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WATERFORD ADVISORS
An SEC Registered Investment Advisor

Quarterly Newsletter

INVESTMENT COMMENTARY—SECOND QUARTER 2010



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Stocks continued their slide in June, ending the first half of 2010 with losses in

every segment of the equity market. The large-cap Vanguard 500 Index lost 11.5% for the quarter, and is down 6.7% year to date. The small-cap iShares Russell 2000 and iShares Russell Midcap both lost 10% in the second quarter, though thanks to a strong first quarter, both benchmarks are down just 2% year to date.

Turning abroad, the story was similarly painful. The Vanguard Total International Stock Index dropped 13.3% in the second quarter, bringing its year-to-date loss to 12%. The Vanguard Emerging Market Stock Index lost over 9% for the quarter and nearly 7% year to date.

Most of the positive news for the first six months of the year was in fixed income. As previously discussed, our portfolios have been overweighted fixed income and underweighted equities since the beginning of the year. The Vanguard Total Bond Market Index Fund, a proxy for high-quality intermediate-term

bonds, gained 3.6% over the second quarter, and is up 5.3% for the year through June.

All of our model portfolios have outperformed their benchmark by a range of 300-500 basis points (3-5%) on a year-to-date basis and over the last 12 months as a result of both our tactical positions and the value added by our active managers. You will see this reflected on your 6/30/10 statements.

INVESTMENT OUTLOOK

As noted in the performance review above, the first six months of 2010 have been a bit of a roller coaster—stocks were up early in the year, then down 5% by early February, then up almost 10% for the year by late April, then down over 5% for the year by early June. The S&P 500 ended June down 7.6% for the year.

There is a tug of war between improving economic and company fundamentals on one side, and debt levels and the longer-term strength of the economic recovery on the other. The tension between these opposing forces has left investors uncertain and the stock markets stuck in a trading range. We think that unusually high uncertainty could be with us for years to come since the economic challenges we face are serious and will not be resolved quickly.

As long-term investors, our views tend to evolve gradually rather than change suddenly based on new information (the fall of 2008 being a notable exception). That's certainly been true in recent quarters with our assessment of

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JUNE BENCHMARK RETURNS (PRELIMINARY)

Large-Cap Benchmarks	Jun	2Q	YTD
Vanguard 500 Index	-5.2%	-11.5%	-6.7%
Russell 1000 iShares	-5.5%	-11.4%	-6.4%
Russell 1000 Growth iShares	-5.5%	-11.8%	-7.7%
Russell 1000 Value iShares	-5.6%	-11.1%	-5.2%
Mid-Cap Benchmarks			
Russell Midcap iShares	-6.2%	-9.9%	-2.1%
Russell Midcap Growth iShares	-6.3%	-10.2%	-3.4%
Russell Midcap Value iShares	-6.1%	-9.6%	-1.0%
Small-Cap Benchmarks			
Russell 2000 iShares	-7.7%	-9.9%	-2.0%
Russell 2000 Growth iShares	-6.7%	-9.2%	-2.3%
Russell 2000 Value iShares	-8.7%	-10.6%	-1.7%
Other Benchmarks			
Vanguard Total Int'l Stock Index	-1.2%	-13.3%	-12.0%
Vanguard Emerging Market Stock Index	0.0%	-9.1%	-6.9%
Vanguard REIT Index	-5.2%	-4.0%	5.6%
Vanguard Total Bond Market Index	1.6%	3.6%	5.3%
Merrill U.S. High-Yield Cash Pay	1.3%	0.0%	4.8%
Barclays 7 Year Muni Bond Index	0.3%	2.3%	3.6%
Citigroup World Govt. Bond Index	1.7%	0.3%	-1.0%
JPMorgan GBI-EM Global Div. Index	0.9%	-2.0%	3.4%
DJ-UBSCI (Commodity Futures)	0.3%	-4.8%	-9.6%



MORE ON THE NEW MEDICARE SURTAXES

Understanding how the new health care law can impact financial planning.



