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Trust UPDATE

CITIZENS BANK
A Bank Built For You

February 2024

A "Friendly" endorsement of living trusts

The rich and famous use trusts, and you can, too!

Matthew Perry died suddenly in October 2023. He played Chandler Bing for ten years on *Friends*, reportedly earning $1 million per episode towards the end of that show's run. Perry had dozens of other film and television credits, and his wealth at death has been estimated at $120 million.

Perry never married, and he had no children. He is survived by his parents, his stepfather, and five step-siblings. According to estate planner Tereina Stidd, blogging for the *American Academy of Estate Planning Attorneys*, Perry did not have a will—at least, none has been produced in the three months since his death. Matthew Perry had done some estate planning, and he had a living trust.

We do not know the terms of that trust, who the beneficiaries are, or what assets the trust holds. We do not know whether charitable dispositions are included to reduce the roughly $40 million federal estate tax that would otherwise be due on a $120 million estate. Unless there is a legal contest of some sort, it is most likely we will never know.

Among the many reasons for having a living trust, financial privacy is likely the most important for celebrities such as Perry. However, there are many more advantages to be considered.

You remain in charge

When our clients place investable assets in flexible trusts, they give us their instructions in an attorney-drawn trust agreement. Under the terms of that agreement, they retain the right to cancel the trust or change their instructions. Nothing's tied up.

From a practical standpoint, our trust clients maintain exactly as much investment control as they wish, just like the clients who have their personal investment accounts or IRAs with us.

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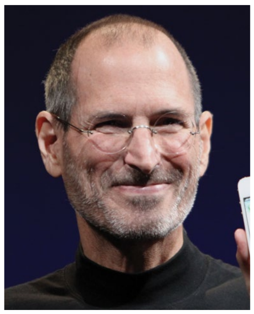
What do these five men have in common?

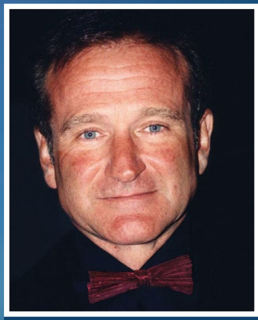
Dwight D. Eisenhower

Frank Sinatra

Michael Crichton



Steve Jobs



Robin Williams

All five used a living trust in their estate planning.

But you don't have to be a celebrity to enjoy trust benefits, and you don't need remarkable amounts of wealth either. We'd be pleased to tell you more.

Photo credits: Dwight D. Eisenhower, official photo portrait; Frank Sinatra, László Willinger; Michael Crichton, Jon Chase photo/Harvard News Office; Steve Jobs, Matthew Yohe; Robin Williams, John Mathew Smith & www.celebrity-photos.com.

Typically, we provide professional management or guidance tailored to each trust client's needs and preferences.

Always, our role as trustee is to do exactly what our trust clients have instructed us to do. There's no doubt whatsoever about who's in control. If any client ceases to be satisfied with our services, he or she is perfectly free to terminate the trust or employ another trustee.

Improved control

Our living trust clients don't simply keep control, but in certain respects, they gain more control—greater control than they would enjoy if they weren't taking advantage of our personal trust services.

For example . . . .

- ***Greater freedom from financial chores.*** As a living trust client, you can free yourself to travel (or spend all your waking hours launching your retirement hobbies) by arranging to have household bills paid from your trust. If you wish, we'll even see to the preparation of your annual income tax returns and pay your quarterly estimated taxes from your trust's income.
- ***More effective planning.*** "Keeping control" isn't an end in itself. To further your personal and family goals, you need to use that control effectively. As a living trust client, you have access to informed, responsive, financial planning assistance. Whether you're looking to fund the grandchildren's college educations or to support a favorite charity, we can help you select the methods that make the most sense—and, perhaps, improve your tax picture too.
- ***Financial protection upon incapacity.*** No one can escape the risk of debilitating illness or injury. In the event of incapacity, others must necessarily take control of your finances. Even so, a living trust allows you to pass control to a trustee of your choice—us, we hope. And in your living trust agreement, you establish the ground rules concerning how you want things handled.

