THE COMPASS ROSE

COHEN & BURNETT, P.C. OPTIFOUR INTEGRATED WEALTH MANAGEMENT, LLC

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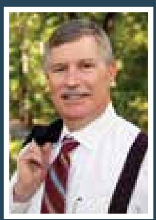
ESTATE AND FINANCIAL PLANNING UPDATE



FOUNDING PARTNER

I. Mark Cohen, J.D., LL.M., CFP®

It is October as I write this and one of my favorite times of the year in Virginia. The days are clear and warm, the nights cool and crisp and the trees are displaying their amazing fall colors. At the end of summer this year, we spent a long weekend at the New Jersey shore with Rachel and Holly. It was a nice way to cap the summer and we stopped by a booth in Wildwood and got some old-time costume pictures, one of which is shared on this page.

Family update: Compared to last quarter when I reported on two new jobs and three graduations, there is not much to report this time with the kids except that everyone is doing well. My granddaughter, Hayleigh, is now a year old and walking. It is a delight to be around her and see the world anew.

I just came back from a visit with my parents (now in their mid-80's) in Tucson. They are both well and happily living independently.

Our next big trip is scheduled for the first half of November when we will be in Tulum, Mexico, at a yoga retreat. This was clearly Leigh's idea but I agreed to come along. I expect that I will be laughing a lot as the yoga instructor asks me to do various poses. While I have good strength and endurance, my body does not bend much. Of course, there is always the option to sit on the beach and sip margaritas. One way or another, I will come back more flexible. ■

2017 Client Gala

Jeremy Laughton, J.D.

On Thursday, September 28th at 6:00 p.m., we hosted our annual client gala at the Tyson's Corner Ritz Carlton. We invited the renowned mentalist Max Major to perform and he did not disappoint. We still have not been able to figure out how he knew some of the things he did!

This year we also hosted a panel of experts from several of the funds that OptiFour recommends to answer questions and provide their insights about the markets and investment strategy. We want to thank everyone who attended for helping to make the gala a success and we hope to see all of you again next year. ■

MANAGING PARTNER

Weston D. Burnett, J.D., LL.M., CFP®

On the firm side, we are excitedly working on a number of technology upgrades that we completed (phones) or are still in process (server, software and cybersecurity upgrades).

On the family side everyone is healthy and happy, the best of all possible worlds. Barb has started her new part-time job and loves teaching her favorite subjects, Algebra and Geometry, to the small classes of highly motivated students. Our oldest son, David, has shared or is sharing adventures with me three times: First we climbed five 14,000 footers in Colorado in August (picture below); second, we trained for a 100 mile bike race in the Seagull Century in Salisbury, MD, in early October (David could not make it at the last minute); and third, we drove BMW M cars at the BMW Performance Driving School in Spartanburg, SC, in late October. Our son, Edward, his wife, Alka, and their daughter, Sitara, are close by and we see a lot of them when they are not in Scotland, Paris or Vienna on combined business and personal travel. Our daughter, Jennifer, her husband, JD, and daughter, Lota, are in Charlottesville where we see them on summer breaks, at the lake house in NH and on weekends.

Barb and I had one special treat in August. We went to South Africa, Namibia, Botswana, Zambia and Zimbabwe as part of an African river and national parks safari. We had the most fantastic time with close up views of all kinds of wildlife.

On the fitness side, I am thinking of going back to Colorado next summer as there are over 30 14,000 footers I have yet to climb. Meanwhile I joined Barb in her pilates class three times a week where I provided fresh entertainment for the class with my inflexibility. ■

Checking Estimated Tax Payments

Rasheda Nipu, J.D.

As a general rule, taxes must be paid as you earn or receive that income during the year. For many people this occurs regularly and is satisfied by electing to have the appropriate amount withheld from their wages/salary every pay period. For many others who have income sources other than employment income, their regular withholding does not produce enough taxes paid throughout the year. Typically, those individuals who anticipate having a tax bill due of $1,000 or more at the time their return is filed should make quarterly estimated tax payments. An exception to this general rule allows those individuals to be exempt from the estimated tax requirement, if they satisfy the following three requirements: (1) they had no tax liability for the prior year; (2) were US citizens or residents for the whole current tax year; and (3) their prior tax year covered a 12-month period.

When we file tax returns for our clients, we determine if they are required to pay quarterly estimated tax payments and, if so, we then calculate how much they should be paying quarterly. To determine how much in estimated tax payments you should be making every quarter, we need to account for your expected adjusted gross income, taxable income, taxes paid, deductions and credits for the year. In order to safeguard our clients from an underpayment penalty, we apply the prior-year safe-harbor rule. This provision allows individuals to avoid the estimated tax penalty for underpayment so long as they pay the smaller of 90% of their expected tax for the current tax year or 110% of the tax shown on their prior year's tax return.

In order to encourage our clients to follow through on making these payments, we provide dated payment vouchers to be submitted quarterly to the IRS and their respective state(s), for clients who we determine should be making these payments. When the payment instructions are followed as recommended, this is a service that our clients benefit from immensely because it not only safeguards them from possible penalty in the event of unexpected income, but the amounts paid count as credits for that particular tax year. Accordingly, I hope reading this article serves as a friendly reminder to those of you with quarterly payments on your To Do list! ■

Are Electronic Wills Around the Corner?

Jeremy Laughton, J.D.

Technology is becoming increasingly integrated with modern life: We use computers to manage our finances, pay bills, shop and do almost everything else. The digital age is even beginning to slowly work its way into the practice of law. Records can be searched and documents filed electronically. We can even sign contracts entirely through computers. Many of these electronic documents are governed by the Uniform Electronic Transactions Act, which was proposed in 1999 and has since been adopted by 47 states and the District of Columbia. However, when the model law was drafted, wills were intentionally excluded.