The new health-care law includes two tax provisions that could have an impact on tax and investment planning. Both provisions involve Medicare surtaxes and take effect in 2013.

The first is a 0.9% payroll levy on earned income. Singles will owe the tax when total earnings, including self-employment income, exceed \$200,000 (for couples, \$250,000). That's in addition to the current 2.9% Medicare tax on earnings—for a total of 3.8%.

The second is a 3.8% Medicare tax on unearned income. You would pay this tax if your adjusted gross income exceeds \$200,000 for singles (for couples, \$250,000). The surtax is imposed on the lesser of (1) net investment income or (2) the amount of MAGI (modified adjusted gross income) above these thresholds. Investment income includes dividends, interest, capital gains, passive rental income, and royalty income. (Technically, it's net investment income because investment expenses, such as advisory fees are deducted from gross investment income.) While taxable, distributions from retirement accounts are not considered investment or earned income and are exempt from the surtax.

EXAMPLES:

- A couple with \$50,000 of investment income and an AGI of \$270,000 will pay \$760, which is 3.8% of the \$20,000 above \$250,000.
- A single taxpayer with AGI of \$300,000 and \$50,000 of investment income will pay an additional \$1,900, which is 3.8% of \$50,000.

The surtax would raise the effective rate on capital gains and dividends. The maximum rate on both is currently 15%. If Congress adopts President Obama's budget plan to let the top rate rise to 20% for upper incomers, the surtax would raise it to 23.8%. However, if tax writers allow dividends to be taxed as ordinary income again and set the top rate at 39.6%, the surtax makes the maximum rate 43.4%, nearly triple the current levy. Tax-exempt bonds will become

more attractive to these taxpayers because the interest is exempt from the surtax and doesn't add to AGI. People who would not normally be subject to the second tax because they fall under the income threshold could be taxed in a year when there is a special event, such as the sale of a house or business, or a Roth IRA conversion. The chart below compares the various top tax rates for different types of income.

For estates and trusts, the 3.8% surtax applies to the lesser of (1) any undistributed net invest-

ment income or (2) the excess of AGI over the dollar amounts at which the top tax rate for estates and trusts begins. In 2010, the threshold is \$11,200. Assuming a 3% compound inflation rate and a similar increase in tax rates, in 2013 the top income tax rate for estates and trusts would apply to income in excess of approximately \$12,200. Terms of estates and trusts need to be carefully reviewed to minimize the potential impact of the surtax.

hold down MAGI. Using taxable investment assets to pay the tax on a Roth IRA conversion may reduce future investment income while providing a source of future tax-free cash flow. For all of these provisions, the common thread is that income will be taxed higher in the future. High-income (not necessarily high-net-worth) taxpayers will be the prime targets.

Reducing reported income in future years through strategic income tax planning will be critical.

A COMPARISON OF THE TOP SCHEDULED FEDERAL TAX RATES FOR DIFFERENT TYPES OF INCOME

Income Type	2010	2011	2012	2013*
Taxable IRA distributions and Roth conversions (Ordinary Income)	35.0%	39.6%	39.6%	39.6%
Short-term Capital Gains	35.0%	39.6%	39.6%	43.4%
Long-term Capital Gains	15.0%	20.0%	20.0%	23.8%
Interest Income	35.0%	39.6%	39.6%	43.4%
Qualified Dividend Income	15.0%	39.6%	39.6%	43.4%
Qualified Roth IRA Distributions	0.0%	0.0%	0.0%	0.0%

* In 2013 the top federal tax rate includes income taxes and the 3.8% surtax on investment income

ment income or (2) the excess of AGI over the dollar amounts at which the top tax rate for estates and trusts begins. In 2010, the threshold is \$11,200. Assuming a 3% compound inflation rate and a similar increase in tax rates, in 2013 the top income tax rate for estates and trusts would apply to income in excess of approximately \$12,200. Terms of estates and trusts need to be carefully reviewed to minimize the potential impact of the surtax.

REDUCE THE IMPACT OF THE 3.8% SURTAX

Permanent life insurance may be more attractive for some taxpayers because cash flow from policy withdrawals may not trigger the surtax, i.e. investing within a life insurance policy and withdrawing amounts up to their basis, tax free.

