodities market underperformed all other markets during 2013. This was most likely due to commodities peaking in 2011 and then creating ample supply with a quickly lessening demand. The price of gold alone fell 29% in 2013, the first down year since 2000.

Stronger economic growth was validated as the Commerce Department revised third quarter GDP growth up to 4.1% based on strong consumer spending. The International Monetary Fund also raised its outlook for the U.S., as it projects that the U.S. economy will expand 2.6 percent in 2014, compared with 1.6 percent in 2013.

Sources: Fed, Commerce Dept, Labor Dept, IMF, Census Bureau

Estate Planning –An Introduction

By definition, estate planning is a process designed to help you manage and preserve your assets while you are alive, and to conserve and control their distribution after your death according to your goals and objectives. But what estate planning means to you specifically depends on who you are. Your age, health, wealth, lifestyle, life stage, goals, and many other factors determine your particular estate planning needs. For example, you may have a small estate and may be concerned only that certain people receive particular things. A simple will is probably all you'll need. Or, you may have a large estate, and minimizing any potential estate tax impact is your foremost goal. Here, you'll need to use more sophisticated techniques in your estate plan, such as a trust. To help you understand what estate planning means to you, the following sections address some estate planning needs that are common among some very broad groups of individuals. Think of these suggestions as simply a point in the right direction, and then seek professional advice to implement the right plan for you.

Over 18 Years Old

Since incapacity can strike anyone at any time, all adults over 18 should consider having:

- A durable power of attorney: This document lets you name someone to manage your property for you in case you become incapacitated and cannot do so.
- An advanced medical directive: The three main types of advanced medical directives are (1) a living will, (2) a durable power of attorney for health care (also known as a health-care proxy), and (3) a Do Not Resuscitate order. Be aware that not all states allow each kind of medical directive, so make sure you execute one that will be effective for you.

Young and single

If you're young and single, you may not need much estate planning. But if you have some material possessions, you should at least write a will. If you don't, the wealth you leave behind if you die will likely go to your parents, and that might not be what you would want. A will lets you leave your possessions to anyone you choose (e.g., your significant other, siblings, other relatives, or favorite charity).

Unmarried couples

You've committed to a life partner but aren't legally married. For you, a will is essential if you want your property to pass to your partner at your death. Without a will, state law directs that only your closest relatives will inherit your property, and your partner may get nothing. If you share certain property, such as a house or car, you might consider owning the property as joint tenants with rights of survivorship. That way, when one of you dies, the jointly held property will pass to the surviving partner automatically.

Married couples

For many years, married couples had to do careful estate planning, such as the creation of a credit shelter trust, in order to take advantage of their combined federal estate tax exclusions. A new law passed in 2010 allows the executor of a deceased spouse's estate to transfer any unused estate tax exclusion amount to the surviving spouse without such planning. This provision is effective for estates of decedents dying in 2011 and later years.

You may be inclined to rely on these portability rules for estate tax avoidance, using outright bequests to your spouse instead of traditional trust planning. However, portability should not be relied upon solely for utilization of the first to die's estate tax exemption, and a credit shelter trust created at the first spouse's death may still be advantageous for several reasons:

- Portability may be lost if the surviving spouse remarries and is later widowed again
- The trust can protect any appreciation of assets from estate tax at the second spouse's death
- The trust can provide protection of assets from the reach of the surviving spouse's creditors
- Portability does not apply to the generation-skipping transfer (GST) tax, so the trust may be needed to fully leverage the GST exemptions of both spouses

Married couples where one spouse is not a U.S. citizen have special planning concerns. The marital deduction is not allowed if the recipient spouse is a non-citizen spouse, but a $145,000 (in 2014, $143,000 in 2013) annual exclusion is allowed. If certain requirements are met, however, a transfer to a qualified domestic trust (QDOT) will qualify for the marital deduction.

Married with children

If you're married and have children, you and your spouse should each have your own will. For you, wills are vital because you can name a guardian for your minor children in case both of you die simultaneously. If you fail to name a guardian in your will, a court may appoint someone you might not have chosen. Furthermore, without a will, some states dictate that at your death some of your property goes to your children and not to your spouse. If minor children inherit directly, the surviving parent will need court permission to manage the money for them. You may also want to consult an attorney about establishing a trust to manage your children's assets. You may also need life insurance. Your surviving spouse may not be able to support the family on his or her own and may need to replace your earnings to maintain the family. Comfortable and looking forward to retirement You've accumulated some wealth and you're thinking about retirement. Here's where estate planning overlaps with retirement planning. It's just as important to plan to care for yourself during your retirement as it is to plan to provide for your beneficiaries after your death. You should keep in mind that even though Social Security may be around when you retire, those benefits alone may not provide enough income for your retirement years. Consider saving some of your accumulated wealth using other retirement and deferred vehicles, such as an individual retirement account (IRA).

