STONE BARN TIMES

Covenant
Wealth Strategies, LLC

FALL 2016

G. Ward Keever, IV

CLU, ChFC, RHU, CFS, AIF®

Diversifying Outside of the Business: Strategies for Small-Business Owners

Small-business owners are especially vulnerable to a dangerous investment practice: under-diversification. For many, their business represents the lion's share of their net worth. With fortunes riding largely on the success or failure of a single business in a single industry, business owners are exposed to heightened levels of investment risk. Recognizing that risk and understanding a business's place in an overall portfolio is the first step toward building a more stable investment outlook.

Taking money out of the business is one way to fund other investment objectives; however, determining the best means of accessing cash requires serious consideration of a number of factors, beginning with the type of business entity it is. For example, a sole proprietorship, partnership, limited liability company (LLC), or corporation all may carry different tax implications. Business owners also need to assess their short-term and long-term priorities for the extracted assets. If, for instance, your goal is to create a steady income stream, your approach will be very different than if your goal is to fund your retirement.

Liquidity Options

Here are some simple, tax-efficient methods to help business owners turn part of their stake in a business into a liquid asset.

• **Compensation** -- Putting yourself on the payroll provides you with a steady stream of income without incurring double taxation -- corporate and personal -- provided the IRS finds your salary reasonable in relation to the services you render.

• **Loan repayment** -- If you have loaned money to the business, set up a schedule for repayment. To avoid tax problems, the debt must be properly documented and contain terms that affirm that the sum is truly debt, not equity.

• **Borrow** -- You may withdraw cash from the business in the form of a loan. Again, be sure that the transaction is properly documented and includes a repayment schedule. In addition, the loan must bear interest at a rate not less than the current applicable federal rate. Otherwise, the interest income may be treated as a dividend or as compensation.

• **Benefits** -- Life insurance, disability insurance, certain medical benefits, dependent care, etc., can be viewed as cash equivalents that are deductible to the business and not taxable to you. Consider setting up a salary reduction or cafeteria plan that would allow you and your employees to take a portion of compensation as nontaxable benefits rather than as taxable income. Similarly, consider establishing a qualified retirement plan. Retirement plans can be effective vehicles for building morale and for helping owners diversify their assets in a tax-advantaged manner.

Outright Liquidation

If you decide to sell the business outright, there will be much planning and decision-making do to. Do you want to sell the business to an interested third party or keep it in the family? What are the financial and tax consequences of transacting the deal in cash versus stock? What type of transaction are you hoping to negotiate? An installment sale? A private annuity sale? A transfer of assets via a family limited partnership (FLP)?

Regardless of the approach, your best, and first, strategy should be to partner with the appropriate planning professionals who can evaluate the business from a cash flow and net worth standpoint on a regular basis. This guidance may be the most critical determinant of when is the best time to take cash out of the business.

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

This information is for educational purposes only and is not intended to be a substitute for individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor. Please note that the LPL Financial advisor providing this article does not provide business valuation services.

MARK YOUR CALENDARS

Stone Barn Speaker Series

"Economic Outlook: Longest Cycle on Record"

Presenter: Brian Levitt, Senior Investment Strategist for Oppenheimer Funds

Thursday, December 1, 2016 at 6:30 pm

Call today to reserve your seat! 302.234.5655

Upcoming Fall 2016 Events at The Stone Barn

Thursday, November 10th:

Becca Boyd Cooking Event: 6:00pm

Thursday December 1st:

Brian Levitt Oppenheimer Funds: 6:00 pm

For more info on events call 302.234.5655

A Few Words from our Investment Research Team

The 10 Cornerstone Principles of Asset Allocation

Principles can be described as the beginning, the foundation, the source, or the essence upon which things build and expand. They are important in investing because they bring structure to your financial plan. There are 10 cornerstone principles of asset allocation and each one plays a vital role in establishing and maintaining a truly optimal asset allocation. By practicing these principles, you can build an appropriate portfolio for your situation. Keep in mind that asset allocation does not ensure a profit or protect against a loss.