Those who run their own small company or professional practice might want to consider alternative qualified plans such as defined benefit plans, which may permit larger contributions and thus sharply reduce MAGI.

Converting to a Roth IRA before 2013 will reduce or eliminate taxable RMDs (required minimum distributions) in the future, helping

TAX PLANNING POINTS

1. Taxes on high-income individuals and trusts will increase in 2011-2012 and again in 2013 when the 3.8% and 0.9% taxes become effective.
2. Planning needs to begin NOW to prepare for future tax increases, especially for taxpayers and trusts at the top tax brackets.
3. IRA and plan distributions are exempt from the 3.8% surtax on net investment income, but taxable distributions from these accounts can push income over the threshold amounts, causing other investment income to be subject to tax.
4. 2010 Roth conversions are now more valuable as a means to eliminate future taxable income and eliminate future RMDs from traditional IRAs before higher tax rates become effective.
5. Taxpayers who have named a discretionary trust as their IRA beneficiary should consider Roth conversions to avoid potential harsh trust tax rates at low trust income levels.
6. Salary deferrals (401(k), 403(b), etc.) can reduce MAGI for the 3.8% surtax, but cannot reduce earned income for the 0.9% additional Medicare tax.

2013 TAX PROVISIONS IN THE NEW HEALTH CARE LAWS

3.8% Surtax on Net Investment Income

What Will Be Considered Investment Income?

INVESTMENT INCOME

- Interest, Dividends, Capital Gains (long and short)
- Annuities (but not annuities in IRAs or company plans)
- Royalty Income
- Passive Rental Income
- Other Passive Activity Income

NOT INVESTMENT INCOME

- Wages and Self-Employment Income
- Active Trade or Business Income (including interest, dividends, capital gains)
- Distributions from IRAs, Roth IRAs, and Company Plans
- Excluded Gain from the Sale of a Principal Residence
- Municipal Bond Interest
- Proceeds of Life Insurance Policies
- Veterans' Benefits
- Gains on the Sale of an Active Interest in a Partnership or S Corporation

Taxable income from items that are **NOT** investment income can push taxpayers over the income threshold and cause investment income to be subject to the 3.8% surtax.

MAGI Threshold Amounts for 3.8% Surtax on Net Investment Income

Married Filing Joint	\$250,000.00
Individuals	\$200,000.00
Married Filing Separate	\$125,000.00
Trusts and Estates	\$12,000.00*

*Trusts are hit hard—the 3.8% surtax kicks in at much lower income levels for trusts.

The threshold for trusts and estates is the amount at which the top trust tax bracket takes effect. This amount is \$11,200 in 2010, but by 2013 will be approximately \$12,000 since it is indexed for inflation. All other threshold amounts are NOT indexed for inflation.

EFFECTIVE IN 2013

The 3.8% surtax applies to net investment income when MAGI exceeds these threshold amounts.

For this purpose, MAGI is a taxpayer's regular AGI, plus any foreign income excluded from AGI.

The 3.8% Medicare tax is imposed on the lesser of (1) net investment income or (2) the amount of MAGI over the threshold amount.

Taxpayers with income below these MAGI levels will not be subject to the tax.

OTHER HEALTH CARE TAX PROVISIONS EFFECTIVE IN 2013

- Additional 0.9% Medicare tax on wages and self-employment income over the threshold amounts.
- Medical expenses must exceed 10% of AGI (up from 7.5%) to be deductible (if age 65 or older, effective in 2017)—the 10% also applies to the medical expense exception to the 10% penalty on early IRA or plan withdrawals.

TAX BREAKS FOR ENERGY EFFICIENT HOME IMPROVEMENTS

Some of the government incentives from the financial crisis have expired, but the tax breaks for making your home more energy-efficient are available through the end of 2010 and apply to energy-efficient improvements you made in 2009.

The credit is 30% of the first \$5,000 you spend on qualified home improvements. You can take a total maximum credit of \$1,500 for the 2009 and 2010 tax years. Credits are available only for items installed in your principal residence.