Without a trust—and related arrangements, such as giving someone your power of attorney—it's the probate court that decides who takes over in the event of incapacity. And the only ground rules are those set forth by impersonal law.

Put our experience to work for you and your family

If you would like to learn more about our personal trust services and how they might help you do more with your financial assets, we invite you to meet with us in person.

We look forward to discussing your goals and requirements. ☐

Living trusts, pros and cons

Although a living trust may not be right for everyone, the advantages are impressive.

POTENTIAL ADVANTAGES

- Professional asset management
- Avoidance of guardianship
- Probate avoidance, which is especially useful if assets are owned in more than one state
- Financial privacy for the estate plan and the beneficiaries
- Continuity of investment management at death
- Uninterruptible financial protection at death of the grantor

POTENTIAL DISADVANTAGES

- Planning expenses—a lawyer is required to draft the trust plan
- Ongoing administration expenses, though these need to be compared with other comparable investment management accounts
- Inconvenience of having a separate legal entity own and manage assets—not a problem if a corporate fiduciary is chosen as trustee

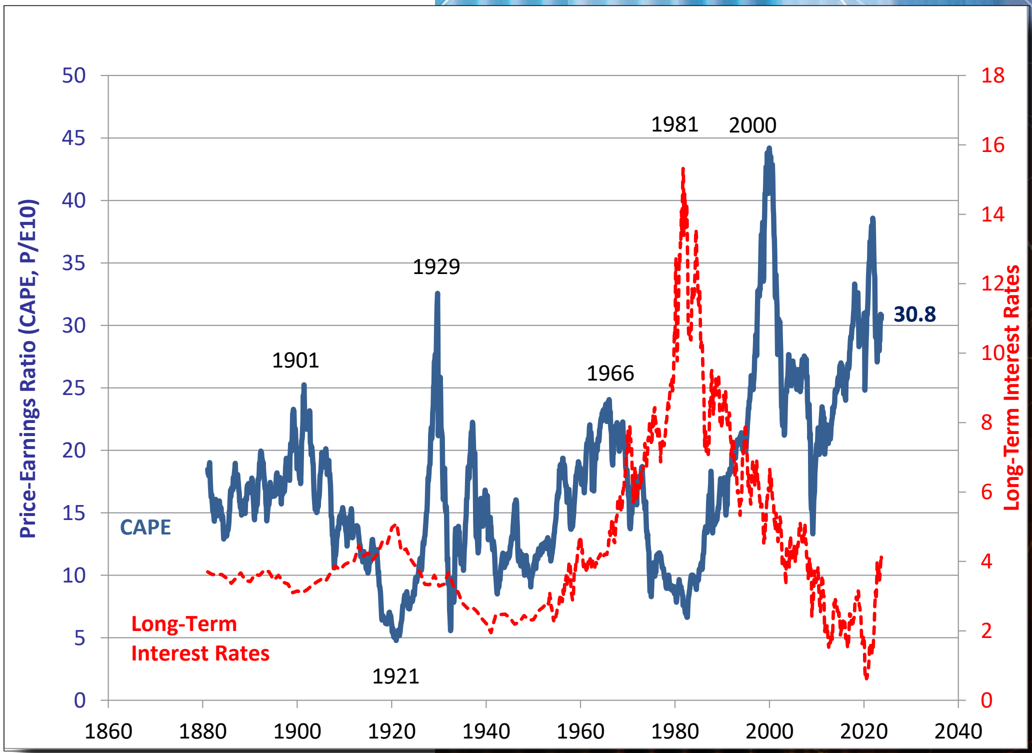
Can stocks still go higher?

Considerable uncertainty remains about the health of the economy in 2024. The Federal Reserve is not expected to lower interest rates until inflation is unambiguously contained, for which the indicators are positive but mixed. A recession this year remains a possibility, but there is widespread hope for a “soft landing,” a return to lower interest rates without an economic contraction. Wars in Ukraine and the Middle East, and rising tensions with China, add still more variables to the economic picture.

