

Two weeks from today, I will be travelling to Omaha, Nebraska to spend the weekend with Warren Buffett. Well, Warren Buffett and about 40,000 of his closest friends, that is. May 1st is the date for the Buffett's Berkshire Hathaway annual meeting. The highlight of the weekend is Saturday when Buffet and his business partner, Charlie Munger, take questions from shareholders about Berkshire's business and the stock market in general. Buffett himself calls the gathering each year "Woodstock for Capitalists". To be able to attend this meeting, you either have to be invited or you have to be a shareholder. As I am not a shareholder, I was invited and jumped at the chance because Buffet turns 80 this summer. You never know, this might be my last chance to sit in the same room as the guy.

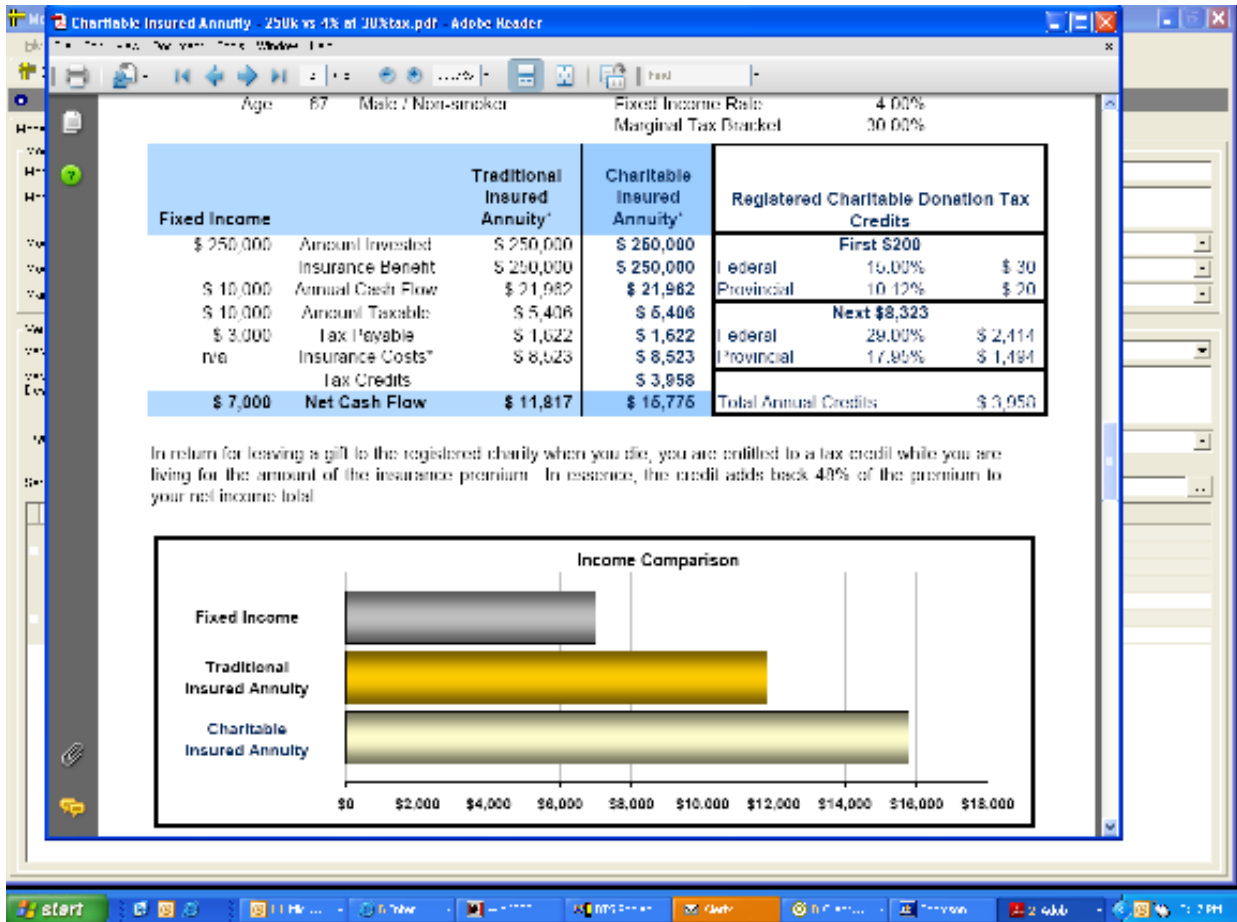
Lots has been written about Buffett and how he became so wealthy by investing in the stock market. He started with a measly \$100,000 that he raised from people he knew and today, Berkshire Hathaway is valued at roughly \$200 billion. Interestingly, two of the conditions he had for investing with him were 1) you weren't allowed to withdraw your money until he said you could and 2) you had to leave him alone and not ask questions about what he was doing with your money. I'll bet there were lots of potential investors that decided against investing with him under those conditions but I'm sure those original investors are quite happy now.