Some energy efficient expenditures are not subject to the \$1,500 limit. These are geothermal heat pumps, solar water heaters, solar panels, fuel cells, and wind power systems. For these you take a credit for 30% of the cost without limit.

There are a range of tax-credit-eligible items you are likely to consider:

- Exterior windows, doors and skylights
- Storm windows and doors
- Metal roofs and asphalt roofs
- Insulation
- Central air conditioning
- Air source heat pumps
- Water heaters (electric heat pump)
- Biomass stoves
- Some window shades may also qualify

Make sure the credit is worthwhile. Many of the qualifying items cost more than standard items. You have to compare the additional estimated monthly savings in energy costs from the item, plus the credit to the premium price you pay for it. You also have to estimate how long it will take for the purchase to pay off.

In addition to rebates offered by manufacturers and retailers, the federal government also has a small rebate program for purchases of energy-efficient appliances, such as refrigerators. Each state has an allotted amount of rebates. When the money is used up, there are no more rebates. For details go to the U.S. Department of Energy website at www.energy.gov and click on the "Rebates for Energy Star Appliances."

INVESTMENT COMMENTARY

(continued from page 1)

the big picture unchanged. That being the case, rather than repeat another lengthy detailed discussion of our analysis, this quarter we're going to briefly recap our big-picture views, hit the key points in our investment outlook, and close with a discussion of how we see our job as portfolio managers.

THE CHALLENGES WE FACE

It's no secret that there is too much debt in most of the developed world—the United States, Europe, and Japan. We've written about it ad nauseam. That the problem is identified doesn't lessen the challenge. In coming years the developed world must walk a tightrope as it deals with the pressing need to slow and ultimately reverse debt growth without also seriously harming economic growth rates.

The United States and other countries with excessive household sector debt are in the early stages of what is likely to be a long process of deleveraging. Though it is dropping, household debt relative to income remains excessively high. Most of these countries must also dramatically reduce public sector (government) debt growth and in some cases they will need to reduce the absolute amount of debt. This huge challenge has not yet begun.

A critical unknown is whether enough countries, including the United States, can thread the economic needle so that the recovery has time to gain steam while maintaining lender confidence that the deficit/debt problems will be addressed over time.

So our view of the big-picture environment we face in the next few years is unchanged. The recovery continues but it is not inspiring, and we see above-average macro level risk in spite of being early in a recovery cycle. If the recovery is sustained, which is more likely than not, we still face significant intermediate- and long-term questions that make a wider-than-typical range of outcomes possible. The large amount of public-sector debt throughout most of the developed world will be a major challenge for the global economy that will not be resolved in the next five years. How it is handled is one wild card in the tension between deflation and inflation. This means that it is very possible

that we will continue to face above-average uncertainty regarding economic growth rates, inflation rates, and interest rates not only during our five-year horizon but in the years beyond.

CAPTURING RETURNS AND PROTECTING CAPITAL—OUR INVESTMENT POSTURE

Regardless of how good or bad the macro picture, investment opportunities are determined by whether they are priced attractively relative to their ability to generate future growth and/or income. For this reason an investment can still be attractive even if the macro outlook is dark, or unattractive even in an extremely positive macro environment. In fact, it is common for investment prices to be compelling in terrible macro environments due to investor pessimism and poor in wonderful macro environments due to excessive optimism.

Stocks: We continue to underweight equities in all our portfolios as we have since the beginning of the year. After a huge stock rebound from the market depths of March 2009, our scenario analysis, in which we assess a range of earnings growth and valuation possibilities, continues to suggest that developed stock markets offer only low- to mid-single-digit return potential over the next five years. **Remember, you do not own the market in your portfolio.**

The Vanguard 500 Index is generally regarded as a proxy for the equity market. As can be seen on the graph to the right, its average annual return has been -1.67% over the 10-year period ended 6/30/10. Yet many of the funds in our client portfolios have performed substantially better over the same time period.