Why then are stock market indices setting new records?

For the large-cap stocks, prices are high not only in absolute terms, but also relative to earnings. The price-to-earnings ratio is a measure of what investors are willing to pay for the future stream of earnings from a share of stock. As 2024 began, investors were willing to pay quite a lot indeed.

Yale Professor Robert Shiller popularized the cyclically adjusted price-to-earnings ratio (CAPE ratio), which smooths the earnings data over ten-year periods. The graph here plots the CAPE ratio over time with long-term interest rates. A peak of 32.56 in the CAPE ratio was reached in 1929, before the stock market crash that led to the Great Depression. The ratio stayed below 25 throughout the prosperity of the post-War period, until 1996. It rose sharply at the end of the century, spawning the term “irrational exuberance” and topping out at 44.20 in 1999. Then came the dot-com crash.



Source: http://www.econ.yale.edu/~shiller/data.htm

In more recent times, the ratio reached 33.31 in 2018, responding perhaps to the corporate tax reforms enacted at the close of 2017. It fell to 24.82 in 2020 during the pandemic, before recovering to 38.58 in 2022. It eased somewhat in 2023, but it remains historically high.

What accounts for the surprising investor optimism?

As the graph shows, part of the answer is that low interest rates make bond investing relatively less attractive. When interest rates were very high in the 1970s, the CAPE ratio fell to low levels. Regular double-digit payouts were more enticing than the uncertainty of dividend distributions. Although interest rates are higher now than they had been, they are nowhere near the levels of the 1970s.

Another element may be a “flight to quality”—investors may believe that only the largest companies will have the resources to weather coming economic storms. Finally, investors may be looking ahead to a period when the international situation is more settled and the economy returns to robust growth. An increase in earnings brings down the CAPE ratio to more historically normal levels.

The answer to the headline question is that no one really knows how high stocks can go. But in uncertain times such as these, investors may benefit from professional investment counsel, such as we offer. ☐

Digital asset taxation

In January, the IRS reminded taxpayers that they will again see a question regarding digital assets on their tax returns this year. It's a Yes-or-No question, and the answer goes to whether there are tax consequences for digital asset ownership. What is a digital asset? Virtual currencies, such as bitcoin, as well as non-fungible tokens (NFTs) are included.

If one does not own any digital assets, the question should be answered "No." A "No" answer is also appropriate for taxpayers who:

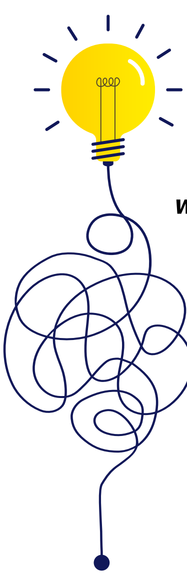
- Simply held digital assets in a wallet or account;
- Transferred digital assets from one wallet or account they own or control to another wallet or account they own or control; or
- Purchased digital assets using U.S. or other real currency, including through electronic platforms.

The "Yes" answer is required if there has been a sale or other transaction with a digital asset. Examples include:

- Receiving digital assets as payment for property or services provided;
- Receiving digital assets resulting from a reward or award;
- Receiving new digital assets resulting from mining, staking, and similar activities;
- Disposing of digital assets in exchange for property or services;
- Disposing of a digital asset in exchange or trade for another digital asset;
- Selling a digital asset; or
- Otherwise disposing of any other financial interest in a digital asset.

The IRS views digital assets as property, which has a tax basis. If cryptocurrency is used to make a purchase, gain or loss must be recognized on the change in the value of the currency. If wages are paid in cryptocurrency, they are taxable as ordinary income.

The IRS announcement is IR-2024-18. Additional details on the tax ramifications of owning digital assets may be found at https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets. ☐



Notable

"I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than when they got up, and boy, does that help—particularly when you have a long run ahead of you."

—Charlie Munger, *2007 USC Law School Commencement Address*