

SEASIDE ADVISOR



INSIGHTS, IDEAS AND NEWS FOR SEASIDE CLIENTS • SEASIDEBANK.COM

FIRST, DO NO HARM.

One of the guiding principles we advocate in the management of our clients' investments is "preservation of capital." This concept is often mistakenly associated with a fear of any and all risk. In fact it is an objective that can be incorporated into even the most aggressive of stock strategies. It requires the simple recognition that large losses and the permanent destruction of capital can do irreparable harm to household savings.

The math is quite cruel. The 51% peak-to-trough drawdown of the S&P 500 in 2008 will require a 104% portfolio gain to return to a net 0% loss. That's a lot of excitement for no return. The NASDAQ decline of 2002, also known as the dot-com meltdown, destroyed 78% of that index's value. A 355% gain from the low would be required to complete the recovery of value for that index.

Such observations lead some investors to conclude that you have to time the market in order to make and keep profits. Market timing may actually succeed in taking a challenging task and making it impossible. To effectively time the market you have to be right twice in succession about something that most seldom get right at all. First you have to know when to get out, and then you have to know when to get back in. Market timing also invites us to view investing through the filter of human emotions which seem best equipped to buy high and sell low.

One of the qualities we seek in an active manager is "downside protection." We believe that this is an important part of what you pay for in the higher fees associated with active management. After all, when the market is going straight up, the cheapest and easiest way to participate in that rally is with a low-cost index fund. However, when the market turns, that same index will be down in lock-step with the market. This is where an active manager can distinguish himself by playing strong defense. And that typically does not mean going to cash when the going gets tough. It does mean having a process that protects value on the downside. Often this protection has more to do with the manager's "buy" discipline than the sell side.

One manager we use emphasizes quality stocks that pay high dividends. That manager points out that, depending on the period studied, dividends account for anywhere from 20% to over 50% of stocks' total return. The percentage tends to be higher in more challenging environments. In a down market, the cash flow from the dividends tends to help protect the value of dividend-paying stocks. Dividend-paying companies tend to have stronger balance sheets and more consistent income streams – protective qualities in a difficult market.



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Another manager we use protects the downside by only buying stocks when they are priced below the company's "intrinsic value." They do the laborious work of arriving at an independent valuation for a company based on a careful read of its balance sheet and its income statement, and then only buy if the stock is trading for a price meaningfully below that figure. This discipline incorporates a "margin of safety" into every purchase they make. Some of these disciplines will lag when the broad market is going straight up, but they more than make up for it by protecting value when investors are running for the exits.

At Seaside, we seek to incorporate preservation of capital into every portfolio we build.

Past performance is not an indicator of future results.





NEED A TAX BREAK? CONSIDER A JUMBO MORTGAGE



Seaside National Bank & Trust clients looking to save on taxes are finding one of their biggest tax breaks in their homes.

If you are challenged to find tax deductions in today's environment, you may need to find other ways to offset your tax bill. Your mortgage costs can help to soften the blow at tax time. Deductible interest and points for the prior year are detailed on a statement – called a 1098 – that your mortgage holder sends you by Jan. 31 each year.

Interest

You can deduct the interest you paid on your mortgage when you itemize deductions on your tax return.* Place the figure from box 1 of your 1098 on line 10 of your Schedule A for itemized deductions. If your mortgage interest for the year totals more than \$10,000, you may be well on your way to reducing your tax bill.

Points

If you closed on your mortgage during the prior year, and paid points out-of-pocket, they count as interest and will be listed on the 1098. A point is 1 percent of the loan amount, and buyers often pay between one and three points. Simply enter the amount listed in box 2 of your 1098 on line 12 of your Schedule A and complete the form per IRS instructions. You can also choose to deduct your points gradually over the life of the loan.

An added benefit of refinancing your jumbo loan (a loan over \$417,000) is that rates have come down over the last year and are now much closer to conventional mortgage (mortgage less than \$417,000) rates. Seaside is one of the few local lenders continuing to offer jumbo mortgages, both through correspondents and in our own portfolio. Whether your loan is a purchase, a refinance or a new construction loan, we can help.

* Please note that neither this financial institution nor any of its affiliates give tax or legal advice. Consult your tax advisor regarding your individual circumstances.

SOCIAL MEDIA SCAMS: CHANGING BY THE MINUTE

The number of clicks, shared links, “likes” and connections made by social media users is off the charts, and cyber crimes related to social media are spreading just as fast. These scams take advantage of social connections and the fact that people often view photos, videos and links posted by their friends without hesitation. Unfortunately, the latest scams involve hijacking accounts and tricking friends into downloading viruses or sharing sensitive information.

One of these scams might be waiting in your inbox or social media newsfeed right now:

- A Facebook post from a friend inviting you to link to a photo album of a recent vacation. *Watch out:* The friend's account may be hacked and the link could be infected.
- An instant message from a friend with a plea to wire money because he or she is in trouble. *Watch out:* The friend's account could be hijacked and this is probably not your friend asking for help.
- An email disguised to look like it's from Facebook notifying you that a friend commented on one of your photos on the site. *Watch out:* When you click the link to view the comment, you might download a virus instead.
- A tweet inviting you to check out a funny video through a short link. *Watch out:* Your friend's Twitter account could be hacked and the link might be infected.
- A message that appears to come from LinkedIn invites you to download documents for a meeting. *Watch out:* Downloading the files could install malicious software onto your computer.