Warren Buffett is probably the most imitated investor of all time but he has never been replicated for one simple reason: he is completely unemotional about his investments and most people are. This attitude is best summed up in my favourite Buffett quote - "Be greedy when others are fearful and fearful when others are greedy." No one does this better than Warren Buffett. I'll let you know how it goes when I get back.

Given that the deadline for filing your taxes is two weeks from today, I thought I'd share how I helped a client achieve certain estate planning goals and ease his tax burden at the same time. The tools we used were primarily insurance based. I find many people underestimate the potential different uses of insurance to achieve certain financial goals, including reducing your tax bill. The scenario I'm about to describe is real but just a few caveats first:

- 1) This strategy is clearly not for everyone.
- 2) In order to implement the strategy, the client had to qualify for life insurance - not everyone is insurable.
- 3) The tax rates we are assuming are approximate.
- 4) This client did not "need" this strategy but once we explained how it works, he decided he wanted it.
- 5) I have his permission to share this with you but in the interests of privacy, let's call him "Warren".

The client: Warren is a 67 year old single male with no children. His portfolio is valued at approximately \$1.4 million and at a recent portfolio review, we were discussing his estate planning goals which included leaving a legacy gift of approximately \$250,000 to an Atlantic University. I asked a few questions about that and set up a meeting with our insurance specialist, Jason Lewis. The strategy that we suggested is known as a charitable insured annuity and here's what it looks like (if this is too confusing or messy skip to my explanation below):



One of my favourite expressions is "it's not what you make, it's what you keep". Here's the bottom line: if Warren didn't do anything, he would earn about \$10,000 a year on his fixed income investments which would be fully taxable leaving him with just \$7,000 every year. Who knows what inflation or interest rates will be over the next 20 years but his concern was that his estate would be intact to leave the gift to his alma mater. All we did was take that \$250,000 that was mostly invested in fixed income securities and buy an annuity which increased his cash flow and reduced the amount of taxes he had to pay. When you buy an annuity, you are basically giving your money to an insurance company in return for a monthly payment for life. To replace this money for his estate, he purchased \$250,000 of life insurance which has an annual premium of roughly \$8500. By doing that we increased his after tax cash flow to \$11,817 per year even AFTER his insurance costs. Finally, by gifting the policy to the university, he is now able to deduct the full amount of the premium as a charitable deduction and increase his after tax cash flow to \$15,775 a year which is more than double what he would be getting if he invested in fixed income.

Here's the kicker: this is all fully guaranteed. And in order to match this after tax rate of return, he would need a rate of return on his traditional investments of 9.01% GUARANTEED for the rest of his life. There is nothing today that could come even close to that.

One of the other concerns he had was whether he would need long term care and what that expense might do to his estate. With the extra annual after tax cash flow of almost \$9,000 a year, he purchased long term care insurance policy which will pay him about \$40,000 a year for as long as he needs long term care. This will insure (literally) that he will have maximum flexibility for his long term care options should he need it. And just in case he doesn't need long term care, we

structured the policy so that his estate will receive almost 80% of the premiums he paid during his life if he never makes a claim. It really turned out to be an exquisite solution that guaranteed several estate goals Warren had.

Let me know if you have any questions and have a great weekend.


Regards,

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