Since then, advocates have continued to push for the law to be expanded to cover wills. They claim that it would be an important step toward making estate planning accessible to the large number of Americans who currently have no plan in place. The first state to legalize the electronic execution of wills was Nevada. Nevada law requires that an electronic will be stored only in a secure and unalterable format and contain a record of a unique characteristic of the signer, such as a fingerprint or retina scan. This Nevada law was passed in 2001 and since then no other state has followed suit, although the courts in Ohio have upheld a will that was written and signed on a tablet computer.

Earlier this year, Florida almost became the second state to legalize the electronic execution of wills by statute; however, the law, after being passed by the legislature, was vetoed by the governor. The Florida statute would have required the party creating the will to appear in a live video conference with the witnesses and notary. In opposing the recent Florida statute, the Florida bar cited several factors, largely relating to security and the need to protect against fraud.

Changes in technology might address some of these concerns. Notably, the blockchain technology behind bitcoin and other cryptocurrencies can store a document in an electronic format that is incredibly difficult for any party to change. It is even possible this technology could be used to create wills that are automatically executed. Even once this new technology is more widely adopted, tradition and fear of elder abuse will likely mean it will be some time before electronic wills become commonplace. ■

Mutual Fund Alphabet Soup

Ryan R. Berges

If you are a mutual fund investor, you may have realized that many funds are now available in many different share classes. There was a day and time, now long ago, where you just bought shares of a fund, they may or may not have been called "A" shares, and likely there were no other choices. Now if a person looks at a fund that has been around a long time, such as American Funds Growth Fund of America, you will find quite a mix of share classes in existence: A, B (no longer for sale), C, F-1, F-2, F-3, R-1, R-2, R-2E, R-3, R-4, R-5, R-5E, R-6, 529-A, 529-B (no longer for sale), 529-C, 529-E and 529-F-1. For this one mutual fund I count 19 different available share classes. So how is an investor to make sense of such mutual fund alphabet soup?

Each and every mutual fund company is responsible for determining what types of shares they will offer to customers, and what they will name different share classes. While there are no industry-mandated specifics, there are some general similarities among many mutual funds. For a fund that has more than one share class, the underlying investments will generally be the same, but the differences between share classes are different fees and expenses, and typically a different share price. There may also be different rules from share class to share class as to who can buy a certain share class. Many mutual funds offer a share class to regular investors (often designated as "A" shares). If "B" shares are available, that share class pays a commission to the broker, but if the client sells in the first 5-7 years there is a penalty to sell. "C" shares are typically broker sold, with the broker getting usually 1% per year from the fund expenses, making the management fee higher than other share classes. Further down the alphabet you may see "D," "F," "I," "R," "Y" or other share classes that are often only open to large investors, "institutional" investors or large retirement plans.

It is important that investors understand different share classes available to them through their broker or advisor. Not every share class is available in every situation, and not every share class is advisable for every situation. Make sure you understand not only differences in fund management fees, but also differences in any transaction fees if you are buying this on a brokerage platform. ■

THE NORTHWEST QUADRANT

Listed Private Equity–A New Liquid Alternative

Larry Solomon, MBA, CFP®
Director of Investments and Financial Planning

Regular readers of this column know that liquid alternative investments are an important component of OptiFour's investment strategy and that we are continually looking for new sources of diversification. There is a relatively new liquid alternative investment category with unique risk and return characteristics that we are currently evaluating, **Listed Private Equity**. By definition, private equity (PE) firms use investor capital to acquire controlling interests in other companies with the goal of growing and improving those firms before selling them for a profit.

Investing in PE has been compared to diving for pearls: Incredibly rewarding, but exhausting and risky as well. Previously, the only way to access PE was through illiquid partnerships, which featured high fees, long lockup periods and complex tax reporting. But in recent years, a handful of mutual funds and ETFs have become available which offer exposure to this asset class in a liquid, relatively inexpensive format, available to retail investors.

Although it sounds oxymoronic, these funds work by investing in publicly-traded PE companies, firms like **Carlyle**, **Blackstone** and **KKR**, to name a few, whose shares trade on global stock exchanges. These listed PE companies have direct ownership, control and influence over the privately held businesses in their portfolios.

PE has long been a cornerstone of the "smart money" for institutional investors, including foundations, endowments and wealthy families, which have historically owned it for one simple reason: Results. Below is a chart of the eye-popping historical returns of the Red Rocks Global Listed Private Equity Index, a benchmark of over 60 of the largest and most liquid traded PE companies vs. the S&P 500 Index through September 26, 2017, which it outperformed over almost every time period since the market low on March 9, 2009.

Listed Private Equity Index Returns Since End of the Great Recession
3/9/2009 - 9/26/2017

	Year-to-Date 2017 Return %	1 Year Return %	3 Year Avg Annual Return %	5 Year Avg Annual Return %	Avg Annual Return % 3/9/2009 - 9/26/2017
Red Rocks Global Listed PE Index	21.36%	26.71%	11.42%	15.03%	24.10%
S&P 500 Index	13.19%	18.77%	10.28%	14.13%	18.85%

Returns are impressive, but so are the risks. PE companies tend to rely heavily on borrowing to finance their acquisitions, which magnifies both losses and gains. During the height of the Great Recession in 2008, the Red Rocks Global Listed PE Index lost 63.01%.

Although an allocation to listed PE is not yet included in OptiFour's investment strategy, we are currently assessing the risk, reward and diversification attributes of this asset class and have started using it with a few aggressive clients. Stay tuned! ■

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