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BlueTrust

Winter 2024 : February

» Choosing the Right Trustee for Your Estate
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> "In this world nothing can be said to be certain, except death and taxes."
>
> \- Benjamin Franklin

Choosing the Right Trustee *for Your Estate*

When we hear the words estate planning, our minds wander to the climatic event of death. Death is a part of it, yes, but it is not the whole picture.

It is often not helpful to compare estate planning to other personal activities in which we enlist professional advice. For instance, for unique or unfamiliar situations, we seek a specialized practitioner like a surgeon, accountant, or lawyer. Those meetings are usually for a particular need like specialized medical procedures, tax implications, or legal advice. They are by and large transactional.

Estate planning, on the other hand, is a continuous process of positioning our assets for the best future tax and succession outcomes for everyone we love (and perhaps some we do not love, like the IRS). It is not just about taking care of a current need, but rather about planning for the future.

The Estate Planning Process and Selecting the Right Trustee

Your estate is something you have worked hard to build, and you care about what happens to it after you are gone. After spending time carefully crafting your estate plan, your attorney or advisor will inevitably ask the question that you know is coming: "Who do you want to serve as trustee of your estate?" Often when people are asked this question, they become impulsive because they think this is a decision that must be made in the moment. Almost always, a person initially selects one of the following: their spouse, adult child, or another family member.

Selecting someone close to you who knows you well can provide some measure of comfort and familiarity. This decision may feel right in the moment, but is it the best choice? Have you considered all the possible ramifications? If your spouse is chosen, will they face tax implications? If you have more than one child, how do you determine which of them to select? Is your family member prepared and capable of executing your estate?

The duties of a trustee are extensive. They must maintain records, handle the accounting, manage the investments of the trust, answer to regulators, and have the capacity and knowledge to undertake all of these matters. They must also bear the burden of liability through adequate capitalization and insurance.

Questions To Ask Before Naming Someone Your Trustee

Choosing a trustee is a very personal decision, but it can also be a complicated and daunting one. When considering an appropriate person, you will want to evaluate the person's abilities and capacity by asking some poignant questions. It is critical to take an objective approach to these questions and remember you are not picking your "favorite" person, but rather the most appropriate one to serve as trustee of your estate.

> “The estate planning process is a time for reflection.”

Here are questions to consider about your potential trustee:

1. Has this person served as a trustee before? Do they know what it means to serve in this role and therefore understand what you are asking of them?
2. Is the person trustworthy, objective, and reliable?
3. Does this person have the time to serve as a trustee? Do they have a busy life that may impact their ability to provide the focus and attention needed? Would these responsibilities negatively impact their personal commitments?
4. Is this person financially stable and able to relate to your financial situation?
5. Does this person get along with your family members? How will their serving affect family harmony? Could the roles and responsibilities of the trustee alter their relationships with other family members? Can they navigate family dynamics?
6. Are you comfortable with this person being in a position of power over your beneficiaries?
7. Are you naming this person to avoid a conflict in the family? Are there personal issues or family dynamics that need to be addressed instead?
8. What if your trustee dies or becomes disabled? Will the successor you named still want to or be able to handle the duties of trustee?

Is a Professional Trustee the Right Choice?

After reviewing these questions and considering all their options, some people choose to engage a professional trustee instead of relying on a family member. A professional trustee will administer the provisions of the trust as a neutral third party, not show preferential treatment, and expertly follow the terms of a trust agreement, which may help to alleviate family conflict. Professional trustees are becoming more common in modern estate planning and asset management.

There are several benefits to choosing a professional trustee.

- They are experienced in managing many types of assets, taking care of legal reporting requirements, and understanding tax matters like income, gift, estate, and generation-skipping provisions.
- Professional trustees are regulated by state and/or federal agencies and held to a higher standard than nonprofessionals (e.g., family members or friends).
- They often have experience handling complicated beneficiary situations and can bring valuable insight to the table.
- They can provide consistent services to multiple generations of a family because their services will not be affected by the death or disability of the trustee.
- A professional trustee will work with you and your other financial advisors (attorneys, tax advisors, accountants, etc.) to make sure your trust or estate is administered efficiently, confidentially, and according to your wishes as outlined in your documents.