Emerging-markets stocks, on average, offer somewhat better returns than developed-market stocks in all scenarios we've analyzed but with higher

volatility. As such, we only hold emerging market securities in our most aggressive portfolios.

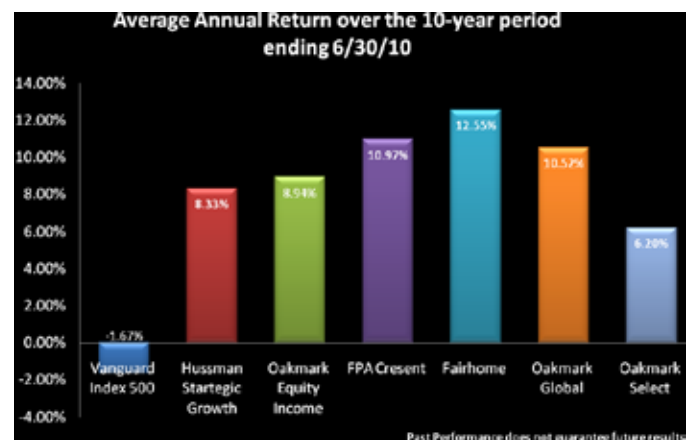
Bonds: High quality investment-grade bonds such as U.S. Treasuries and the highest quality corporate issues offer minimal return potential over our five-year horizon. What they do offer is a defensive investment that could perform well if the economy is very weak or falls back into recession. For this reason we own funds that have some exposure to the investment-grade portion of the bond market.

The Vanguard Total Bond Market Index is generally regarded as a proxy for the bond market. As can be seen on the graph below, its average annual return has been 6.20% over the 10-year period ended 6/30/10. Yet the two



largest bond holdings in most of our client portfolios have performed substantially better over the same time period.

We still find emerging-markets local-currency bonds (ELB) to be the most compelling asset class from an expected risk/return standpoint, though we don't expect returns to



be excitingly high. Potential ELB return comes from the interest income (in the 7% to 8% range) and our expectation that the economic

fundamentals (less debt and more growth) in many key developing economies are very likely to lead to currency appreciation (versus the dollar) over a multiyear time frame.

Overall, our fixed-income positions are not traditional. In total they are more aggressive and potentially more volatile than a typical investment-grade bond portfolio. However, compared to a traditional bond portfolio, we believe our fixed-income positions will capture materially higher returns and provide much better protection against unexpected inflation and in a rising rate environment.

Alternative Investments: Most recently we added two arbitrage funds—AQR Diversified Arbitrage and the Arbitrage Fund—to all of our portfolios. The Arbitrage Fund focuses exclusively on merger arbitrage, and the AQR fund pursues several arbitrage strategies, including merger arbitrage, convertible arbitrage, and event-driven arbitrage. Additionally, the AQR team seeks to add value through its tactical allocation decisions across the strategies (tactically overweighting strategies that have more attractive return potential).

The investments were funded by selling all of our remaining high-yield bond positions. The reason for this change is a combination of our view on high-yield bonds as well as our positive assessments of the arbitrage funds and of their ability to provide some downside cushion and diversification (relatively low correlation to stocks and bonds) to the portfolios.

We expect the arbitrage strategies/funds to return in the mid to upper single digits on average over the next five years—better than what we expect from high-yield on average.

Taxes: With tax rates headed higher on all types of investment income, it will be more important than ever in coming years to think in terms of after-tax returns for our clients. In making decisions at the asset-class level, we consider before and after-tax returns for each asset class. At the individual investment level, taxes can impact a specific fund choice (for example, if we had equal conviction in two funds, but one had a large tax-loss carryforward, we'd favor it for its better tax efficiency). Taxes also determine in which accounts we want to own an investment in cases where clients have both taxable and tax-exempt (e.g., IRA) accounts, and taxes can determine

when to use tax-exempt bond funds and what allocation sizes make the most sense for certain investments.

OUR JOB

Occasionally it's worth taking the time to articulate how we see our job as portfolio managers. Given our view of today's investment challenges, this seems like a good time to do so.