Cornerstone Principle 1: Market Efficiency

Market efficiency is the golden principle of all asset allocation cornerstone principles. Without some degree of market efficiency, we would not employ asset allocation and would probably focus instead on security selection. Fortunately, our financial markets are highly efficient and are becoming even more so as information technology gets better with time.

Underlying asset allocation are two highly influential and well-known investment concepts: modern portfolio theory and the efficient market hypothesis.

Modern portfolio theory says that neither investors nor portfolio managers should evaluate each investment on a stand-alone basis. They should instead evaluate each investment based on its true ability to enhance the overall risk-and-return trade-off profile of a portfolio. Moreover, modern portfolio theory states that when an investor is faced with two investments with identical expected returns, but different levels of risk, that investor would be wise to select the investment that has the lower risk.

The efficient market hypothesis, in a related way, says that security prices are fair and reasonable because they fully reflect all available public and nonpublic information that might affect them. As a result, it is the amount of risk that investors are willing to accept that explains their real investment performance over time.

Cornerstone Principle 2: Investor Risk Profile

Your optimal portfolio is designed based principally on your willingness, ability, and need to tolerate risk. Consequently, once your risk tolerance is determined, your optimal asset mix can then be established in order to maximize your portfolio's return potential. This concept is expressed as the risk-and-return trade-off profile. Personal preferences toward risk assumption play a vital role in determining your willingness to tolerate risk. For example, two different investors with the same level of wealth and the same specific goals and needs would each have a different preference for assuming risk.

Your ability to tolerate risk is highly contingent on your investment time horizon and level of wealth. Generally, the longer your investment time horizon and the greater your level of wealth, the more risk you are able to tolerate because people with longer time horizons and people with greater levels of wealth have more room for error in achieving their specific goals and needs.

Cornerstone Principle 3: Identifiable Financial Goals

Asset allocation is the strategy of dividing the assets within a portfolio among the different asset classes, seeking to achieve the highest expected total rate of return for the level of risk you are willing and able to accept. As a result, knowing why you are investing and what you are attempting to accomplish is the vital first step. You cannot hit a target you are not aiming for.

When identifying your specific goals and needs, focus on quantifying and prioritizing them. Simply saying you need enough money to fund a college education or support yourself in retirement is much too ambiguous and not especially intelligent. Identifying that you need $25,000 per year for four years in tomorrow's dollars or $75,000 per year in retirement expressed in today's dollars is more appropriate. Lastly, when identifying your specific goals and needs, ensure that they are realistic, achievable, and measurable.

Cornerstone Principle 4: Time Horizon

Time horizon plays a significant role in estimating asset class returns, risk levels, and price correlations. Accurate forecasts are essential to building an optimal portfolio. The primary use of time horizon is to help determine the portfolio balance between equity assets and fixed-income assets and cash and equivalents. All else being equal, the longer your investment time horizon, the more equity investments and less current income-producing investments you may consider holding. Conversely, the shorter your investment time horizon, the more current income-producing investments and less equity investments you may consider.

One common risk that needs to be addressed over the long term is purchasing power risk, or the loss of an asset's real value due to inflation. Equity investments may provide the best hedge against this risk. As a result, the longer your investment time horizon, the more you may consider allocating to equity assets. In the short term, volatility is often a concern. Fixed-income investments may provide the best hedge against this type of risk and may be considered in your portfolio as well.

Cornerstone Principle 5: Expected Total Return

Expected total return is simply your forecast of total return for each asset class and asset subclass during the future holding period. While past performance does not guarantee future results, using historical rates of return in lieu of estimating expected rates is not only quick and easy but also a prudent approach used by many financial professionals.

Once your risk tolerance has been identified, you then design your portfolio to maximize your expected total rate of return for the given level of risk you are willing, able, and need to assume. This task cannot be accomplished without an estimate of future returns. This is the essence of the risk-and-return trade-off profile. Without a clear understanding of expected total rates of return for each asset class, there is little hope of maximizing a portfolio's potential performance and building your optimal portfolio.