Although a professional trustee may charge a fee for their services, and a family member may appear to be a free option, the family member (and you) may not realize the full responsibility of serving as a trustee. The trustee of your estate, whether a family member or professional, must apply a higher standard of care to your assets than they do to their own. They have a fiduciary responsibility, which means that their personal needs come second to your assets and the needs of the trust. Individuals are not always available. They go on vacation, get sick, and have their own work and family responsibilities. However, if they are named as your trustee, then your estate needs must take precedence.

The good news is that these two options are not necessarily mutually exclusive. If you decide to utilize a professional trustee, then you still have the option to name family members as trust advisors and/or protectors of your estate. This increasingly common feature is known as a directed trust. In a directed trust, the terms of the document grant a person, other than a trustee, power over some aspect of the trust’s administration, such as investments, distributions, removal/replacing a trustee, or amending the trust. Several states have directed trust laws in place, including Tennessee, where Blue Trust is chartered. Being a trust advisor or protector does not require any experience, just that the person is trusted by you.

Final Thoughts

There is a big difference between trust and trustee. A trustee is to be trusted with all matters they undertake, but they do not have to undertake all matters (such is the case when there are trust advisors and/or protectors). You may trust your spouse, child, sister, or cousin, but are they the best candidate to take on the role of trustee?

The estate planning process is a time for reflection. Take time with your decisions. Interview the individuals in your life who you are considering selecting as trustee as well as some professional trust companies. See where there might be holes in your thinking or planning. When approached systematically, objectively, and with the help of trusted advisors, you can make wise decisions that you feel confident about.

Choosing a loved one to serve as trustee may be a good option if you have someone suitable for the role who can look after your personal interests and wishes. If, on the other hand, you need someone who is more experienced and available, a professional trustee can help.

Blue Trust advisors have extensive experience with estate planning and a skilled trust and estate planning team supporting them. Blue Trust also offers professional trustee services. As always, we look forward to partnering with you on your financial and estate journey and offering this wealth planning service to individuals and families who need it. If you are considering naming Blue Trust in any trustee capacity, please contact your financial advisor for more information.

The Roles Defined

Trustee

A person, bank, or trust company that holds and administers trust property for the benefit of a third party. Trustees can prepare and file tax returns, make distributions to beneficiaries, and manage all assets.

Executor/Personal Representation

A person appointed to carry out the directions in someone’s will and transfer the property according to his/her wishes.

Guardian/Conservator of the Estate

A person or institution appointed to manage assets of a minor or incapacitated adult under the direction of an applicable court.

Making Wise Decisions *About Debt*

The weight of debt in the United States is staggering. Last year, Americans' household debt rose to $17.29 trillion, mainly due to mortgages, credit cards, and student loan balances.[1] Credit card debt reached a high of $1.02 trillion, a more than 16% increase over the previous year.[2]

We live in a consumption-driven society and have countless options for financing and credit. For major purchases, Americans have historically let interest rates drive their decisions about whether to take on debt. However, our recent high-interest-rate environment made borrowing decisions more complex and challenging.

Used prudently, borrowing money can help you reach certain goals, like owning a home. However, it's wise to approach debt with caution because of its spiritual, economic, psychological, and personal implications.

Business debt is somewhat different and should be evaluated separately from consumer debt. Sometimes there are valid reasons to borrow when you are starting or running a business or if the funds will contribute to your company's growth.

What Does the Bible Say About Debt?

This truth may surprise some: the Bible does not directly state that debt is sinful. It does, however, warn us about the consequences that debt can cause if used irresponsibly.

