

FOUNTAIN FINANCIAL ASSOCIATES

BUILDING LONG-TERM RELATIONSHIPS THROUGH KEEPING PROMISES

Vol. 14, Issue 3: Winter 2013

On the Brink: A Procrastination Epidemic



Vinton Fountain

Last week, I had some minor surgery that required full anesthesia. One of the many questions the medical staff asked beforehand was, "Do you ever feel suicidal?" I was asked that question three times and I began to question my personal karma. Do I look that bad? My response was, "Not since last week, when House leader John

Boehner and Senator Harry Reid traded political finger-pointing over the debt ceiling and budget shutdown."

One of the largest impediments to navigating successful decision making is a human condition that I will call the procrastination epidemic. This behavior, and its extreme costs, is revealing itself in our society, today more than ever, due to the general uncertainty of our future, the polarization of our values and the fact that we are all human. Congress procrastinates, and so do we, at our own peril. It is a classic battle between our fears and our potential.

For investors, this condition is seen most clearly with postponing decisions that should be self-evident. I recently talked to a gentleman who was apprehensive about taking the productive step of moving assets from cash into a proven methodology that will allow him to maintain (and hopefully increase) his income and his net worth over time. His fundamental challenge applies to most of us. We ask ourselves, "How can we create a blueprint whereby our assets will increase and subsequently allow our income (and purchasing power) to grow above the very punitive cost of taxes and inflation? Do we have enough money to accomplish this equation

in a sensible manner?" Having the thoughtful answers to these questions allows for more confidence and improved execution, not to mention the feeling of being prepared. This thinking is academically and emotionally grounded.

"When you have a choice and don't make it, that is in itself a choice."

WILLIAM JAMES

Here is the problem: Human beings tend to avoid psychological damage by postponing perceived risk. It is easier and safer to ignore the facts (low interest rates, excellent market returns, increasing taxes, steady inflation and higher cost of living), because our minds will justify the false belief that we are averting a mistake or a negative outcome by postponing the needed decision. I, and most of you, do this every day, subconsciously, as a defensive and irrational behavior. Behold the named epidemic and the opportunity.

The costs can be extreme, in terms of reduced freedom and choice, as well as a reduced lifestyle or legacy. The financial costs are even more horrendous. Warren Buffett calls these costs the "silent tax." In the collection of essays *Tap Dancing to Work*, written by Carol Loomis, Buffett suggests that any investment must exceed the cost of inflation plus taxes before any excess return will be generated for the investor. I listened to the tapes and found this body of work to be a remarkable compilation of wisdom.

Here is the good news. People who develop an awareness of this potential problem and understand the costs of doing

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NC Tax Law Changes 2013



Chris Riley, CFP®

This past July, North Carolina Governor Pat McCrory signed a new tax bill into law. This was good news for many residents, but we would like to also highlight some changes, so that you are aware of how they may affect your personal tax planning.

First, the new law reduced our maximum state income tax rate from a tiered approach, ranging from 6% to 7.75%, to a flat tax rate of 5.8% in 2014 and 5.75% in 2015. It also eliminated the state "death tax" and increased the standard deduction for all tax payers. The list of positive changes also included lowering our state corporate tax rate from 6.9% to 6% in 2014 and 5% in 2015.

Of course, there were drawbacks as well. The most well-known drawback was limiting the maximum deduction for property taxes and mortgage interest to \$20,000, which really only affects tax payers with very large homes or large

pieces of property. However, a less-publicized drawback was the elimination of the tax deduction for contributions to the North Carolina 529 college savings plan starting in 2014. This deduction has allowed participants in the North Carolina sponsored 529 plan (through CFNC) a deduction against their state income taxes for deposits up to \$5000 per joint tax return or \$2500 per individual.

The elimination of the deduction does not take away the other benefits of using a 529 for college savings; it is still an excellent way to save. Savings still grow tax free as long as they are used for "qualified" education expenses and the donor maintains control of the assets rather than the child taking control at any specific age.

If you would like to talk about saving for your children or grandchildren, please give us a call.

Gearing Up for 2014



Buck Beam

As 2013 winds to a close, we are preparing for 2014. There are two important things that we do each December to make sure client portfolios are in the best position possible.

The first is reviewing accounts for tax purposes. While we are always mindful of the tax implications of our investment decisions, we review taxable accounts 2 or 3 times in November and December, specifically for tax purposes. We assess our holdings for taxable distributions and work to match gains and losses in client accounts. After a couple of very strong recovery years in the stock market, this is especially important. If you have any out-of-the-ordinary capital gains or losses outside of your accounts with us, this is the time to let us know.