Cornerstone Principle 6: Risk-and-Return Trade-off Profile

The trade-off between investment-specific risk and return is central to the application of asset allocation theory to an investment portfolio. Risk and return are unequivocally linked, and one simply cannot earn an excessive return while assuming a corresponding low risk. In basic asset allocation theory, the higher your risk tolerance, the higher your potential returns. You should not assume higher risk for the same potential return that a less risky asset may offer. The message here is that you need to build a portfolio with the maximum expected potential total rate of return given the level of risk you are willing, able, and need to assume.

Cornerstone Principle 7: Correlation

The term correlation refers to how closely the market prices of two investments, or, in the case of asset allocation, the prices of two asset classes move in relation to each other. Although not always the case, most securities within an asset class or asset subclass tend to move together over time. Of course, there are always exceptions.

Your aim is to allocate investments to asset classes and asset subclasses that do not move in perfect lockstep with each other. The greater the difference or the lower the correlation that two asset classes move together, the more attractive they are for investment purposes. Since some asset classes experience strength at one time whereas others experience strength at other times, it may be appropriate, depending on your tolerance for risk, to allocate among multiple asset classes at all times. Investing in multiple asset classes may allow you to avoid serious market and portfolio weakness. Lastly, by investing in multiple asset classes with low correlations, you enhance the risk-and-return trade-off profile for your portfolio.

Cornerstone Principle 8: Diversification

It is important to apply the principle of diversification in order to minimize risk in a portfolio. The task of diversifying a portfolio should be addressed after completing the process of allocating among asset classes and asset subclasses. Diversification is the process of investing in a significant number of not-too-similar investments within each asset class in an effort to reduce the risk associated with each individual investment. By holding a significant number of not-too-similar investments, the impact resulting from a negative investment-specific event may be minimized. It is important to understand that the process of diversification entails investing in a significant number of not-too-similar investments with similar risk-and-return trade-off profiles. In doing so, your risk-and-return tradeoff profile will remain constant. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Cornerstone Principle 9: Optimal Asset Mix

Asset mix refers to both the asset classes and asset subclasses that a portfolio is allocated to and their respective weightings within that portfolio. It is essential to allocate a portfolio's assets in a deliberate and calculated way in order to develop the desired risk-and-return trade-off profile. Thus, allocating assets to those asset classes and asset subclasses to develop the desired risk-and-return trade-off profile defines the optimal asset mix.

Incorrectly allocating assets will create a situation where the portfolio either assumes more risk than appropriate or does not assume enough risk, thereby depriving you of better return potential. As you know, your work does not stop once your portfolio is designed and built. Constant monitoring and rebalancing will need to take place.

Cornerstone Principle 10: Reoptimization

Over time, a portfolio's asset mix, including the resulting risk-and-return trade-off profile, will change due to price fluctuations, with some fluctuations being quite large. To address this issue, reoptimization may be appropriate and needed. Reoptimization is comprised of four different, but somewhat similar, tasks. Think of these tasks as the Four Rs of Reoptimization: reevaluating, rebalancing, relocating, and reallocating.

- Reevaluating is the task of examining recent changes in your life and evaluating them within the context of your portfolio.
- Rebalancing is the task of selling and buying investments in order to return a portfolio's current asset class mix to the previously established optimal asset mix. Tax implications should be considered when implementing a rebalancing strategy.

- Relocating is the task of exchanging certain assets for other assets without changing the overall asset mix or risk-and-return trade-off profile.

- Reallocating is the task of adjusting to which investments your contributions go and in what amount. In this context, reallocating does not change the mix of your assets, only how contributions will be made in the future.

Christopher Vincent

AIF®

Financial Consultant

Estate Planning Checklist

Is your estate plan up-to-date? Use this checklist to pinpoint potential shortcomings.

Because you've worked hard to create a secure and comfortable lifestyle for your family and loved ones, you'll want to ensure that you have a sound financial plan that includes trust and estate planning. With some forethought, you may be able to minimize gift and estate taxes and preserve more of your assets for those you care about.

