



The Financial and Estate Planning Council of Metropolitan Detroit, Inc.

April 2009

30600 Northwestern Hwy., Suite 208, Farmington Hills, MI 48334 • (248) 538-7654 • FAX: (248) 538-7656

President's Message

One morning last week as I poured my first cup of coffee and gazed (somewhat grumpily, I must acknowledge) out to my back yard, I was heartened to note three things: 1) my lawn had begun greening, 2) the first shoots of the perennials had surfaced, and 3) the first flight of migrating birds landed and were singing lustily. Almost despite myself, my spirits lifted as I realized that spring had come once again.

I suppose it could be said that spring is God's way of saying "Hang in there, things will get better". The timing of it, though, was striking, corresponding as it did to a bear market rally of several weeks, accompanied by some economic data that while certainly not good was at least not longer getting worse.

Those of us who advise clients concerning their financial affairs—as I have noted in prior messages in this space—have found our professional abilities stretched to the maximum over the past year. Our state in particular has undergone (and likely will continue to do for some time) a severe "Winter of Discontent"—but just like the long, cold, harsh, gray, snowy winter of 2008-9, all such winters eventually pass.

Some trees and shrubs may have died over the winter, but with some spring cleanup with rakes, limb saws and shovels and a few annuals planted around the beds, soon the old homestead will start to come alive yet again. Those fresh green shoots of upcoming perennials may yet be covered again with snow, but it won't last—they will grow again and blossom.

Let me encourage you to note a few of the positives: consumer and business spending have not fallen off as much as predicted, hours worked have actually increased (a harbinger of reversal of the dismal unemployment

statistics), auto sales while bad were not down as much as predicted, and finally of interest to all of us professionally is the prospect of some sense of finality to estate and gift tax reform, up in the air for the past decade.

Next month will come our annual meeting accompanied by our now-annual golf outing. Nothing says "spring" like the frustration of futilely chasing the little white ball! Allow me to encourage you to attend and participate as fully as your schedule and budget will allow. This year we are expanding the concept to promote and raise money for the Special Olympics—after all there is nothing that makes us feel better about ourselves and our own business than doing something for others who are less fortunate than ourselves. I hope to see you all at Wabeek Country Club on May 4th. ♣

Terry R. Altman, CLU, ChFC, CFP®

WELCOME TO OUR NEW MEMBERS

Donald A. DeLong

Law Offices of Donald A. DeLong, PC
Sponsors: Ed Pugh and Jeff Risius

Patricia E. Kefalas Dudek

Patricia E. Kefalas Dudek & Associates
Sponsors: Ronald Charlebois and Paul Christ

Gerald J. Norris, CFP

UBS Financial Services
Sponsors: Thomas MacFarland and Keith Olson

Calming Client Fears in Turbulent Markets

Charles Aulino

The topic and the timing attracted some fifty PEPC members to the first roundtable session of the current year, held at Mellon Center on Tuesday, October 28, 2008. Three panelists brought distinctly different perspectives and each contributed to a lively and informative session.

The audience first heard from Brendan M. Gilmore, a Senior Investment Officer with BNY Mellon Wealth Management. He described himself as an old-timer who was already managing money during the bear markets of 1973 – 1974, and the content of his presentation evidenced a depth of understanding. Mr. Gilmore frankly described the current financial markets as the most challenging in the career of even senior professionals in his discipline. “As tough as I have ever seen it” were his words. He portrayed what is happening on Wall Street as an old fashioned financial panic, the likes of which has not been witnessed since the late 1800s or the 1930s and stated that even the wisest can not predict the final resolution. The media was described as providing volumes of data, but not much useful information and as inclined to forecast the worst. Nobody, according to Gilmore, is looking at fundamentals at a time when fundamental analysis is critical.

While painting a grim picture, however, Gilmore pointed out reasons for hope. He described the equity markets as having recently been imprisoned by the fixed income markets, noted that corporate profits have declined far less than stock prices, mentioned that cash positions on large corporations’ balance sheets are at their highest levels since World War II, and concluded that the reality of the economy is not nearly as bad as it has been portrayed. His statements called to mind the words of A.P. Giannini, “Depressions are the product of fear ... Prosperity, however, is born of confidence.” Incidentally, Giannini made that statement just as his bank was buying all the bonds issued to raise funds for the construction of the Golden Gate Bridge.

Concerning client attitudes, Gilmore told the audience to start by recognizing that fear among their clients is widespread and pervasive, to accept that fear, and to deal with it sympathetically and truthfully. Pro-active communication is the key, he said; the wealth manager must initiate contact and not merely respond to calls from frightened clients. He suggested a return to financial fundamentals, on a personal level, as the

best course of action. A fresh look at client goals and objectives, examination of the relationship between financial resources and accustomed spending, and asset allocation were all included in the list of topics for the wealth manager to address. He suggested using cash equivalents and fixed income, where possible, to cover immediate cash needs rather than liquidating equities. In other words, Gilmore seems to believe that personal financial planning is now more important than ever.

