



# THE PLANNER NEWSLETTER

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**Employee stock options** have been in the news a great deal lately. One of the issues concerns the expensing of options. There is considerable disagreement on the value of expensing options and little agreement on the methodology for doing so. The debate on this subject is likely to go on for months if not years. Regardless of how it turns out, we believe that employee stock options and restricted stock grants will continue to be a vehicle that companies will use to attract and retain key employees. In addition, since there are currently 12 million option-holders, many with numerous options exercisable over the next 10 years, providing High Value Stock Option Planning will remain a major opportunity for advisors to attract and serve these high net worth clients for many years to come.

The market has lately been showing a slight upward trend, but the prevailing belief among advisors is that “the vast majority of options are currently under water.” This is probably true of many options granted in the last 2 to 3 years, but our research indicates that there are a large number of companies with options granted 7 to 9 years ago that are significantly in the money. With less than 3 years until expiration, it is time for these option holders to begin a systematic diversification program.

In the last edition of *The Planner*, we announced that we are building a database of companies that are likely to have options that are in the money. The following links list just a few of these companies in the Southeastern and Northeastern states. If you would like a customized list for your area, please call Sarah Ward at (877) 728-5964.

## WHAT'S NEW AT NWSI:

- Business Development Program—planning brings results
- StockOpter PRO in beta test
- Introduction to HVSOP will debut in Atlanta

(For details see page 6)

## HVSOP BUSINESS DEVELOPMENT PROGRAMS

Date	Location
<b>Sept 11-13</b>	<b>Dallas</b>
<b>Sept 23-25</b>	<b>Atlanta</b>
<b>Oct 7-9</b>	<b>San Francisco</b>
<b>Oct 23-25</b>	<b>New York</b>
<b>Nov 13-15</b>	<b>Chicago</b>
<b>Dec 11-13</b>	<b>Orlando</b>

For info about these classes or to enroll call 877-728-5964 or visit:  
[www.NetWorthStrategies.com](http://www.NetWorthStrategies.com)

<http://www.networthstrategies.com/stockopter/docs/SouthEasternStatesCompanies.asp>  
<http://www.networthstrategies.com/StockOpter/docs/NorthEasternStatesCompanies.asp>

Once again, this edition of *The Planner* strives to help you to grow your practice. This month, articles contributed by well known financial advisors address; integrating option planning with family planning, branding your advisory business, and choosing financial planning software that is right for you. We encourage your input and contributions to continue to make *The Planner* of value to the financial advisory community.

Bill Dillhoefer,  
*The Planner* Editor

## Integrating Option Planning with Family Planning

By Thomas Quinlin, CIMA

In many of the excellent articles you have read in this publication, emphasis has been on tax and compliance issues surrounding stock option planning. In this article, I plan on taking planners to the next level and discuss how to integrate the client's vision and values (right brain) with strategic and tactical planning (left brain).

Many months ago I had an individual referred to me. We'll call him Dave. Originally, Dave came in to discuss what he thought was simply a tax problem. He was (still is actually) an executive at one of the large high tech firms in Silicon Valley. Part of his employment package included both Incentive Stock Options as well as Non-Qualified Stock Options.

We discussed what was happening in Dave's life. He had been working "24/7" for over five years, sacrificing his personal needs in the process. More recently, he went through a particularly nasty divorce (as if there is any such thing as a friendly divorce), and he was very much in a WIIFM (What's in this for me) mode in discussing his planning options. For all practical purposes, Dave's planning up to this point was non-existent other than to keep working for another five to ten years.

In talking with Dave, I discovered a number of interesting things about him. He liked kids, although he had none of his own. He also enjoyed sports, particularly golf although he had not allowed himself the time to enjoy activities outside his career for years. It was clear that it had been many years since Dave had experienced having fun.

A large part of his current concerns revolved around his current tax issues. Earlier in the year, he had exercised and held about \$1.5 million worth of

ISOs. He had already been advised by his accountant to expect a large combined federal and state income tax bill exceeding \$500,000. This, on top of his \$200,000 salary, could push his tax bill close to \$600,000.

