Webster Private Bank®

PRIVATE BANKING INSIGHTS

Financial Confidence Through Personal Attention

October 2014

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Market Commentary - October 2014

Webster Private Bank's Chief Investment Strategist, Yves Cochez, provides market commentary on the Fed's monetary policy in his October 2014 Investment Strategy Update. He offers analysis and our views on the market consensus for timing and the pathway of future rate changes, a broad overview of recent economic trends, and how the current cycle will play out with our recommended positioning for investors going forward.

Click here for the complete commentary. Print copies are available upon request.

Yves Cochez joined Webster Private Bank as senior vice president and Chief Investment Strategist in May, 2013. Cochez is responsible for managing the Private Bank's portfolio management team and setting the overall direction of investment management for its high net worth clients. He is based in Stamford, Conn.

Most recently Cochez has held a number of senior investment positions across the globe with Deutsche Bank Private Wealth Management.

A native of Belgium, Cochez earned his Bachelors and MBA from the Universite Libre de Bruxelles, in Brussels, Belgium. He holds Series 7 and 66 Licenses and is fluent in three languages.

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2nd Annual Investor Breakfasts

Webster Private Bank is pleased to announce its 2nd Annual Investor Breakfasts. We're excited to bring you timely, valuable content from Webster Private Bank. Our main topic is:

Inflection Points

What the Shift in Monetary Policies Means for Investors

Presented by

Yves Cochez

Chief Investment Strategist

Join us!

October 21 from 7:30 a.m. - 9:00 a.m. at the Hartford Club in Hartford

October 23 from 7:30 a.m. - 9:00 a.m. at the Indian Harbor Yacht Club in Greenwich

We look forward to seeing you. Please RSVP directly to me or Susan Valente (svalente@websterbank.com). We will provide directions and parking information upon registration. As always, give us a call with any questions.

A View of Today's Economy with Nicholas S. Perna, Ph.D., Webster Bank Economic Advisor

Economic Review for September/October 2014

Webster Private Bank is dedicated to bringing you relevant information on today's economy and financial environment from many sources. Webster Economic Advisor Nick Perna is an MIT-trained economist with expert commentary and a down-to-ea style. Perna analyzes complex economic trends and explains the in everyday language in our bi-monthly newsletter *Economic Review*.

This edition features the commentary and Q & A on the lagging economy.

Click here for the latest edition of the *Economic Review.*

The web address for Webster's *Economic Review* is https://public.websteronline.com/about/economic-advisor-nick-pe .

Nicholas S. Perna is one of the nation's most frequently quoted economists and sought-after lecturer note his fun, plain-spoken insights on the economic scene. He graduated from Boston College and has a Ph.D. economics from MIT. In 1999, he founded Perna Associates, a consulting firm specializing in economic analysis, forecasting and strategy. Before that, Perna was chief economist for Fleet Financial Group, Shav Bank and Connecticut National Bank. He was also an economist with General Electric, the Federal Reserv Bank of New York and the President's Council of Economic Advisors in Washington. Perna has taught at Williams College, NYU's Stern School of Business and the Haas School of Business at the University of California. He currently teaches a seminar on the U.S. banking system at Yale University. Within the past several years, Perna has appeared numerous times on the Jim Lehrer NewsHour and other local and nati news broadcasts. The Wall Street Journal and Business Week have both cited him as one of the top econ forecasters in the United States.

What's Your Investing Personality Type?

The balanced investor will often accept a higher level of risk in exchange for the opportunity to achieve greater investment returns.

Just as your everyday personality affects the way you act, your investment personality influences your investment choices. There are as many investment personalities as there are investors. See if you recognize yourself in any of these common investment personality types.

"Safe" and Sound -- Conservative investors tend to favor fixed-income, low-risk investments because the chances of losing money are generally lower than with other types of investments.[1] This strategy makes sense if you need to tap your investment dollars in the next few years, but over the longer term these "safe" investments may offer less potential for growth -- and growth is what you need if you are investing for a long-term goal that is still 20, 10, or even 5 years away. While the conservative personality may seem "safe" today, it could keep you from reaching your long-term goals down the road, and may actually be a very risky approach to take.

The Steady Hand -- The balanced investor will often accept a higher level of risk in exchange for the opportunity to achieve greater investment returns. But to counter potentially higher levels of risk, the Steady Hand often makes regular, periodic purchases into investments that suit their goals and investment time horizon, then stick to their plans for the long term -- regardless of the market's short-term ups and downs.

The Market Timer -- Some investors buy and sell investments over short periods of time, attempting to anticipate when they will make a profit -- a practice also known as market timing. While this approach may occasionally prove fruitful in the short term, market timing rarely, if ever, works over long periods. The temptation can be great to "follow the herd," and sell investments when prices fall or buy when prices rise. But this approach typically results in the investor locking in losses.