Howard Silverman, a principal of Innovative Benefits Consulting, Inc. described the challenges facing life insurance companies and their policy owners. He began by pointing out that, despite the (infrequent) failure of life insurance companies, there has never been a single case of failure to pay a death benefit. Silverman explained the basics of life insurance company regulation and described the long-established practice of insurance company rehabilitation. For instance, one company that is in financial difficulties may be combined with another that is fiscally sound for the protection of policy owners and beneficiaries, all under the guidance of state regulatory authorities. Alternatively, healthy insurance companies may acquire blocks of business from companies in distress.

Silverman also provided details of the business of life insurance companies that provide a buffer in challenging financial markets. Cash inflows from new business and recurring premiums are often sufficient to cover all or much of the cost of claims so that an insurance company’s portfolio of financial assets can be deployed for the long term. Insurance company portfolios typically hold a small proportion of equity investments with a substantial allocation to fixed income that has exhibited lower volatility in the past.

Rather than suggesting the insurance industry is immune from the effects of the global economic crisis, Silverman went on to describe how and why things can go wrong. He compared the situation to the kind of fear-induced “run” on banks that often occurred during the Great Depression and other financial panics. Depositors withdrew their funds even from financially sound banks to avoid the possibility of loss in the event of bank failure. Ironically, the run itself was the very event that caused failure to occur. With deposit insurance, there has been little or no evidence of similar panic-driven herd behavior among bank customers. Holders of insurance policies may be unaware of the state insurance funds that provide a measure of protection for the cash value of life insurance policies. As a result, policy owners may decide to access the cash value of their policies through policy loans, “just in case.” A run on an

FINANCIAL AND ESTATE PLANNING COUNCIL OF METROPOLITAN DETROIT
ANNUAL MEETING PRECEDED BY THE 3rd ANNUAL GOLF OUTING
(Please refer to the additional Golf Outing Notice)

NET PROCEEDS & ADDITIONAL CONTRIBUTIONS TO BENEFIT



<i>Special Olympics Additional Donations</i>	
<i>Bronze:</i>	<i>\$ 25.00</i>
<i>Silver:</i>	<i>\$ 50.00</i>
<i>Gold:</i>	<i>\$100.00</i>



GUEST SPEAKER: SEBASTIAN V. GRASSI, JR.
Grassi & Toering, PLC

“Financial and Estate Planning For Families With a Special Needs Child”

MONDAY, MAY 4, 2009

Wabeek Country Club
4000 Clubgate Drive, Bloomfield Hills, MI 48302
Office: 248.855-0700

Sponsored By



Sebastian has been practicing law for over 25 years. His practice emphasizes business law, business succession planning, estate planning and probate (including estate planning for special needs families), special tax counsel to trustees and executors concerning complex tax issues, and related real estate matters. Listed in *The Best Lawyers in America* and in *Michigan Super Lawyers*, Sebastian is a Fellow of the American College of Trust and Estate Counsel ("ACTEC"), and has served as a member of the Estate Planning Advisory Board of the American Law Institute - American Bar Association ("ALI-ABA"). Sebastian has also served as a member of the Michigan Probate and Estate Planning Council. The Council advises the Michigan legislature on changes in probate and trust law.

Sebastian has published over 95 articles on business law, estate planning, estate planning for special needs families, and tax matters in *Probate & Property*; *ACTEC Journal*; *Estate Planning*; *Journal of Practical Estate Planning*; *The Journal of Taxation*; *The Journal of Taxation of Estates and Trusts*; *Michigan Bar Journal*; *Michigan Probate & Estate Planning Journal*; *Michigan Tax Lawyer*; *Probate Practice Reporter*; *Tax Management Estates, Gifts and Trusts Journal*; *Wealth Strategies Journal*; *Practical Tax Strategies*; *The Practical Lawyer*; *The Practical Tax Lawyer*; and *Tax Ideas*. Sebastian is also a winner of the prestigious American Bar Association's Probate & Property "Probate & Trust Excellence in Writing Award for Best Practical Use Article." A recognized authority in estate planning and business matters, Sebastian is also a frequent lecturer across the country.

Sebastian is a member of the Christian Legal Society, where he has served on its national Board of Directors. Sebastian and his wife, Elizabeth, have three children, Laura, Stephen, and Carolyn. Laura is an adult special-needs child. Sebastian and his wife are lifetime members of THE ARC of Oakland County (www.arcoakland.org)

AGENDA:	5:30 p.m.	Complimentary Cocktails
	6:30 p.m.	Business Meeting and Speaker
	7:30 p.m.	Dinner

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**NEW FEATURE: Log onto our website by April 24 to make your reservation and pay with VISA or Master Card.**  
[www.metrodetroitfepc.org](http://www.metrodetroitfepc.org)

OR PLEASE MAIL YOUR RESERVATION AND CHECK **BY APRIL 24 TO:** **COST: \$60.00 PER PERSON**  
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MEMBER NAME: \_\_\_\_\_ GUEST NAME: \_\_\_\_\_