Wealthy and worried

Depending on the size of your estate, you may need to be concerned about estate taxes. Estates of $5,340,000 (in 2014, $5,250,000 in 2013) are effectively exempt from the federal gift and estate tax. Estates over that amount may be subject to the tax at a top rate of 40 percent. Similarly, there is another tax, called the generation-skipping transfer (GST) tax, that is imposed on transfers of wealth that are made to grandchildren (and lower generations). The GST tax exemption is $5,340,000 (in 2014, $5,250,000 in 2013) and the GST tax rate is 40 percent. Whether your estate will be subject to state death taxes depends on the size of your estate and the tax laws in effect in the state in which you are domiciled.

Elderly or ill

If you're elderly or ill, you'll want to write a will or update your existing one, consider a revocable living trust, and make sure you have a durable power of attorney and a health-care directive. Talk with your family about your wishes, and make sure they have copies of your important papers or know where to locate them.

A Few Points on State Estate Tax (And in some cases Inheritance Tax)

New Jersey – An exemption of $675,000 in 2014 per individual. Transfers that exceed that amount are taxed at 4.8%-16%. NJ also has an "inheritance tax." However, the following points should give NJ residents some solace:

- Class A beneficiaries, which include spouses, civil union partners, domestic partners, parents, grandparents, and descendants, are exempt from the New Jersey inheritance tax.
- Class C beneficiaries, which includes siblings, the spouse or widow(er) of a child of the decedent, receive an exemption equal to the first $25,000 of an inheritance. Transfers that exceed $25,000 are taxed at 11%–16%.
- Class D beneficiaries, which include all other beneficiaries, receive an exemption equal to only the first $500 of an inheritance. Transfers that exceed $500 are taxed at 15%–16%.
- Note: In case you're wondering, Class B beneficiaries have been eliminated from the New Jersey inheritance tax laws.

Pennsylvania – No estate tax but PA is one of seven states that collect an "inheritance tax" which is charged to the beneficiary.

- Surviving Spouse - For deaths occurring on or after January 1, 1995, transfers to a surviving spouse are exempt from the inheritance tax.
- Class A, Lineal Tax Rate – This class includes grandparents, parents, descendants, and an un-remarried spouse of a child. This class receives a $3,500 family exemption on certain types of transfers after which a 4.5% tax rate is imposed.
- Class A1, Sibling Tax Rate – Sibling beneficiaries include brothers or half-brothers, sisters or half-sisters; and persons having at least one parent in common with the decedent, either by blood or by adoption. Transfers to this class are taxed at the rate of 12%.

Virginia – No estate tax

Delaware – An exemption of $5,340,000 in 2014 per individual

District of Columbia – An exemption of $1,000,000 in 2014 per individual

Maryland – An exemption of $1,000,000 in 2014 per individual. MD also has an "inheritance tax." However, the following points should give MD residents some solace:

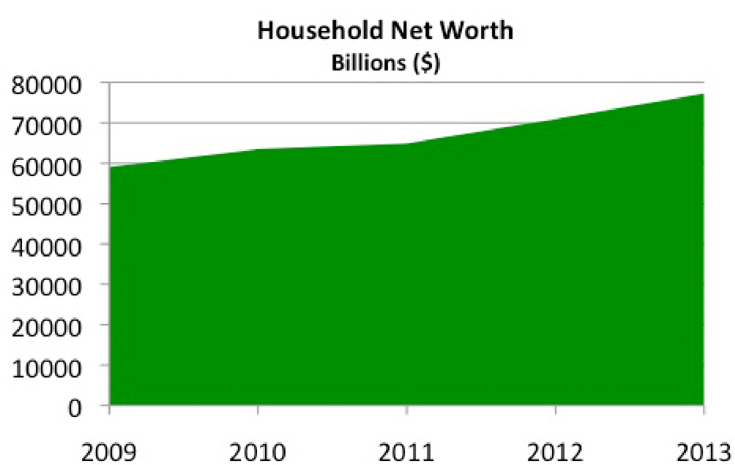
- Property passing to a child or other lineal descendant, spouse of a child or other lineal descendant, spouse, parent, grandparent, stepchild or stepparent, or siblings is completely exempt from the Maryland inheritance tax.
- A primary residence that is owned by domestic partners held in joint tenancy at the time of one partner's death is exempt from the Maryland inheritance tax.
- Property passing to any other type of beneficiary, including property passing to a domestic partner other than a jointly owned primary residence, is subject to the Maryland inheritance tax. The current Maryland estate tax is 10%.

New York – An exemption of $1,000,000 in 2014 per individual

Household Net Worth Reaches A New High - Market Fact

Every quarter the Federal Reserve releases its flow of funds survey, a report measuring the net worth of households. The report includes a "balance sheet" of assets such as real estate, financial assets, bank accounts, as well as outstanding debt.