First, debt presumes upon the future and our ability to repay it. None of us knows what tomorrow will bring and when circumstances, such as our health or employment, will change. The Bible tells us that attempting to predict our future financial condition is foolish. *"Now listen, you who say, 'Today or tomorrow we will go to this or that city, spend a year there, carry on business and make money.' Why, you do not even know what will happen tomorrow. What is your life? You are a mist that appears for a little while and then vanishes. Instead, you ought to say, 'If it is the Lord's will, we will live and do this or that.'"* (James 4:13-15, NIV).

> "Relying on borrowing to fund household expenses and budgetary needs is a dangerous use of debt."

Second, excessive use of debt may signal a more profound spiritual dilemma. Borrowing decisions can be driven by greed, impatience, and lack of self-discipline. The U.S. lending system has made purchasing something right away easier than waiting and saving for it. The Bible warns: *"A faithful person will be richly blessed, but one eager to get rich will not go unpunished."* (Proverbs 28:20, NIV).

Third, carrying significant debt can weigh us down and limit our vocational and spiritual options. For example, you may be compelled to stay in a job that compromises your personal life and values because you rely on that income level to pay your obligations. The Bible cautions that the borrower becomes the lender's slave or servant. *"The rich rule over the poor, and the borrower is slave to the lender."* (Proverbs 22:7, NIV).

Evaluating a Debt Decision

Debt, simply stated, is a contract to pay later for what you receive now. When deciding whether to borrow or take out a loan, ask yourself the following key questions.

» Does this debt decision make sense economically?

» Is the economic return likely to be greater than the financial cost?

» How will taking on this debt affect my future net worth?

» What personal goals am I meeting by taking on this debt?

» Am I unified with my spouse about this debt decision?

» Do I have peace of mind about this borrowing decision?

[1] www.newyorkfed.org/microeconomics/hhdc.html
[2] www.experian.com/blogs/ask-experian/research/consumer-debt-study/

Guidelines for Prudent Borrowing

A prayerful and responsible approach to borrowing decisions can help us avoid negative and unintended consequences. Consider these guidelines when evaluating consumer debt decisions.

Establish a budget that allows you to spend less than you earn.

We must live within our income to save, give, pay off debt, and reach our financial goals. Relying on borrowing to fund household expenses and budgetary needs is a dangerous use of debt.

Understand how the cost of debt compounds.

Borrowers frequently get into trouble because their debt starts to compound. The impact of interest over the life of a loan can be significant. For example, if you borrow $15,000 to buy a car at a 5% fixed interest rate for 48 months, you'll pay $16,581 for the car due to the cost of interest. A $3,000 credit card balance becomes $3,491 if you pay it back over two years with 25% interest. You borrow using pre-tax dollars but repay debt with after-tax funds. A $30,000 loan will require over $40,000 in future gross income to repay it (assuming 25% taxes).

Avoid borrowing for depreciating assets or consumptive spending.

Using debt to buy a depreciating asset (i.e., car, motorcycle, or boat) or consumer items (i.e., clothing, jewelry, or furniture) almost always will decrease your net worth. Try to reserve borrowing for growth opportunities or necessities.

Create a solid plan for repaying debt.

Always ask, "How much does this debt presume upon the future?" When deciding to borrow money, you should have a well thought out plan of how you will repay it as soon as possible. If you have consumer debt, start a repayment plan to prioritize all high-interest, short-term debt. Consider targeting the smallest debt balances first to build momentum and more quickly gain additional cash flow margin.

Most of us will decide to borrow money at some point in our lives. The key to debt management is to wisely consider the situation, work to limit the frequency and amount of your borrowing, and always have a diligent repayment plan. Scripture reminds us that God will provide for our needs, and by prudently managing or avoiding debt, we can experience the spiritual and financial freedom to respond to His call in our lives.

Tax Season Is Approaching

While a new year often brings a time of quiet after the busyness of the holiday season, it also signals the beginning of tax season. You are probably already receiving tax documents, and you will want to keep all this paperwork organized and easy to find.