TOTAL ENCLOSED: \_\_\_\_\_

FINANCIAL AND ESTATE PLANNING COUNCIL OF METROPOLITAN DETROIT

# 3<sup>RD</sup> ANNUAL CHARITY GOLF OUTING

NET PROCEEDS AND ADDITIONAL CONTRIBUTIONS TO BENEFIT THE SPECIAL OLYMPICS



## MAY 4, 2009

### WABEEK COUNTRY CLUB

4000 Clubgate Drive, Bloomfield Hills, MI 48302

<http://www.wabeekcc.org/>

11:15 AM REGISTRATION / 11:45 AM: BOX LUNCH/  
SHOTGUN START 12:00 PM

\$150 PER GOLFER OR

18 HOLES OF GOLF WITH A CART/DRIVING RANGE  
WARM-UP/UNLIMITED COURSE BEVERAGES

\$550 PER FOURSOME

4-PERSON SCRAMBLE

\$650 FOR A FOURSOME AND A HOLE SPONSOR

5:30 PM COCKTAILS

SPECIAL OLYMPICS ADDITIONAL DONATIONS:

6:30 PM ANNUAL MEETING & GUEST SPEAKER

BRONZE: \$25.00

7:30 PM DINNER

SILVER: \$50.00

GOLD: \$100.00



**NEW FEATURE:** Log onto our website by April 24 to make your reservation and pay with VISA or Master Card.

[www.metrodetroitfepc.org](http://www.metrodetroitfepc.org)

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insurance company of sufficient magnitude could force the liquidation of portfolio securities when market conditions are not favorable. Silverman observed that it is the responsibility of life insurance professionals and other advisers to help clients evaluate their policies and their overall financial circumstances and to avoid behavior based on fear rather than knowledge. He also made available to the audience information about the financial soundness of insurance companies, provided by the primary industry rating agencies.

The third of the presenters was Attorney Travis P. Nelson, an associate in the Financial Services Practice Group of Pepper Hamilton, LLP, who has previous experience with the Office of the Comptroller of the Currency. Those attending had the benefit of the knowledge and experience of an attorney whose practice includes the defense of financial institutions accused of under-collateralized loans, lending limit violations, loans to non-creditworthy borrowers, even auditor intimidation. This presented an entirely different perspective from those of the other panelists that addressed a completely different aspect of the challenges facing the industry.

Nelson began by elaborating on the protection afforded to bank customers through federal deposit insurance, noting that the maximum coverage limit has been increased to \$250,000. He also explained that separate coverage limits are provided for each of multiple accounts in certain circumstances. Next, he offered a cogent explanation of how and why securitization was at the core of the crisis. Some lenders were not concerned with the ability of borrowers to meet their obligations because they knew that unrelated institutions and investors would bear the risk of the mortgage bundles being packaged and re-sold. "I'll be gone and you'll be gone" was the slogan that led to oceans of profit on Wall Street until the bubble burst.

Banks are regarded as holding a sacred trust of the public's money by regulatory authorities, and Nelson predicted widespread government reaction to the violation of trust that brought about the current turmoil. He pointed to consolidation within the industry that has already begun and likely to continue. The expected result, he stated, is fewer, larger financial behemoths, and much smaller regional institutions that will face unprecedented competition.

Nelson observed that, as things now stand, caution is interfering with the routine practice of inter-bank loans leading to a contraction of the supply of credit available to businesses and consumers. How many loans will end up in default and when the bottom will be reached, he warned, are unknowable. One

hopeful development Nelson mentioned is relaxation of the rules that specify what firms are subject to the Bank Holding Company Act. The new standards took effect on September 22, 2008. Nelson sees that as a positive development because it will make more capital available to banks from private equity firms without subjecting these new, non-controlling owners to what might otherwise present insurmountable regulatory obstacles.

In identifying the type of government and private litigation that is expected to arise, Nelson recognized the government's reluctance to add to bank woes. Instead, actions based on real estate appraiser fraud and unfair and deceptive practices of mortgage brokers are more likely. Private individual and class action suits, however, will target lenders as well as brokers and others. Nelson described the process followed by attorneys to evaluate cases of aggrieved borrowers and even offered examples of how institutions can prepare to defend, beginning with controlled self-assessment and advance disclosure in some cases.

In all, this program provided invaluable information about a financial crisis of historic proportions as it is unfolding. The Philadelphia Estate Planning Council is grateful to Messrs. Gilmore, Silverman and Nelson for their efforts and insights.

Note: This article is based on the subjective observations of one attendee at a PEPC Roundtable. There can be no assurance that the information summarized represents the actual views and beliefs of the presenters who have not reviewed or approved the text.

## **SAVE THE DATE**

### **NAEPC 2009 Conference Information**

46th Annual Conference

November 11 - 13, 2009

Amelia Island, Florida

The Amelia Island Plantation

**The Financial and Estate Planning Council of Metropolitan Detroit, Inc.**

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