Upon completing a Macro Strategic Plan (a life plan that includes defining one's vision, goals and then proceeds to implement those objectives by utilizing proper structures and tactics), Dave took the following actions:

- He sold about 70% of his shares of stock, converting enough of the previous potential AMT to ordinary income. This left him with about \$1,050,000 of ordinary income, more than enough to offset the potential AMT on the remaining unsold shares.
- Dave set up a private foundation with himself as the founder.
- He then contributed \$500,000 in cash to this charitable entity.

What were the results of the above planning actions? Let's evaluate this further.

A private foundation (PPF) is essentially a corporation which, once completely set up receives a tax-exempt determination letter from the IRS. Setting up the entity in a corporate form limits liability to the founders as well as provide longevity. The founders can control the assets inside the PPF by becoming the directors. General benefits to the family include the following:

- 1) Dollar-for-dollar income tax deductions for gifts made to the structure (up to certain limitations discussed below).
- 2) No capital gains on the sale of appreciated assets gifted to the entity.
- 3) Family benefits by receiving salaries and other corporate reimbursements.
- 4) As with any corporation, the entity is perpetual and continues to exist well

*(Continued on page 3)*

**"...Dave's planning up to this point was non-existent other than to keep working for another five to ten years."**

(Continued from page 2)

- beyond the lives of the original founders.
- 5) Assets gifted to the entity are out of the estate.

Substantial additional planning is also available through the foundation, particularly as it relates to your lifestyle. For example, while you could take compensation from the entity in the form of salary, you could also take your compensation in the form of fringe benefits (medical, dental, welfare benefits and so on). You could also elect to take compensation in the form of reimbursements for foundation related activity.

One example of this is due diligence trips. Because you are responsible for proper evaluation of any charity and/or cause you decide to support, personal visits might be advised. With proper documentation (as in any business), you could be legitimately reimbursed for these expenses.

The key to maximizing the entities usefulness is to incorporate your interests into your philanthropy. Rather than thinking of supporting “charity”, think of involving yourselves with your community. Think of your community as the whole world.

For example, Dave indicated he had an interest in children and sports. What Dave did was set up his own charitable program that helped handicapped children learn how to golf. His foundation could subsidize the costs of special equipment, the time to perform due diligence on the types of courses best suited for handicapped children and subsequent educational programs to integrate physical therapy programs.

In Dave’s case, implementing the above planning allowed him to offset \$500,000 of income. \$500,000 was contributed to his foundation, and because Dave was the director of his foundation, he controlled how the assets in his foundation were managed.

Integrating stock option planning with philanthropic planning can be tricky. Whether using a foundation, charitable remainder trust, charitable

lead trust or other device, particular care must be applied when dealing with option planning. However, when used properly, an individual can set up a series of staged exercises paired with staged contributions to a foundation.

Setting up a foundation should not be viewed in a vacuum, and foundations have issues such as self-dealing, prohibited transactions and unrelated business income tax that must be evaluated before recommending the foundation as a long range

planning device. There are also limitations on how much of an income tax deduction one can take in any one year (this will not only be dictated by the AGI of the Client, but what type of foundation he contributes to and what type of asset is being contributed.)

However, when used as an adjunct to stock option planning, private foundations can provide a substantial range of tax and family benefits. This, in turn, can assist the planner in creating long-term value in the relationship with the Client.

**“Rather than thinking of supporting a ‘charity’, think of involving yourself with your community”**

*Thomas Quinlin, CIMA is a financial advisor who provides high value stock option and family planning. He is president and “chief client apostle” of Lifestyle Design Group LLC and has 16 years of experience assisting clients plan out their “perfect calendar”. His areas of micro expertise include executive compensation, philanthropic planning, assisting in setting up businesses and offshore structural planning. He has served as an Ethics Committee Member for the Investment Management Consulting Association (IMCA). He has also written articles for The Monitor, Senior Consultant and Global Investment Technology. He also speaks regularly at industry conferences.*

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## How to Choose Financial Planning Software That's Right For YOU

By John L. Olsen, CLU, ChFC

For many financial advisors, selecting planning software can be a confusing and frustrating process. It can be made much easier if you ask yourself 6 key questions to identify your needs.

**Question 1: *What tasks do you expect the software to perform?*** Be as specific as you can. Write it down and share your list with other advisors whose opinions you respect? Ask for suggestions and comments. It's amazing how much a simple written list of requirements will help focus your selection and narrow your choices.

