South Florida
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Financial planners struggle to meet clients' fiscal cliff goals

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South Florida financial planners are doing their best to deal with client demands for protection from so-called "fiscal cliff" issues, but some say options are very limited.

"Ultimately, I don't think we will plunge off the fiscal cliff, because I believe Washington will reach some compromise," said Eli Butnaru, CEO of Miami-based Mora Wealth Management. "But at this point, this is one of the few times there just aren't many alternatives. That's why it's considered a crisis. It's much easier to say what not to do than what to do."

Pressed for solutions, wealth managers the Business Journal spoke with for this report said they are providing ways to avoid the impact of worst-case scenarios. But many financial institutions warned that long-term investment decisions should not be based on short-term headlines about politics or fears of taxes rising. PNC Bankissued a statement Dec. 11, saying it "always maintains that investment choices should never be made based solely on headlines, and that the long-term view best serves."

Technically, the nation will reach the edge of the fiscal cliff on New Year's Eve, when the Bush-era tax cuts expire and mandatory spending cuts kick in. As of Dec. 12, national media reported little progress, except that President Barack Obama had offered to reduce new revenue expectations to $1.4 trillion from $1.6 trillion. But CBS News reported some Republicans in the GOP-controlled House called that "laughable."

In Miami, Butnaru said he was dealing with limited options until a clearer direction emerges.
"In general, we don't like defensive sectors, meaning the kind of investments that pay dividends," he said. "We prefer equities now; we truly do not like bonds. It's truly difficult to find a good bond today."

Butnaru said he and his firm prefer to seek investments in emerging markets, including Chinese high-yield investments.

"It may sound like a contradiction, but we still look for quality junk bonds or investments," he said. "High yield or junk might still do well from excess spread, because there's still no spread available on the investment grade."

Despite some talk about wealthy people making large investments, gifts or annuities in advance of the cliff, Butnaru said he thinks such activity is no more than normal.

Adam Bergman, senior tax attorney with IRA Financial Group, said he has seen a spike in requests to move money into IRA and 401(k) accounts.

“I’ve had a lot of feedback since November [from] people between 40 and 70 years old who are looking to do different things with their retirement funds,” he said.

“People know taxes are going up anyway you cut it, even if it’s only the health care surtax, so they want to divert as much income as possible,” he said. “We’ve seen an increase in the number of people who want this started by the new year to avoid the impact.”

Bergman said investors, who recently focused on returns from stocks and tax-deferred accounts, are now afraid of dividend taxes going up. He pointed to a few South Florida companies – including National Beverage Corp. and Heico Corp. – that issued special dividend payments in advance of the fiscal cliff.

“The day after the national elections, my phone started ringing more. I saw a 35 percent increase in calls about tax-deferred accounts on Nov. 5,” he said. “I think a lot of people just woke up and said ‘Wow, Jan. 1 is pretty close,’ and the stock market took a dive after the election.”

Bergman said some people call to ask questions, and others call to say they realize taxes will go up and they want specific things.

He also acknowledged that another reason for people putting money into tax-deferred accounts is more financial stability.
“We did see people, quite a few years ago, taking loans out on their tax-deferred plans,” Bergman said. “Things are definitely better now, and people are looking at ways to build up those accounts again.”

THE DETAILS:

What is the fiscal cliff?
A combination of expiring tax cuts and across-the-board government spending cuts scheduled to become effective on Jan. 1.

The idea behind the fiscal cliff was that, if the federal government allowed these two events to proceed as planned, it would have a detrimental effect on an already shaky economy, perhaps sending it back into an official recession as it cut household incomes, increased unemployment rates and undermined consumer and investor confidence.

At the same time, it was predicted that going over the fiscal cliff would significantly reduce the federal budget deficit.
Source: Investopedia.com

7 tips to help business owners navigate the cliff

James S. Cassel, founder and chairman of Cassel Salpeter & Co. LLC, a Miami-based investment-banking firm that works with middle-market companies, offers this advice for business owners amid worries about the fiscal cliff:

- Although interest rates are not likely to skyrocket soon, it’s still a good time to lock into long-term financing like the big boys.
- Consider your exposure to real estate, as the elimination of mortgage interest deductions may cause prices to decline.
- With the Patient Protection and Affordable Healthcare Act and a new health care tax on the horizon, business owners should begin evaluating how the anticipated new costs may impact their bottom lines. They should work with advisors to consider strategies – such as whether to insure their employees or opt out and pay the penalties – and determine the best course of action that will support their business goals.
- Consider doing more business with state government. As states begin to recover and get more tax revenue, there may be greater opportunities to do business.
- Consider foreign markets to sell services or products. While emerging markets, such as South and Central America, and Asian markets look better than Europe, don’t forget Europe.
- With more efficient equipment available and a diminished need for manual labor, you should consider “reshoring” (i.e. bringing back to the U.S.) whatever you currently manufacture offshore.
- Look at your customer base and, if you think your business may be affected by government actions, develop a plan and consider measures like cost reductions or layoffs.