WHAT'S THE LATEST WITH ESTATE AND GIFT TAXES?



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You don't need to be a baseball fan to appreciate the estate planning lessons provided by George Steinbrenner, the late owner of the New York Yankees.

Steinbrenner happened to pass away in 2010, a year when there was no federal estate tax. More important, he had made plans years earlier for the handling of his billion-dollar estate, ensuring his family wouldn't need to sell the Yankees just to pay estate taxes.

Even if your savings account falls several zeroes short of Steinbrenner proportions, it pays to plan your estate – especially in lieu of Congress' on-again, off-again approach to estate and gift tax implementation.

Estate and Gift Tax Status

With the 2010 Tax Relief Act, the rules for estate and gift taxes are revised – but only temporarily. Unless Congress acts further, these rules are slated to expire at the end of 2012.

Under the new rules, the estate tax exemption increases to \$5 million, while the top estate tax rate is 35%. This is far more generous than in 2009 (when we last had a federal estate tax), which had a \$3.5 million exemption and a 45% tax rate. Additionally, the new exemption is portable, so a surviving spouse's estate can use the unused exemption portion from the deceased spouse's estate.

On the gift tax side, there is now a \$5 million individual lifetime gift tax exemption, up from the prior limit of \$1 million. For wealthy couples, this means that combined, they can give away an additional \$8 million to their heirs, tax-free.

Additionally, assets inherited before 2013 will have a "stepped-up" basis, meaning that the heirs' basis is the property's value at the time of death. Thus, if you purchased stock 20 years ago at \$10 a share, and it's worth \$50 a share when you die, your heirs won't pay any capital gains tax on any appreciation in the stock that occurred during your lifetime.

Planning Accordingly

How might you take best advantage of these revised estate and gift tax rules?

For starters, if you have substantial assets (e.g., a property, a business, etc.) that you could potentially give away, consider doing so before the end of 2012, when the increased gift tax exemption expires. To maximize your gift tax exemption, consider using a trust, which can be structured to shift substantial amounts from gift tax consideration.

Second, realize today's new estate tax laws are only temporary. While it's prudent to plan for now, know that in two years, your plans may need tweaking. Stay vigilant for tax law changes.

Consult with Lea Anne Groover, Seaside's estate planning professional, for more information.

Please note that neither this financial institution nor any of its affiliates give tax or legal advice. Consult your tax advisor regarding your individual circumstances.

THINK BEFORE YOU CLICK

Cyber criminals dream up new scams for stealing information every day. As more people use smaller hand-held devices, the red flags of scams go easily unnoticed on tiny screens. Protect your information and think twice before you click, download, share or "like" something on social media sites.

At Seaside National Bank & Trust, we have advanced systems in place to ensure your account information is safe.



HOW MUCH LIFE INSURANCE DO YOU NEED?



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Your life insurance needs change as your life changes. When you are young, you may not have a need for life insurance. However, as you take on more responsibility and your family grows, your life insurance needs increase dramatically. Your needs may then decrease after your children are grown. You should periodically review your needs to ensure that your life insurance coverage adequately reflects your life situation.

Estimating Your Life Insurance Needs

There are a couple of simple methods that you can use to estimate your life insurance needs. These calculations are sometimes referred to as rules of thumb and can be used as a basis for your discussions with your insurance professional.

Income Rule

The most basic rule of thumb is the income rule, which states that your insurance needs are equal to six or eight times your gross annual income. For example, a person earning a gross annual income of \$60,000 should have between \$360,000 (6 x \$60,000) and \$480,000 (8 x \$60,000) in life insurance coverage.

Income Plus Expenses

This rule considers your insurance needs to be equal to five times your gross annual income plus the total of any mortgage, personal debt, final expenses, and special funding needs (e.g., college). For example, assume that you earn a gross annual income of \$60,000 and have expenses that total \$160,000. Your insurance need would be equal to \$460,000 ($\$60,000 \times 5 + \$160,000$).

Family Needs Approach

The family needs approach requires you to purchase enough life insurance to allow your family to meet its various expenses in the event of your death. Under the family needs approach, you divide your family's needs into three main categories:

- Immediate needs at death (cash needed for funeral and other expenses).
- Ongoing needs (income needed to maintain your family's lifestyle).
- Special funding needs (college funding, bequests to charity and children, etc.).

Once you determine the total amount of your family's needs, you purchase enough life insurance, taking into consideration the interest that the life insurance proceeds will earn over time, to cover that amount.

Income Replacement Calculation

The income replacement calculation is based on the theory that the family income earners should buy enough life insurance to replace

the loss of income due to an untimely death. Under this approach, the amount of life insurance you should purchase is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds will generate.

Estate Preservation and Liquidity Needs Approach

The estate preservation and liquidity needs approach attempts to calculate the amount of life insurance needed upon your death to settle your estate. This includes estate taxes and funeral, legal and accounting expenses. The purpose is to preserve the value of your estate at the level prior to your death and to prevent an unwanted sale of assets to pay estate taxes. This method takes into consideration the amount of life insurance needed to maintain the current value of your estate for your family, while providing the cash needed to cover death expenses and taxes.

Contact Us

We welcome the opportunity to discuss your life insurance needs in greater detail. Please contact Tanya Kiener-Baker today to set up an appointment.

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NOT deposits or obligations of the Bank, or guaranteed by the Bank or any of its affiliates.
Subject to risk and may lose value.

