

Trusts, Estate Planning, and Investing Behavior

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Medicaid Trusts

- Designed to protect assets when entering long-term care facility
- Often have to wait 5 years before applying for Medicaid
- Very complicated; get advice from elder law attorney specialist
- Other strategies may work better (long-term care insurance)



Bypass Trusts

- Designed to take maximum advantage of \$2 million estate tax exemption
- Money still available to spouse if needed
- Kids get remaining funds after death of both parents



Marital Trusts

- Often used when there are children from former marriage
- Provides for spouse while safeguarding assets that children will eventually get
- Also takes advantage of estate tax deductions



Other Estate Strategies

- Life insurance trusts
- Family limited partnerships
- Annual exclusion “Crummey” trusts
- Charitable trusts and giving strategies



Investing in Turbulent Markets

- Broad markets down nearly 20% from highs
- Many stocks down 50% or more
 - ▶ Big banks (Citigroup, Washington Mutual)
 - ▶ Brokers (Merrill Lynch, Bear Stearns)
- Home values falling
 - ▶ National Case-Schiller index down 9% in 2007
 - ▶ Boston area down 3.4%; lowest since 2004



What Your Gut Says To Do

- *Do something!*
 - ▶ Natural response to fear is fight or flight
 - ▶ “Fight” means increasing trading to make up losses
 - ▶ “Flight” means selling out and taking losses
- Reduce risk
 - ▶ Stocks seem safe when they go up
 - ▶ 2002-07 bull market was unusually calm



The Problem With Gut Investing

- Your gut hates losing money
 - ▶ Getting out makes you feel better short-term but hurts you more long-term
- Selling the wrong investments
 - ▶ Many investors will sell their winning stocks, not wanting to lock in losses on their losers
 - ▶ But losers often keep going down



Other Mistakes Investors Make

- Anchoring to entry price
- Overconfidence
- Performance-chasing
- Regret at making mistakes or missing out on a profitable opportunity



Some Rational Responses

- Do nothing
 - ▶ If your long-term plan is solid, stick with it
 - ▶ If changes are warranted, consider when you should make them
- Reassess risk tolerance
 - ▶ Many people take more risk than they have to
 - ▶ Make a concrete goal for savings and reduce risk as you get closer to your goal



More Rational Responses

- Diversify
 - ▶ Look for assets that do well in bad times
- Have an emergency fund
 - ▶ 3-6 months of expenses in cash
- Look for opportunity
 - ▶ Markets are beating everything down
 - ▶ But some companies are more affected by current economic problems than others