It's common for errors or omissions to occur in tax preparation, especially since it has become increasingly more complex, and organizations are issuing tax documents much later in the year. These delays can cause a time crunch for you and your tax preparer.

Below is a list of items frequently overlooked or entered incorrectly on tax returns. Follow these best practices to reduce the possibility of having an error on your tax return that requires an amendment.

» **Qualified Charitable Distributions (QCDs):** A 1099 form alone will not indicate that a distribution was charitable. You should submit both the 1099 showing the distribution and a receipt from the charity confirming that it received a charitable gift from an individual retirement arrangement (IRA). As a reminder, QCDs are not included in income, so they are not tax deductible.

» **529 Contributions:** Provide your tax preparer with a copy of the statement showing your 529 contributions and account number. Contributions to 529 plans may be deductible on a state tax return.

» **1099s:** Match your 1099s to your accounts. You should have a 1099 for each taxable investment account titled in your name or a trust name. You will receive a 1099 for IRA accounts only if you received a distribution or made a QCD. You will also receive a Form 5498 for each of your IRAs, which you should keep for your records. Note: custodians may issue corrected 1099s later in the first quarter. Be sure you have submitted the final copy of the 1099 to your tax preparer.

» **Nondeductible IRA Contributions:** Another common oversight is failing to file Form 8606 if you make a nondeductible IRA contribution. Not properly reporting the contribution can result in double taxation when you receive distributions from the IRA. You must also file Form 8606 if you transfer a nondeductible contribution from an IRA to a Roth IRA.

We recommend that you carefully verify that you received all your tax documents before completing your return and review the return before you sign it. If you have any tax questions, please contact your advisor or tax professional.

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Winter 2024 : February

Investment Perspective

Is the Glass Half Full or Half Empty?

We welcomed 2023 amid sharply rising interest rates, geopolitical crises, slowing global economic growth, and widely held expectations that the U.S. was headed into a recession. Contrary to these expectations, a recession didn't materialize in 2023, and the economy remained resilient despite:

- Four rate hikes by the U.S. Federal Reserve (Fed) that lifted the federal funds rate above 5%.
- A March banking crisis that featured three of the four largest bank failures ever.
- The U.S. government narrowly avoiding a debt default that could have stressed the global economy.
- Continuing geopolitical conflicts in Ukraine and the Middle East.

Despite these notable economic disruptions, equity markets rallied for most of the year. Gains were heavily concentrated in a few large, technology-related stocks that have the potential to benefit from artificial intelligence (AI). By December, anticipation of a recession was replaced by expectations for the elusive soft landing as inflation cooled amid slower economic growth. These events left many investors wondering whether the economic glass is half full or half empty.

Economic Overview

Recession Indicators

The last official U.S. recession occurred in 2020 as we battled the COVID pandemic. This recession was notable for its brevity and magnitude—about 22 million jobs were lost in two months. The U.S. economy experienced two consecutive quarters of economic contraction in 2022, which is one measure of a recession. However, the National Bureau of Economic Research (NBER), which officially declares U.S. recessions, has not confirmed this period as a recession, citing continued strength in the job market, industrial production, and corporate earnings.

While those trends continue, several U.S. recession predictors persist. For example, the U.S. Treasury yield curve has been inverted since July 2022. Historically, this metric has been viewed as a reliable recession indicator. In addition, the Conference Board's Leading Economic Index (LEI), which tends to fall ahead of a recession, has declined for 21 consecutive months.

The Magnificent Seven

In addition to rising interest rates and recession fears, investors braced for an equity market downturn in 2023. Instead, the economy grew, unemployment remained low, and equities outperformed expectations. Notably, the market's gains were heavily concentrated in a few stocks known as the Magnificent Seven (M7). Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla accounted for approximately 58% of the S&P 500 Index's gains last year.

