

FOUNTAIN FINANCIAL ASSOCIATES

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BUILDING LONG TERM RELATIONSHIPS THROUGH KEEPING PROMISES

FALL 2011

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A Silver Lining

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Are you receiving periodic email updates from us?

If so, great! We welcome your feedback. If not, please call us at 910-256-8882, or email Dana at dstolte@financialnetwork.com to update your email address.



Finding Equilibrium

I recently observed a physical trainer working with a client at the health club. The trainer was using a combination of drills to enhance coordination, balance and equilibrium. Interestingly, the drills were directed toward improving both the physical and mental aspects of health. From what I observed, the exercises required visualization, thinking, effort, commitment, strength, confidence, risk and courage. I could see the challenge and the frustration on the client's face as he worked hard to perform the arduous tasks his trainer had assigned him. He was straining, trembling, red in the face, and downright aggravated when things did not go well. Most of us have felt that way at some point.

As I thought about his experience, I realized that some of these drills can be useful to us in the investment and financial planning process. Let's look at four similarities.

Visualization

It is helpful to have clarity of purpose around what you need to achieve in your portfolios. For most of us, the true goal is not to have daily values higher than the day before. Or, it is not to outperform our neighbor who speaks of "winning picks." For most of us, the goal is long term financial security, independence, freedom of choice and income for life among other things. I like to refer to this strategy as the "eat well, sleep well" formula. Freedom from worry may be more important than actual results in many cases.



KEEPING PROMISES by Vinton Fountain

You can't build a reputation on the things you are going to do.

Henry Ford

Commitment

Henry Ford said, "You can't build a reputation on things you are going to do." In order to succeed in the implementation of your financial roadmap, an investor must accept that markets have volatility. Successful investing requires recognition that wild swings are to be expected and exploited. Investors should

implement a disciplined process of buying securities when they are cheap and selling those same securities when they are expensive. Simply, buy low and sell high.

Managing Risk

Risk cannot be eliminated but it can be managed. As investors, we face market, interest rate, inflation, longevity, political, and event risk to

name a few. We can't control most of these variables, but we can control our attitude, behavior, diversification, investment process (who picks stocks/bonds), spending, monitoring and planning. One of the most important objectives of good risk management is to avoid losing money. This sounds obvious, but many investors do not spend adequate time defining the acceptable downside or potential for volatility. For most of us, we would rather make a little less in good times and protect the downside in bad markets.

Monitoring for Improvement

In today's dynamic world, monitoring progress toward your goals is imperative. I am not just referring to the value of assets, but more importantly the pro-

see **Equilibrium**, continued next page

Equilibrium

continued from page 1

cess, resources and needed adjustments. Monitoring risk for appropriateness is vital in a changing world. Effective monitoring provides an essential feedback loop for learning. Some investment themes may not work, so adjustments might be needed which leads to more experience and knowledge.

In closing, finding equilibrium is important in all aspects of life. But, in the implementation of your financial roadmap, it is important to be balanced in your decision-making process. I have learned that clarity toward goals, commitment to those goals; risk management and monitoring will generate superior results and allow investors to build confidence in the process.

The pace of change and the challenges of today are creating more uncertainty and trauma than any of us would prefer. We will continue to focus on the things we can control and know that we will be rewarded. According to the physical trainer in the gym, "improving your fitness is not easy, but the resulting outcome is worth it." As I move forward, I am pursuing optimism, confidence and equilibrium. It's worth it.



Vinton Fountain, *President*
Fountain Financial Associates

By three methods we may learn wisdom: first, by reflection, which is the noblest; second, by imitation, which is the easiest; and third by experience, which is the bitterest.

Confucius

Corporate America: Cash Rich, but Confidence Poor

With all of the negativity and uncertainty in the world, it is helpful to be reminded of some of the positive trends that usually do not make the headlines. One such fact is that corporate America, represented broadly by the companies owned in your stock portfolios, is much healthier than the headlines would have you believe.

Corporate balance sheets include a larger stockpile of cash reserves than ever recorded, estimated in September by the Federal Reserve at more than \$2 Trillion. As a percentage of corporate assets, that is a level not seen in 60 years. At the same time, many companies have been able to issue new debt and refinance their existing debt at the current generationally low interest rates. That combination puts much of corporate America in a healthy position to weather continued economic weakness if necessary, and very importantly, to capitalize on opportunities they find amid the uncertainty.

There are four primary ways that corporations can put all of this excess cash to work as confidence returns:

1. Capital spending and expansion: This will take the form of new investment in facilities, equipment, technology, and ultimately adding to employee headcount. Although hiring has remained weak, business spending on capital goods is up 26% since mid-2009.

2. Mergers and acquisitions: There have been numerous examples of sizable M&A deals this year, from banks and utilities to mobile computing. This activity is likely to remain strong and will present some exciting opportunities for shareholders.

3. Stock buybacks: A recent announcement by Warren Buffett is the latest example of a company publicly interested



in buying back their own shares. When a company deems its own stock is the best value available, they can positively drive shareholder value buy scooping up their own shares at attractive prices. This drives up earnings per share

(fewer shares outstanding), which in turn positively impacts company valuations.