**Question 2: *What is your planning style and is it consistent with the software's focus?*** If you're a "bottom line", "tell me the time; don't tell me how to build the watch" kind of advisor, you may want a "goals-driven" program which focuses on the extent to which existing resources will meet client goals. Often, those programs reduce any shortfalls to a single Net Present Value. On the other hand, if you're a "year by year" planner who requires extensive income and expense modeling, you'll probably need a "cash flow-driven" package.

**Question 3: *How important is the content and look of the printed output?*** Do you need to be able to customize reports, perhaps edit the "boilerplate"? Some programs allow extensive customization. Others allow a little. Some allow none. Decide on what output you are comfortable giving the client.

**Question 4: *How will you use the software?*** If you plan on using it in front of the client, on-screen graphs and instant "what if?" capability will likely be very important. Some programs do those things very well; others don't. Will you use it to illustrate Asset Allocation? If so, will you need "custom" asset classes? Do you want to show the actual transactions required to reposition assets? Should the program do Portfolio Optimization? How important is Income Tax Modeling? Some programs consider taxation of realized capital gains in a mutual fund. Others assume that any return other than dividend income is not taxed until liquidation.

**Question 6: *What is it like to interact with the program, to enter data, to check results, and to navigate***

*within it?* Can you go back and forth, from Data Entry to a "print preview" of a selected section easily? How hard it is to "enter a case"? In the author's experience, "look and feel" is often the most important factor in the decision process.

To help them compile their answers to these questions, I give my software-consulting clients a spreadsheet in

which they can enter their "key factors", and assign a weight to each. They can then enter various software "contenders" into the spreadsheet, enter the score they've given each program, for each factor identified, and produce a "total weighted score" for each program. Readers of this newsletter may have a free copy of a sample sheet by emailing a request to jol-

sen02@earthlink.net.

Above all, remember that *all software is a series of trade-offs*. NO package does everything, much less everything perfectly. The key to getting the "best" program is to match its trade-offs (the choices its developers made) with your own.

**"If you're a 'bottom line' ... kind of advisor, you may want a 'goals driven' program which focuses on [how] existing resources will meet client goals "**

*John L. Olsen is a financial and estate planner practicing in St. Louis County, MO. An increasing part of John's practice is financial planning software consulting to financial advisors and institutions. John accepts no commissions or incentives from software vendors for any recommendations he makes.*

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## Branding is Integral To Building Your Advisory Business

By Andrew Gluck

Why do you call an adhesive strip a Band-Aid? Why is "Kleenex" the catch phrase for all tissues? Why do you know what company "brings good things to life?" The answer: branding.

For an independent financial advisor, branding can be a great equalizer. With today's technology, it's easy to create a corporate identity that makes your firm look as big as the largest firms on Wall Street.

Merrill Lynch has its bull, Travelers has its umbrella, and MetLife has Snoopy. You can hire an artist to draw an eagle, a compass or some other symbol that has meaning to you. Then, put it on all of your corporate communications—your letterhead, envelopes, newsletters, brochure and website. Suddenly, you are conveying a professional image and your company looks as big as any of the Wall Street giants.

The benefit to your firm cannot be measured directly, but common sense tells you that your firm will look more professional if all your marketing materials have a uniform look. You'll be able to compete more effectively with the slick packages put together by brokers at Wall Street wire houses. You'll better communicate your message that you are an independent advisor who can recommend products that you feel are best for clients. You'll tell your story about a boutique advisory firm that specializes in personal service and communicate your unique message. It's all part of your brand.

There are different ways you can build a brand. Some experts will tell you to make yourself the brand. Maybe you should put pictures of yourself on the cover of your brochure, or introduce yourself to potential clients by telling them about your hobbies and your family.

While this is simple for you to execute and may appeal to your ego, it's not a great business idea.

If you want to develop your business beyond the sole-practitioner model, branding is critical to that process. Successful advisors who have been through the process of converting their practice into a real company convert their way of giving financial advice into a system that can be replicated by employees. In taking this step, you can build value in your firm. You won't personally need to handle each client. You become the leader of a financial advice company. Your business is structured to grow beyond a sole practitioner or a partnership of two practitioners.

