

Guiding a Widow to Financial Independence

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The case studies presented are real descriptions of actual client relationships. We have protected the identity of the clients by changing names and locations. Given that many of our clients experience similar life events, the case studies are designed to depict the value proposition Massey Quick brings to the table. Each family we work with is unique. There is no “cookie cutter” set of solutions. We bring our full set of resources to the table to solve, educate, implement, and monitor.

Background

Ms. Morelli, a newly widowed 62 year-old woman with 2 grown children, came to Massey Quick at the suggestion of a friend. Her late husband had managed all of their investments without the assistance of an outside advisor. He had kept Ms. Morelli in the loop in a general sense but she had never been intimately involved in the day-to-day transactions or composition of their joint portfolio. Composed, yet anxious to build an understanding of her estate, Ms. Morelli looked to Massey Quick for guidance and organization as she entered the next phase of her life.

Key Issues

- After several meetings, Ms. Morelli shared her statements with us and the majority of her assets were in equities. She was aware that the portfolio experienced a significant decline in 2008, but she was hesitant to make changes and was unsure about how to get started. Included in her assets was a concentrated financial services stock position that carried a low basis.
- Ms. Morelli was particularly concerned about replacing the income her husband had made from his salary.
- She and her husband had discussed making gifts to their children but he passed away before this was finalized and carried out.

Our Approach and Recommendations

With Ms. Morelli’s permission, we introduced ourselves to her CPA and began building a relationship with him to better understand Ms. Morelli’s larger financial picture and tax planning opportunities. I brought a Trust & Estates attorney into the fold to bring her will up-to-date after her husband’s passing and to ensure our recommendations were in line with her current estate plans.

With Ms. Morelli’s input, we developed an investment policy statement that incorporated her key priorities as we prepared to construct a portfolio. We took the time to educate Ms. Morelli on the contents of both her existing and proposed portfolio and the various investing options that we

developed. She appreciated our patience and willingness to explain our recommendations and the rationale behind them. The final portfolio allowed for ample liquidity and periodic income distributions, was balanced across asset classes for broad diversification, and included some hedged managers that offered downside protection during volatile periods. The multi-asset class, multi-manager portfolio offered a better risk/return profile that would allow her to generate returns in line with expectations but without the excess volatility that could erode principal.

To fulfill her intentions for gifting and to reduce her concentrated stock position, we suggested a 2-year zeroed-out GRAT (Grantor Retained Annuity Trust) for the benefit of her two children. Here, the low basis stock that was expected to significantly rise in value was irrevocably placed in a trust for a 2-year term. On each anniversary, a pay-out was made back to Ms. Morelli as the grantor, which helped to supplement her income. At the end of the term, asset growth in excess of a stated IRS interest rate was paid out to the beneficiaries, either outright or in trust. This strategy was appealing to Ms. Morelli because it satisfied her and her late husband's intentions relating to gifting, reduced her concentration in the stock, and provided income. Additionally, she was able to avoid paying long-term capital gains taxes on the stock that was gifted and retained the flexibility to sell the stock during the term of the GRAT if she wished.

We met quarterly during the first year of our engagement, and semi-annually in subsequent years. Ms. Morelli continues to call us periodically with questions about the investments in her portfolio or when she is considering a financial decision that we would like us to weigh in on. For example, we assisted her with setting up, funding, and selecting appropriate 529 Plans for her grandchildren. We have since begun working as the investment advisor for Ms. Morelli's children and one of her close friends.

The above hypothetical case study is offered to illustrate the benefits that Massey Quick's customized approach can provide. Please note that actual client experience could vary, and there can be no assurance that Massey Quick will be able to deliver the same type of results referenced in the case study.