BUILDING FUTURES by Buck Beam

4. Dividends: Returning cash profits to shareholders through dividend payments is probably the most appreciated use of excess capital. Despite the economic uncertainty, many companies have continued paying, and oftentimes are raising their dividends as a way to slowly draw down their cash reserves. Some cash-flush historic non-dividend payers are even looking into paying dividends or making special, one time dividend payments to their shareholders.

All of these methods of investing corporate cash are shareholder friendly. Businesses are still nervous having just gone through the late 2008 shock of the credit crisis. They have built significant cash reserves just in case, and now they are beginning to find opportunities to put it to good use. As confidence returns to the markets, and eventually to the economy, we will see even more capital expenditures, business acquisitions, stock buybacks, and dividend growth. We can hope that some of that will make the headlines.



Buck Beam
Investment Advisor Representative

Window of Opportunity

In the midst of all this 'noise' around Europe, deficits and Super Committees we are spending time focusing on things we can be doing to make a positive impact. The solutions are unique for each individual, but one of the more time-sensitive and unique opportunities that exists today is the present status of the Gift and Estate Tax.

What does this mean for us in 2011 and beyond? First let's summarize where we stand as of today.

1. We have a \$5,000,000 estate and gift tax exclusion in place (prior to 2011, gift exclusion was \$1,000,000) for 2011 and 2012.
2. There is a 35% gift and estate tax rate. May be a lower rate than in future years.
3. North Carolina mirrors the federal exclusion and adds 10% to federal estate tax.
4. No NC gift tax
5. No NC GST (Generation Skipping Trust) tax

Our current estate and gift tax rates may be low by historical standards and the gift potential without transfer tax is the largest ever. The issue at hand is that this is unlikely to continue and would change at the end of 2012. This opportunity could prove very expensive to your future estate if missed. The impact will be felt in terms of reduced assets transferred to future generations and charitable organizations.

For example let's say that a married couple has accumulated assets during



SOLVING for SUCCESS by Chris Riley, CFP®

their lifetime that are presently valued at \$10,000,000. Under current law, they would be allowed to gift up to \$5,000,000 each now and remove those assets and any future appreciation from their estates while potentially still having access to income from

these assets during their lifetimes. They would pay no estate or gift tax as a result, and any future appreciation on these assets would be tax

free as well.

If we revert to previous limits in 2013, they would be allowed to gift only \$1,000,000 each or \$2,000,000 total. This could mean an estate tax on an additional \$8,000,000 at a total rate of 65% or \$5,200,000 to the government.

Will we still be facing deficit and budgetary concerns at the end of 2012? How confident do you feel that current conditions will continue given the tough choices we are facing in Washington? My advice is to seek the expert opinion of an estate planning specialist to review your options and the potential financial impact on you and your family.

We may support you in this process; reducing the complexity and helping you make a wise decision. These are unique times, and it is wise to seek the opportunities that are at hand before the window closes.

Chris

Chris Riley, CFP
Investment Advisor Representative

Wealth Wisdom

Fear defeats more people than any other one thing in the world.

Ralph Waldo Emerson

Every moment and every event of every man's life on earth plants something in his soul.

Thomas Merton

We are made wise not by the recollection of our past, but by the responsibility of our future.

George Bernard Shaw

Go Paperless

Support efforts to go green by turning off paper delivery of your brokerage account statements and trade confirmations. A new website can help - register at www.mydocumentsuite.com. In addition to being environmentally friendly, going paperless offers these important benefits:

- Reduce risk - lessen the risk of identity theft that may be associated with sending sensitive financial information through the mail.
- Instant access - receive an email when a new account statement or trade confirmation is available online.
- Convenience - gain password-protected access to download and print your account statements and trade confirmations from virtually any computer, at any time.
- Eliminate paper - less mail means less clutter, lowering the risk of misplacing important documents.

Make a powerful choice and go paperless today.

Keeping Promises

FFA Events: In & Around the Office

Fountain Financial Associates' team took home the tournament trophy at the 2011 Junior Achievement Spring Golf Classic, held May 23, 2011, at Porters Neck Country Club. Our own Buck Beam is a member of JA's local board of directors, and he and Vinton anchored the winning team.

Junior Achievement of the Cape Fear Region gives young people the knowledge and skills they need to plan for their future, and make smart academic and economic choices. JA's corporate and community volunteers deliver relevant, hands-on experiences

that give students from kindergarten through high school knowledge and skills in financial literacy, work readiness and entrepreneurship. Junior Achievement of the Cape Fear Region impacted 4,664 students in 23 schools during the 2010-2011 school year, empowering them to their own economic success.

The Spring Golf Classic raised nearly \$30,000 to support JA, and we at FFA are proud we could be a part of the hugely successful event.



From left to right: Brad Mickle (of First Bank), Buck, Ned Murchison (also of First Bank), and Vinton



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Our newest team members

We are very happy to announce two additions to our Fountain Financial family. Greg and Dana Neel welcomed their son, Knox Alexander, on July 2, while Buck and Caroline Beam brought their second son, John Wayland, into the world on September 15. Congratulations to both the Neels and Beams on their beautiful, bouncing baby boys!



You must be new here: Knox Alexander Neel (above left) and John Wayland Beam (above right), being looked after by big brother Beau.