A Needs Evaluation

One of the first steps you'll take in the estate planning process is determining how much planning you'll need to undertake. No two situations are alike. And even individuals who don't have a great deal of wealth require some degree of planning. On the flip side, those with substantial assets often require highly complex estate plans.

Two key components of your initial needs evaluation are an estate analysis and a settlement cost analysis. The estate analysis includes an in-depth review of your present estate-settlement arrangements. This estate analysis will also disclose potential problems in your present plan and provide facts upon which to base decisions concerning alterations in your estate plan.

For example, you may believe that your current arrangements are all taken care of in a will that leaves everything to your spouse. However, if you've named anyone else as a beneficiary on other documents -- life insurance policies, retirement or pension plans, joint property deeds -- those instructions, not your will, are going to govern the disposition of those assets. You want to ensure that all your instructions work harmoniously to follow your exact wishes. In addition, you may want to consider alternative asset ownership arrangements under certain circumstances.

An estate plan that leaves everything to a surviving spouse enjoys the unlimited marital deduction against all estate taxes but fails to take advantage of the decedent spouse's applicable exclusion amounts against estate taxes under federal and state law. This may result in a larger estate tax burden at the death of the second spouse. Yet these are taxes that can potentially be minimized with careful estate planning. While your spouse will receive your estate free of estate taxes if he or she is a U.S. citizen, anything your spouse receives above his or her federal applicable exclusion amount may eventually be subject to estate taxes upon his or her death.1 Many states also have their own estate tax regimes and apply different (lower) estate tax applicable exclusion amounts, which you will need to consider with your estate planning professional.

An estate settlement cost analysis summarizes the costs of various estate distribution arrangements. In estimating these costs, the analysis tests the effectiveness of any proposed estate plan arrangement by varying the estate arrangement, the inflation and date of distribution assumptions, as well as specific personal and charitable bequests.

Estate planning is very complex. And while a simple will may adequately serve the estate planning needs of some people, you should meet with a qualified legal advisor to be sure you are developing a plan that is consistent with your objectives.

Finally, be sure to recognize that estate planning is also an ongoing process that may require periodic review to ensure that plans are in concert with your changing goals. In addition, because estate planning often entails many facets of your personal finances, it often involves the coordinated efforts of qualified legal, tax, insurance, and financial professionals.

Estate Planning Checklist

Bring this checklist to a qualified legal professional to discuss how to make your plan comprehensive and up-to-date.

Part 1 -- Communicating Your Wishes

• Do you have a will?
• Are you comfortable with the executor(s) and trustee(s) you have selected?
• Have you executed a living will or health care proxy in the event of catastrophic illness or disability?
• Have you considered a living trust to avoid probate?
• If you have a living trust, have you titled your assets in the name of the trust?

Part 2 -- Protecting Your Family

• Does your will name a guardian for your children if both you and your spouse are deceased?
• If you want to limit your spouse's flexibility regarding the inheritance, have you created a qualified terminable interest property (QTIP) trust?
• Are you sure you have the right amount and type of life insurance for survivor income, loan repayment, capital needs, and all estate settlement expenses?
• Have you considered an irrevocable life insurance trust to exclude the insurance proceeds from being taxed as part of your estate?
• Have you considered creating trusts for family gift giving?

Part 3 -- Reducing Your Taxes

• If you are married, are you taking full advantage of the marital deduction?
• Is your estate plan designed to take advantage of your applicable exclusion amount?1
• Are you making gifts to family members that take advantage of the $14,000 annual gift tax exclusion?
• Have you gifted assets with a strong probability of future appreciation in order to maximize future estate tax savings?
• Have you considered charitable trusts that could provide you with both estate and income tax benefits?

Part 4 -- Protecting Your Business

• If you own a business, do you have a management succession plan?

• Do you have a buy/sell agreement for your family business interests?

• Have you considered a gift program that involves your family-owned business, especially in light of "estate freeze" rules? (These rules were enacted by Congress to prevent people from artificially freezing their estate values for tax purposes.)