First we believe it is critical that we earn the complete trust of our clients and that we earn that trust by:

- **Exhibiting unquestioned integrity.** Simply stated that means always putting our clients first. It's now common in our industry to make this statement but less common to follow through. We believe we've met this standard consistently and without exception throughout our firm's history.
- **Being good people is not enough.** We've got to deliver results based on portfolio decisions consistent with each client's risk tolerance and overall objectives. Long-term performance is our standard.
- **Communicating our thinking** so that our philosophy is reinforced and clients can understand the rationale behind our investment decisions. This is especially important because of our long-term decision horizon (we expect to have our struggles on occasion over shorter time periods) and because we are not afraid to invest quite differently from our benchmarks when it makes sense to do so.

Second, we also want to be able to respond to our clients needs. Therefore, we emphasize a high level of personalized service. We want to clearly beat the competition on the service end.

Our fierce commitment to thinking for ourselves in our decision-making and how we run our business is really a commitment to what we call intellectual honesty. It's why we don't react to what others in our industry are doing or to what others think we should be doing unless it makes sense to us.

Finally, while listening is important and understanding each client's investment goals is necessary, we don't believe our role is to cheerlead. Some in our industry have a tendency to manage client expectations up—especially

when the future may be challenging. We believe our responsibility is to communicate honestly about how we view the future—regardless of whether the story feels good. Doing otherwise ultimately undermines our credibility that is so essential to the decades-long relationships we hope to enjoy with our clients.

Though we recognize a positive investment scenario is possible, as is a temporary period of strong market performance that could be driven by improving economic news and impatience with the near zero return offered by money market funds, we are clearly not placing a high probability on a bullish environment. For some time now, our view of the opportunities and risks for investors hasn't been very encouraging. It is important to remember it's not forever—there will be better opportunities at some point. We hope that some of those opportunities will come soon and allow us to perform better than what the broader markets give us as we have consistently done in the past. But we're prepared to be patient. In the meantime we are working hard to ensure that when opportunities do present themselves, we are in a position to recognize and take advantage of them, while also being highly attuned to the potential risks in this uncertain environment.

In closing, let me reiterate my appreciation for the continuing opportunity to work together. As always, I welcome your calls and questions and would be happy to talk at any time.

If you wish to be removed from our mailing list or if you have friends, family, or colleagues you think would benefit from our newsletter, please email us at eml@waterfordadv.com or send a fax to 716-580-3913.

As always, we welcome your comments or questions, and we invite you to share our newsletters with friends and acquaintances.



SELECTING OR SERVING AS AN EXECUTOR OF AN ESTATE

If there is someone in particular that you want to serve as your executor, you should name him or her in your will.



CHOOSING AN EXECUTOR

The executor of an estate is the person or entity named by the maker of a will or appointed by a judge to manage and distribute the property of a person who has passed away. An executor must be mentally competent, and cannot be a minor, a convicted felon, or a non-U.S. citizen.

As part of the estate planning process, you will need to choose who will serve as the executor of your estate. If you die without having a valid will in place, a judge will appoint someone as the administrator of your estate. This appointment is usually someone who is a relative and will not take into consideration their qualifications for serving as the administrator of your estate (aside from the general requirements above). Therefore, if there is someone in particular that you want to serve as your executor, you should name him or her in your will.

In choosing an executor, the most important thing is to choose someone who is financially responsible, stable, and trustworthy. Additionally, look for someone who is well organized, a good communicator and planner. The executor can be one of the beneficiaries or heirs of the estate. You can choose more than one person to fulfill these duties: co-executors. This is a way to insure that at least one person has legal or financial expertise and that one is close to the family. If you choose this course, be sure to pick people or entities that can work together.

To ensure that the person you would like to name as your executor is willing to assume this responsibility, make sure you discuss your wishes with him or her. Once you have your will in place, you should share a copy of it with your executor, and discuss the location of any other necessary documents.