The second is our annual Market Outlook Forum that takes place in mid-December. During this two-day meeting, we join 25-30 other independent advisors from North and South Carolina to interview portfolio managers, analysts, economists, and financial planning specialists from over 20 investment management firms. We will discuss these companies' results in 2013, expectations for 2014 and leading ideas for our client accounts. This marks the thirteenth year that we have participated in this forum, and we're looking forward to it again this year. We believe this is an important part of how we manage your accounts, and we're excited to share our takeaways with you.

If you have questions about our portfolio tax management process or upcoming Market Outlook Forum, please let us know.

Procrastination

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nothing can be well prepared to increase their standard of living and enjoy the benefits of exponential compounding returns. As our client, you have made this all-important step. Congratulations for doing your part! You deserve the rewards of courage, confidence, trust and sensible judgment. And for those who may still think it is easier to wait, I would encourage less emotion and more logic. William James said, "When you have to make a choice and don't make it, that is in itself a choice."

Move forward. It will be worth it. Let us know if we can help.

Communicating Your Legacy



Tracy Brown, CFP®

The goal of most estate plans is to provide for loved ones in a way that reduces confusion, misunderstanding and unnecessary complexity, and that maintains peace and harmony among family members. The best way to achieve that goal is with clear communication.

An estate plan will most likely accomplish your goals if you are properly educated about estate planning, regularly review your plan and update as necessary. However, you will not actually be the one implementing the plan. Typically, family members or friends appointed as executors, trustees, attorneys-in-fact and guardians will be the ones handling this fiduciary duty. Therefore, it is important that you provide these fiduciaries with the information they need to implement the plan based on your wishes. So what is the best way to communicate this information?

Be organized

One of the greatest gifts you can provide your heirs and fiduciaries is an organized estate. The incapacity or death of a family member is a traumatic event and the emotional turmoil is often magnified by the resulting confusion over plans, assets and desires of an incapacitated or deceased family member. The mental foggyiness that accompanies the family's trauma is increased by the inability to make basic decisions because of the lack of information. By having all of your financial information and wishes in one place, you can help make this transition easier. This should include copies of legal documents such as birth certificates, marriage licenses, passports, driver's licenses, social security cards and estate planning documents. You should include financial account information with login and password information, as well as other non-financial information, based on your individual situation and wishes. Additionally, you should include contact information for your professional advisors and fiduciaries. In an increasingly complex world, some of

us have far too much of this information scattered between our computer files and our brains. So whether it's a notebook, file(s) or other location, make sure your loved ones know where to find this information.

Have a family meeting

*One of the
greatest gifts
you can provide
your heirs is an
organized estate.*

We often see that families spend more time planning their family holidays and vacations than they do on their estate planning. It is never easy to deal with issues of death and incapacity. For this reason, many clients avoid talking about the plans they have made with family members and/or friends that play key roles, aside from letting them know they have been named in a fiduciary role in their documents. You have the opportunity during your lifetime to communicate with selected family members and fiduciaries about your estate plan and how it should be implemented. This meeting gives those who need to implement the plan an opportunity to learn about it in a calm, relaxed, non-emotional setting. They can hear about it directly from you, which adds life to any written instructions. This is a great time to talk about the legacy you want to leave. The family meeting also sets an example for your loved ones. It is an opportunity for them to see and experience you taking responsibility for your family's legal and financial security.

At Fountain Financial Associates, we strive to develop a better life for our clients and their families by providing a supportive relationship. We can help provide a framework for organizing your estate and help you decide whether, when and how to communicate with your loved ones about your estate plan. In 2014, we plan to provide educational opportunities in the area of estate planning. Stay tuned for communication on these events.

Tracy

Keeping Promises

Latest FFA Happenings

2013 FFA Family Outing

Back in August, all of us gathered with our families at the Surf Club in Wrightsville Beach to celebrate another year together.



Vinton meets CNBC analyst Ron Insana

Vinton had the opportunity to meet well-known financial analyst and commentator Ron Insana at a conference in Boston.

Missed an issue?

You can now access our archive of newsletters online (*screen capture, below*). Just go to our website (www.fountainfinancial.net) and click on the tab "Learning Center."



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Toward Full Stature

This summer I will be attending my 35th high-school reunion at Virginia Episcopal School in Lynchburg, Virginia. VES is a college preparatory school founded in 1916, nestled on 160 acres beside the James River in the foothills of the Blue Ridge Mountains. Our school's founder, Robert Jett, challenged all students to strive "toward full stature." The weekend will provide a return to the days of youthful exuberance and allow us to measure where we stand with Dr. Jett's vision.

Speaking of exuberance, the value of stocks as I write reminds me of the bull market in the late 1920s... and advice.

That behavioral paradox is the fundamental investor dilemma. The markets will go up and down every day for the rest of our lives, but our behavior is 100% controllable, and it links our lives to our investments. I have learned over the last 30 years that the most important contributor to doing well is not being money. Trying to predict market movements or stock speculation will be harmful to your financial lifestyle and security. *Things which matter most must never be at the top.*

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