Points to Remember

1. A plan helps to determine the most advantageous means of owning family properties.
2. Planning may help minimize estate and income taxes, administrative expenses, executor's commissions, and attorney's fees.
3. Your plan may help to provide adequate income to your survivors.
4. By planning, you can preserve the assets you have worked hard to accumulate.
5. An estate plan can help provide funds for debt repayment, if desired, and educational expenses.
6. An estate plan can help provide adequate and available money to meet known and anticipated settlement expenses upon your death.
7. Estate planning often involves the coordinated efforts of qualified legal, tax, insurance, and financial professionals.

1The estate tax exemption is $5.43 million for 2015, with a top tax rate of 40%.

This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor. LPL Financial Representatives offer access to Trust Services through The Private Trust Company N.A., an affiliate of LPL Financial.

11 Tips for Staying Safe on the Roads

Take these precautions to protect yourself when you're walking and running outside.

1. Leave word. Tell somebody or leave a note at home about where you plan to go and how long you plan to be out. That way your loved ones will know to come look for you if needed.
2. Identify yourself. Run with proper ID, and carry a cell phone with emergency contacts taped to its back.
3. Pretend you're invisible. Don't assume a driver sees you. In fact, imagine that a driver can't see you, and behave accordingly.
4. Face traffic. It's easier to see, and react to, oncoming cars. And cars will see you more clearly too.
5. Make room. If traffic gets heavy, or the road narrows, be prepared to move onto the sidewalk or shoulder of the road.
6. Be seen. Wear high-visibility, brightly colored clothing. When out near or after sunset, reflective materials are a must. (If you don't own reflective clothing, a lightweight reflective vest is a great option.) And use a headlamp or handheld light so you can see where you're going, and drivers can see you. The light should have a bright LED (drivers see blinking red as a hazard).
7. Unplug your ears. Avoid using iPods or wearing headphones—you need to be able to hear approaching vehicles. If you do use headphones, run with the volume low and just one earbud in.
8. Watch the hills. When they crest hills, drivers' vision can suddenly be impaired by factors like sun glare or backdrops.
9. Beware of high-risk drivers. Steer clear of potential problem areas like entrances to parking lots, bars, and restaurants, where there may be heavy traffic.
10. Watch for early birds and night owls. At odd hours be extra careful. Early in the morning and very late at night, people may be overtired and not as attentive.
11. Mind your manners. At a stop sign or light, wait for the driver to wave you through—then acknowledge with your own polite wave. That acknowledgement will make the driver feel more inclined to do it again for the next walker or runner. Use hand signals (as you would on a bicycle) to show which way you plan to turn.
Learn more about how to stay safe on the road.
Get the Start Walking Plan now.

Randy Eveland

CFP®

Financial Consultant

Naming Beneficiaries: What You Need to Know

A major issue in estate planning is whom to name as beneficiaries on life insurance policies, pension plan accounts, IRAs, and annuities. This important decision often doesn't take into account the substantial estate and income tax consequences the beneficiary may incur.

So before you name a beneficiary, you may wish to gain a basic understanding of beneficiary designations.

One of the first things you need to know is that, in many cases, beneficiary designations supersede a will. That said, not only is naming a beneficiary important, it is equally important to make sure that your beneficiary arrangements are consistent with your other estate planning documents.

Not All Beneficiary Designations Are the Same

You can name a beneficiary for many different financial products and investment vehicles. And each has some subtle nuances that are sometimes difficult to discern. In addition, because naming a beneficiary is a legal arrangement, there is certain language you must use to ensure your wishes are accurately recorded and executed. That's why it is important to consult with a qualified financial professional when making decisions about beneficiaries. Aside from determining whom you will name as your beneficiary, you'll also need to consider the following:

• Age of beneficiary Most policies and plans will not directly transfer assets to minors until a trustee or guardian is approved by a court.

• Ability of beneficiary to manage assets Perhaps a trust set up in the person's name would be better than a direct transfer.

• Pension plans Unless waived by the spouse in writing, the law requires a spouse to be the primary beneficiary of the account.