When you are ready to retire and sell your business, it will be valuable to another advisory firm because you have created a business that is bigger than you alone. But building a business that extends beyond you is a process. It evolves over years. Your corporate identity is an integral part of that process and it will also evolve over years. If you hope to build value in your company that will be transferable at the time you retire, it's wise to start developing your brand early in the development of your company.

Starting with a logo is smart because you can then apply it to your other materials. You'll choose corporate colors and begin to develop a unique look for your firm. Then, add a slogan capturing your firm's mission. Over a couple of years, you can place these elements on your stationery, your website and brochure.

You can look like a financial services giant without a giant-sized budget. But it all starts with some small steps toward creating your company's brand.

**"...common sense tells you that your firm will look more professional if all your marketing materials have a uniform look."**

*Andrew Gluck is CEO of Advisor Products Inc, which makes affordable websites, client newsletters, brochures and other marketing materials for independent financial advisors. Find them on the web at [www.advisorproducts.com](http://www.advisorproducts.com).*

**StockOpter Tip of the Month:****Quick and Dirty Option Analysis**

By Greg Fowler, CPA

Have you ever wanted to do basic option analysis for a prospect but didn't know where to begin? This month's tip will provide you with an approach to do just that using StockOpter! To get started you will need some basic data about your client or prospect. Since the goal is to provide an initial introduction about what you can do for the client, the detail of data is not too important. The key pieces of information are: estimated income over the next 15 yrs, estimated itemized deductions, the client's grant information and any other company holdings the client has.

Enter the income information on line 12 of the Assumptions sheet and deductions on line 25. Now, make some basic assumptions about the stock price, growth rate (dividends if applicable) and the Investment Account (rows 58-61). Finally, enter the client's grant and share information on the BaseCase. You are now ready to create your "Quick & Dirty" analysis. Click on the DI icon on the tool bar. Enter a diversification rate of say, 25%. Enter a multiple of the exercise price. Pay attention to the FMV of the stock relative to the client's strike price(s). The Diversify strategy will only exercise and/or sell if the FMV exceeds that multiple. Finally, select two companies to use for the analysis. IBM and Halliburton are good choices. Click OK and let StockOpter start crunching the numbers.

When the program finishes you will be looking at a chart that has two blue and two green horizontal bars. The final piece is interpreting this simple, one-page report for your client or prospect. What is going on in this report you ask? It's actually quite simple. For each company selected, StockOpter will compare two strategies. One strategy (ALAP) is designed to represent a "hold 'till last minute" approach. This is the blue bar. The other strategy (Diversify) is designed to demonstrate how a systematic diversification plan, roughly approximate to an SEC 10b5-1 plan, would perform in relation to the common philosophy of waiting until the last minute to exercise your options. This is the green bar. The price assumptions for these strategies are based on the most recent 14 years of the companies' selected.

You will likely be able to illustrate that a systematic diversification plan can produce similar, if not better,

results to the ALAP strategy. The key difference is the significantly lower risk inherent to a diversification plan. This process can be an excellent way to win new business and can be the first step toward garnering more assets. For more information on how the Diversification Illustrator works, read about it in the StockOpter User's guide, which can be downloaded at [www.NetWorthStrategies.com](http://www.NetWorthStrategies.com).

**What's New at NWSI:** *(cont. from Page 1)*

- **Our Business Development Program (BDP) graduates report growth in their practices as a result of their planning activities.** Since introducing our BDP program in February of 2002, over 100 advisors have developed their HVSOP business plan. Early returns indicate that they are beginning to reap the fruits of their labors in attracting new high net worth clients. For more information on the BDP program, please visit: <http://www.NetWorthStrategies.com/>
- **A new version of StockOpter (StockOpter PRO) will be available to StockOpter Users for "Beta" testing in September.** Among the new features in this release are: goal based strategies, modeling of multiple corporations, and new reporting functionality. If you are a current StockOpter user and would like to participate in the beta test program, email Bill Dillhoefer at [bdillhoefer@networthstrategies.com](mailto:bdillhoefer@networthstrategies.com).
- **A new half-day Introduction to High Value Stock Option Planning class will debut in Atlanta on September 26.** This is a low cost, time efficient program for advisors who are considering stock option planning and want to know how to get started. For more information on this program, feel free to give us a call at (877) 728-5964.