Geopolitical Uncertainty

The war in Ukraine continued through 2023. Then, in the fourth quarter, Hamas attacked Israel, leading to an ongoing, horrific battle. We send our prayers to those impacted by these tensions around the globe and pray for rapid resolutions.

The Israel-Hamas conflict had little effect on financial markets, which rallied from October into December. However, concerns persist that the Middle East conflict could spread, which might subsequently drive oil prices higher.

Our Perspective

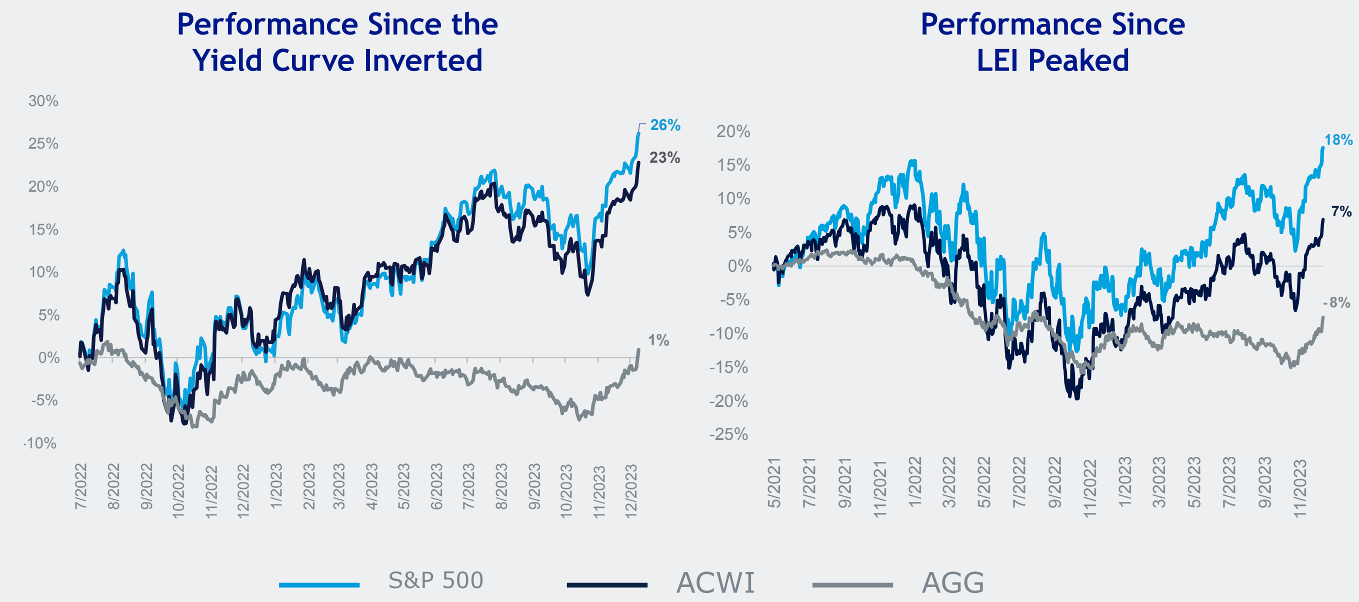
Lower Chance of Recession

Given the changing expectations, investor optimism, and the broadening equity rally, the probability of a recession is lower, but the possibility is still present based on the inverted yield curve and LEI decline. When recession concerns arise, it is tempting to reduce equity holdings and, in turn, portfolio volatility. However, 2023 market returns demonstrate that we should not allow recessionary indicators to exclusively dictate our investing decisions. Investors who pulled out of equity markets earlier in the year missed out on 2023 gains.