EXECUTOR'S DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the executor vary depending on state laws and the specific circumstances of the estate. Regardless of whether probate is necessary, the executor will need to take the following actions:

- **Compile a list of the assets and liabilities**

of the estate, usually from the deceased's checkbooks, personal records, bank statements, and any other pertinent files including past income tax returns. (At this point the executor should contact the local clerk of the probate court to determine whether or not probate will be necessary for the distribution of the estate. This varies according to state law and the nature of the assets involved.)

- **Prepare a Net-Worth Statement as of the date of death.**
- **Notify beneficiaries.**
- **Pay the liabilities of the estate.** Certain liabilities will have to be paid before others as a matter of law. Liabilities of the deceased owed to the federal government for alimony or child support, for a student loan or for property that was held as a security interest (such as a home mortgage, a home equity loan, or an automobile loan), must have priority over other liabilities.
- **Manage the assets of the estate.** The executor is responsible for managing the assets while the estate is being settled. This includes paying bills and expenses, deciding whether or not to sell property and setting up a bank account for the estate.
- **After all liabilities have been paid, coordinate the distribution of any assets of the estate.**

The executor will be responsible for the following if probate of the will or estate is necessary:

- **File the will and other legal documents with the probate court.** Depending on state law and the complexity of the estate, the executor may be able to file the will with the probate court without the help of an attorney. The executor should contact the clerk of the probate court to find out if they offer assistance in filing the paperwork.
- **If the will is not self-proving, the executor may need to locate witnesses to the will** and have them sign a statement, under oath, about the validity of their original signatures. A self-proving will is one that includes sworn, notarized statements by

the witnesses. In some states the "self-proving" portion of a will is not recognized.

Executors will have to apply for a separate tax ID number for the estate, and prepare and file a final income tax return for the decedent, along with an estate income tax return, and federal and state estate tax returns. The executor may also have to prepare an "accounting of the estate," a summary of everything the executor has done.

SERVING AS AN EXECUTOR

As executor, by law you have the right to hire any professional help that you reasonably need to meet your duties and responsibilities. For example, a competent lawyer can relieve many of the burdens of the executor, and an accountant can be engaged to prepare tax returns. Fees charged by these professionals can be paid out of the assets of the estate.

State law usually holds the executor to a standard of care of a "reasonable, prudent individual" under all circumstances. However, what seems reasonable and prudent to the executor when performing their tasks is not always so to beneficiaries. If the court feels that the executor has not acted reasonably and in the best interests of the estate and beneficiaries, the executor or administrator can be personally liable for mistakes made in the administration of the decedent's estate.

The executor may be required to purchase a bond, which is a form of insurance that will guard against lawsuits filed by disgruntled beneficiaries and compensates the estate if losses occur due to fraud, negligence or embezzlement. The fee for the bond can be paid by the assets of the estate. A bond generally costs about 10% of the estate's value and will remain in place until the estate is settled and closed. Executors are also entitled to a fee for their services; the amount of the fee is set by state law or can be established in the deceased's will.

It is both an honor and a burden to serve as someone's executor. It can often take a year or more to settle an estate. Being thorough will help protect you and best serve the deceased's wishes.

PROPERTY AND CASUALTY COVERAGE

Take time to review your automobile and homeowner's insurance policies.

Provided by Bill Managan
of United Insurance Agency

While a review of your automobile and homeowner's insurance policies may not rank high on an excitement scale, it should be high on your priority list. And while most of us recognize the potential risk of loss to both real property (home, condos, rental units, etc.) and to personal property (cars, home furnishings, clothing, etc.), truly it is the risk of loss from a bodily injury lawsuit that is most threatening to our financial well-being. Personal injury attorneys are extremely aggressive in their pursuit of large awards for their clients, and if an award exceeds your policy limits, they will pursue your assets and income.

In a review of an auto insurance policy, the primary focus should be on the coverage that protects you, not your car. Bodily Injury Liability may be written as a "split" limit, such as \$250,000 per person and \$500,000 per accident, or a "single" limit such as \$500,000. Those are generally the maximum limits available, but later we will discuss an option to add additional liability protection.