Professional Assistance a Must

Naming beneficiaries is a complex matter that requires a great deal of forethought to help ensure that your decisions are in concert with your financial and estate planning goals. A qualified financial professional can assist you in reviewing your beneficiary designation and help you make choices that are appropriate for your situation.
This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

SPOTLIGHT ON

MEET: PETER BAWUAH

Peter, wife Leslie and daughter Zhane

Peter's Favorites

Hobbies: racquetball, movies, reading and Scrabble

Places to Visit: London, UK and Laguna Beach, CA

Favorite Ice Crean: Butter pecan

Favorite Restaurants: Capital Grille, Harry's Savoy Grille, Texas Roadhouse and Chick-Fil-A

Favorite Quote: " If your outgo exceeds your income, your upkeep becomes your downfall."
- Napoleon Hill

NEWS & EVENTS

Welcome Baby Zhane

Peter and his wife, Leslie, welcomed their first child to their family this summer, Zhane Bawuah.
She arrived on July 15th and she, mom and dad are all doing very well. Peter is drinking a little more Starbucks coffee these days but he could not be happier. Congratulations to Peter and Leslie and welcome Zhane!

Ward met with old colleague, Wayne Wagner, at the LPL Conference.

Ward had an opportunity to meet and talk with Randi Zuckerberg. She is the Founder & CEO of Zuckerberg Media, a boutique marketing firm and production company. Prior to founding her own company, Randi worked at Facebook, where she created and ran the social media pioneer's marketing programs from 2005-2011. She is also the author of several books as well as a television host and producer. Ward and Debbie were able to catch a quick picture with Randi during their meeting.

The Purrrfect New Home

Cathy and her fiancé Rob recently adopted two cats from the Delaware Pet Rescue.

Brady and Becky were welcomed into their new home this summer and could not be happier. Best wishes to all!

NEWS & EVENTS

LPL Financial Focus Conference

Ward, Randy, Peter, Keva and Tina attended the LPL Financial Focus conference in San Diego this August. This is one of the premier education, growth, and networking event for financial advisors

LPL gathers the best and the brightest in the industry to discuss the most relevant opportunities and challenges facing our profession today. Ward and the team had an opportunity to connect with industry leaders, LPL executives, and their peers to gain actionable knowledge to help Covenant drive business growth and productivity.

PEAK Advisor Alliance Conference

Ward, Keva, Chris and Eileen attended the PEAK Advisor Alliance conference in Scottsdale, Arizona this past May. They had the opportunity to attend a variety of educational sessions, learn from industry leaders and network with other advisors from around the nation.

There were several keynote speakers including best-selling author and television host, Daniel Pink and entrepreneur and one of the star sharks of the hit television show Shark Tank, Robert Herjavec.

Griffin American Due Diligence Conference

Ward was invited as one of a select group of advisors to attend the Griffin American Due Diligence Conference in New York City. He had the opportunity to meet and speak with Jeff Hanson, the Chairman and CEO as well as Danny Prosky, president and COO of Griffin American HealthCare REIT.
He had an opportunity to learn about the modern health care economy as well as regulations and an industry update for alternative investments such as REITS(real estate investment trusts).

MEET OUR TEAM

Peter Bawuah
Investment Research Associate
peter@covenantwealthstrategies.com

Cathy Bliler
Client Service Specialist
cathy@covenantwealthstrategies.com

Randy Eveland, CFP®
Financial Consultant
randy@covenantwealthstrategies.com

G. Ward Keever, IV
CLU, ChFC, RHU, CFS, AIF®
President and CEO
ward@covenantwealthstrategies.com

Keva Ann Mendola
Director of Operations
keva@covenantwealthstrategies.com

Tina Norcross
Director of Special Services
tina@covenantwealthstrategies.com

Eileen G. Rogers
Director of Marketing
eileen@covenantwealthstrategies.com

Shelly A. Santoro
Executive Assistant
shelly@covenantwealthstrategies.com

Christopher Vincent, AIF®
Financial Consultant
chris@covenantwealthstrategies.com

Covenant
Wealth Strategies, LLC
15 Middleton Drive
Wilmington, DE 19808
302.234.5655
www.covenantwealthstrategies.com