Beyond Magnificent Seven Companies

When equity prices rise sharply, as in 2023, valuations follow. In our opinion, the valuations of M7 companies are not sustainable despite stronger-than-expected company earnings. In fact, price-to-earnings (P/E) ratios for the M7 are so high the word "bubble" comes to mind. We're not predicting the bubble is about to burst. However, Inherent Value is one of our core investment principles. When an asset is overpriced, its future return potential tends to be limited. We have exposure to the M7 through our core equity positions but believe it's too risky to overweight these companies and there is greater upside potential in the other 493 companies in the S&P 500.

We also continue to find value in international opportunities. From a valuation perspective, U.S. stocks tend to trade at a premium relative to international stocks. That makes sense, given the American market's growth orientation and scope. However, the valuation gap has expanded rapidly in recent years.



Source: FactSet data as of 12/14/2023. LEI (Leading Economic Index), which is a composite of leading economic indicators. ACWI (All Country World Index) is comprised of stocks from both developed and emerging markets. The AGG (Bloomberg Aggregate Bond Index) includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the U.S.

Higher Bond Yields

We also see opportunities in fixed income. In this market cycle, rising interest rates have been the primary driver of bond prices, as opposed to changing credit quality. Real yields, which reflect inflation, remain at multi-year highs. While many companies refinanced when interest rates were near zero and have yet to feel the pressure of higher rates, that may change as significant amounts of corporate debt mature from 2024 to 2026. Interest coverage ratios, which help determine how well companies have positioned themselves to repay debt, have come down but not much. That could change. As a result, as interest rates are expected to decrease, we believe it is prudent to extend duration and focus on credit quality.

War and Commodity Prices

The unrest in Ukraine drove oil prices to decade-plus highs in mid-2022, but prices quickly retreated. The Hamas-Israel crisis also briefly pushed prices higher. However, we believe the Middle East conflict will have a limited impact on oil prices unless the situation extends to other countries.

Conclusion

So, is the economic glass half full or half empty? We tilt more toward half full than we did in early to mid-2023, although a recession is still possible. We enter 2024 with uncertainty. Many believe this will be the most significant election year in history, as dozens of elections occur worldwide, including the crucial U.S. presidential election. In equity markets, we will continue to watch the impact of AI on corporate productivity and efficiency, which will most likely take years to play out. We will also likely experience the fluctuation of investor sentiment and share price valuations.

In turbulent times, it's important to maintain perspective. A lot has happened over the last two years, but the S&P 500 rolled through the ups and the downs and finished 2023 near all-time highs. It's a reminder that successful investing is a marathon, not a sprint. Whether the glass is half full or half empty isn't all that important. Highs, lows, and uncertainty are parts of investing. The key is managing the risk of investing by holding a well-diversified portfolio that aligns your short- and intermediate-term cash flow needs with your long-term financial goals.

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Principles-Based Investing

Applied Wisdom

We believe that applying principles can improve the chance of successful investment outcomes.

Uncertainty

Provision against an uncertain future is a reason to save and invest.

Human Productivity

Wealth is created as a result of human productivity. Productivity is the combination of human creativity and natural resources.

Leadership & Governance

Leadership significantly influences the productivity of the people they lead. Environments with greater civil and economic freedom tend to provide increased fertile ground for investment.

Instability

Markets and economies are not stable, and provisions against uncertainty may fail. Risk needs to be managed through diversification.

Inherent Value

Investors and markets are not always rational. Opportunities or risks can be identified when a disciplined valuation process is used to determine the inherent value of an investment.

3 Pillars of Our Investment Approach

Based on the principles above, the strategies we build exhibit these characteristics:

01. Growth

Markets with faster economic growth

02. Valuation

Assets priced appropriately

03. Diversification

According to your time horizon & cash flow needs

About Blue Trust

Blue Trust advisors apply biblical wisdom and technical expertise to help clients make wise financial decisions to experience clarity and confidence and leave a lasting legacy. With nearly $16.5 billion of assets under advisement and a nationwide network of 18 offices, we offer comprehensive financial services and objective advice to more than 10,000 clients across the wealth spectrum in all 50 states *(as of 12/31/2023 and subject to change).*

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