New York State also mandates two additional coverages; Personal Injury Protection, and Supplementary Uninsured/Underinsured Motorists. The Personal Injury Protection provides primary medical coverage for the driver and each passenger injured in an accident, up to a minimum limit of \$50,000 per person. However, for just a few dollars more, that limit can be increased to the maximum limit available of \$175,000 per person. Since there are no deductibles or co-pays, this additional coverage makes sense because once your limit is exhausted; your health insurer takes over, but often with deductibles and co-pays.

The Uninsured/Underinsured Motorists coverage preserves a driver and/or passenger's ability to recover an injury judgment award if they are unable to collect from the at-fault driver who carries no insurance or "low" insurance. While uninsured motorists represent a small percentage of the cars on the road, they tend to be involved in a much higher percentage of



You're fine and the car will be fixed. But what about the other driver? Are you and your assets really protected?

accidents, due to their irresponsible behavior. We always recommend this coverage limit to match your other liability coverage limits.

Turning to your homeowners insurance, again, first and foremost, make sure you have the maximum Personal Liability limit available, typically \$500,000. As far as determining for how much your home should be insured for, that amount should be based on "replacement" value, not "assessed" or "market" value. Square footage living area is the key component to determine replacement value of a home, typically about \$125 to \$150 per square foot, but closer to \$200 on homes built before 1940. Personal Property such as clothes and furnishings is pre-determined, usually at 70% of what the home is insured for. Make sure your policy covers personal property on a "replacement" basis, so that depreciation does not adversely impact your claim settlement. One caution regarding higher value items; particularly those that appreciate in value such as jewelry, furs, antiques, fine arts, etc., they should be covered under a separate endorsement to the policy, at an amount based on an appraised value.

As it is not uncommon to read of million dollar injury awards, it is always recommended

to carry a "Personal Umbrella Liability" policy, which will provide an additional \$1 million of personal liability protection to both the auto and homeowners policies, bringing the overall limit to \$1.5 million. With an average annual premium of about \$200, it may be the best investment you ever make. Limits may be increased in increments of \$1 million, up to a \$5 million limit with most insurance companies, and some offering \$10 million. It is recommended that the amount selected at least match your net worth.

It takes years for an investor to accumulate the assets to afford a comfortable lifestyle, continuing on through retirement years, but just a moment's inattention while driving, or a slip and fall on an icy patch of driveway, can wipe it all out. Better the insurance company to pay out the million dollar awards than you.

One of the services provided by Waterford Advisors is assistance with a Property and Casualty coverage review performed by United Insurance Agency. Please feel free to contact us if you're interested in having your current coverage reviewed.

WATERFORD HAPPENINGS



Mark your calendars! On Sunday, August 8, 2010, we will celebrate

Waterford's 10th Anniversary by hosting a family picnic at Joseph's Country Manor & Grove in Depew. The picnic begins at 1:00 pm, with refreshments served until 6:00 pm; food will be served from 1:00 pm to 4:00 pm. Help us celebrate our 10th anniversary with delicious summer food, prizes and fun activities for the whole family including: Luau Jungle Bounce House, Putt-Putt Golf, horseshoes, volleyball and much more. Please RSVP by July 19th to 716-580-3906. We look forward to seeing you and your family at this event.



During the week of June 15, 2010, the son of Elaine Lechanski, LCpl. Thomas Lechanski of the US

Marine Corp will be boarding the USS Bon Homme Richard in Pearl Harbor, along with his commanding officer to take part in a RIM PAC (Rim of the Pacific) Exercise. This is one of the world's largest international maritime exercises hosted by the US Navy, US Marine Corp and US Coast Guard and involves the military forces from many Pacific Rim nations. After successful completion of this event, Lcpl. Lechanski received orders for deployment to Afghanistan by year end.



On June 11, 2010, Gregory Kozerski travelled to Columbia, South Carolina to attend the graduation of his son Greg Jr. from the Columbia Police Academy. Greg Jr. will continue with his training over the next eight weeks at the state Police Academy in South Carolina.

WATERFORD ADVISORS

An SEC Registered Investment Advisor • Certified Financial Planner™

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