The net worth of U.S. households and non-profit organizations rose 2.6% or about $1.9 trillion in the third-quarter to a record of $77.3 trillion, making it the highest on record according to the Federal Reserve. Rising home prices in addition to an increase in the equity markets this past year helped propel household net worth.



Source: Federal Reserve

Some economists that follow consumer behavior believe that increases in wealth could make consumers feel more comfortable spending their money, thus contributing to economic growth. Real estate makes up the single largest component of household wealth, representing 30%. Corporate equities (individual stocks) make up 15% of net worth. The components making up household wealth fluctuate in value and are affected by different factors, including monetary and fiscal policy. All in all, a rise in the overall value of these assets is of benefit to economic well-being.

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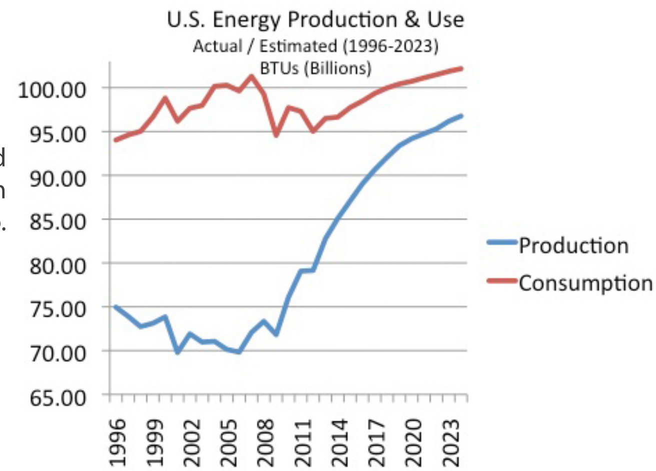
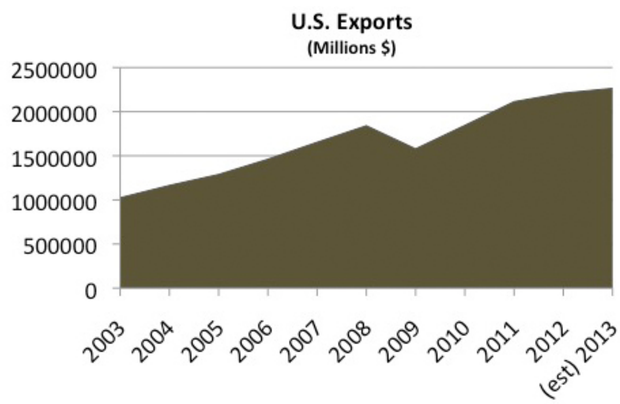
DOMESTICALLY PRODUCED ENERGY NOW ACCOUNTS FOR 87% OF WHAT WE CONSUME

Economic Facts Going Into 2014 - Macro Facts

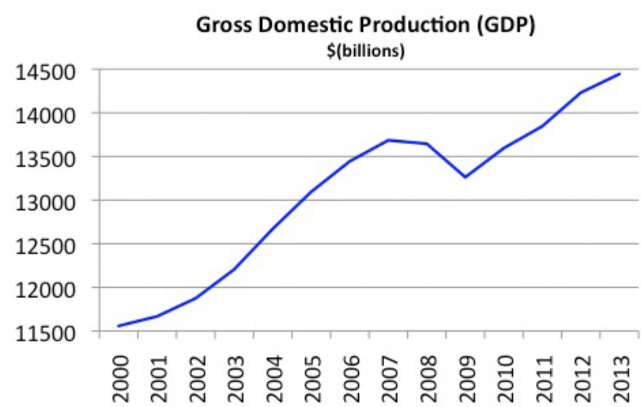
The U.S. is more energy sufficient – Domestically produced energy now accounts for 87% of what we consume up from 70% five years ago.

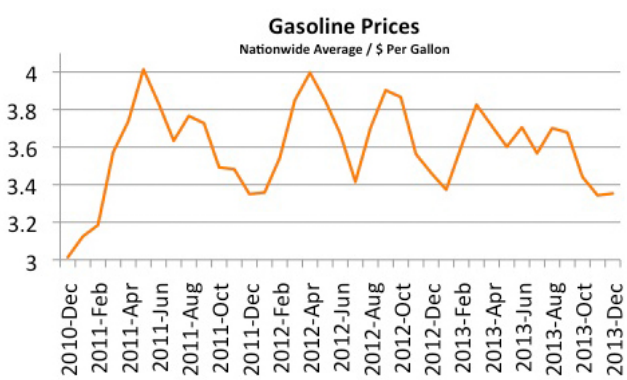




Exports are growing – exports are up 2.4% over the past year

Improving economy – current GDP is up 1.5% over the past year





Steady Gasoline Prices – gasoline prices have been stable for three years