Market timers also run the risk of missing the market's best-performing days. For example, using history as a guide, if you missed just the 5 top-performing days of the 20 years ended December 31, 2013, it would have cost you more than $19,628 based on an original investment of $10,000 in the S&P 500. Missing the top 20 days would have reduced your average annual return from 9.22% to 3.09%.[2]

You never know when the market is going to shoot up, so staying invested and avoiding the temptation to time the market can really make a difference.

So which type of investor are you? Chances are, you see parts of yourself in each of the three personalities described here, depending on your mood or financial situation at any given time. But when it comes to your long-term investment goals, adopting a balanced personality should serve you best.

[1]*Past performance is not a guarantee of future results.*

[2]*Wealth Management Systems Inc. This example is based on a hypothetical $10,000 investment in domestic stocks, as represented by the Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market. Performance is for the 20-year period ended December 31, 2013. It is not possible to invest directly in any index. Past performance is not a guarantee of future results. Investing in stocks involves risks, including loss of principal.*

Tips for Minimizing the Tax Bite on Retirement Assets

Many problems that arise when transferring retirement plan assets occur around the naming of beneficiaries.

For many investors, a large percentage of their assets are held in tax-advantaged accounts such as 401(k)s and IRAs. While these accounts can be ideal for sheltering retirement savings from taxes pre- and post-retirement, because these assets are included in the account holder's gross estate, they can be highly exposed to tax issues in an estate if managed improperly. In short, the combined estate and income taxes owed by beneficiaries could potentially erode the lion's share of the value of these assets.

Proper Naming of Beneficiaries

Many problems that arise when transferring retirement plan assets occur around the naming of beneficiaries. Consider these tips to help avoid problems in this area:

- Be sure to have a named beneficiary. Naming the account holder's estate as the beneficiary will trigger the "five-year rule," which states that retirement plan assets must be paid out immediately or by the end of the five years following the account holder's death.
- Review and update beneficiary designations. Life situations change frequently and those changes can affect your beneficiary designations. For example, many times after a divorce, participants forget to update their beneficiary designations.
- Make sure one or more contingent beneficiaries are named. Without contingent beneficiaries you may face the same consequence as not naming a beneficiary at all -- particularly when a primary beneficiary is no longer living.

Spousal vs. Non-Spousal Beneficiaries

Retirement plan assets that pass to a surviving spouse may qualify for the unlimited estate tax marital deduction, whereas retirement plan assets that a non-spouse beneficiary inherits may be subject to estate tax upon the account holder's death.

In addition, after the account holder's death, the surviving spouse may roll over retirement plan assets to an IRA in his or her own name or elect to treat the retirement plan as his or her own. If the spouse chooses the latter option, he or she may defer taking required minimum distributions (RMDs) until he or she turns age 70½ -- a distinct advantage from an asset accumulation and taxation perspective.

A surviving spouse may also "disclaim" -- or refuse -- his or her interest in an IRA. Once disclaimed, the spouse will not receive any interest in the retirement plan and it will pass to contingent beneficiaries (typically children or grandchildren). Distributions to the contingent beneficiaries must then be made under the RMD rules that apply to non-spouse beneficiaries.

Tips for Non-Spouse Beneficiaries

- Unlike a surviving spouse rollover, an IRA inherited by a non-spousal beneficiary must remain in the name of the deceased account holder.
- Any distribution to a non-spouse beneficiary is a taxable event. Therefore, any check delivered by the deceased's retirement plan trustee should be made payable directly to the inherited IRA custodian or trustee.
- A non-spouse beneficiary must begin taking RMDs from the inherited IRA by December 31 of the year following the year of the account holder's death.

Other Considerations

Other strategies to help make qualified retirement plan assets more tax efficient include:

The Stretch IRA -- A distribution strategy that can extend the tax-deferred status of IRA assets across multiple generations. The strategy aims to avoid large distributions and allows only RMDs to occur for as long as possible.

Retirement Plan Trust or IRA Trust -- These instruments allow for the stretching out of distributions combined with the benefits and protections of trusts.

Charitable Remainder Trust -- This type of trust may be named as beneficiary of a retirement plan in order to obtain an estate tax deduction. The trust will provide income to the non-charitable beneficiary -- usually the surviving spouse -- during his or her lifetime, and will distribute remaining assets to the charity at the spouse's death.

An Irrevocable Life Insurance Trust -- If the retirement assets are not needed, using after-tax withdrawals from the retirement plan to purchase life insurance owned by the life insurance trust can be a strategy that transforms a twice-taxed asset into a tax-free one.

This article offers only an outline; it is not a definitive guide to all possible consequences and tax implications of any strategy. For this reason, be sure to seek advice from knowledgeable legal, tax, and financial professionals.