



## A Matter of Principle

In helping clients, advisors do good by giving good advice

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Ask any group of advisors what first attracted them to the profession or where they find the greatest job satisfaction and the most common answer is likely to be—helping people. That’s really what being an advisor is about—helping people plan for retirement, helping them plan their estates, helping them fund higher education for their children and grandchildren, and helping them plan their philanthropy.

It’s not surprising that advisors would say they get turned on by helping others. All religions encourage charity toward others and it’s been regarded as a virtue in nearly every secular civilization as well. But in fact it’s even more basic than that. No matter how jaded or cynical we might be, it just feels good to do something good for others, whether it’s throwing some loose change into the Salvation Army kettle outside Macy’s, donating a winter coat to a homeless shelter, or funding a scholarship for a kid that wouldn’t get an education otherwise.

While virtually everyone agrees that charity is a good thing, there’s often a huge gap between a good intention and a positive action. For the majority of people, philanthropy is what they’d indulge in if they had a lot of money, but they don’t, so they limit their charity to support of their church or the occasional donation to the local food bank or the Girl Scouts or a homeless shelter. Many advisors do, however, have generous-minded clients with more than enough assets to fund their lifestyles for the foreseeable future, plus enough to leave sizeable inheritances, and this is where a well-thought out financial plan that includes estate considerations and the best way to make charitable bequests can do an incalculable amount of good.

When Matthew Chope, a planner with the Center for Financial Planning in Southfield, Michigan, sits down with clients he first tries to figure out what makes them tick. “We meet with clients to help determine their goals and objectives for life, not just their money,” he explains. “We take a very holistic approach and try and figure out how money plays a role in their lives.”

Dean Harman, principal of Harman Wealth Management in The Woodlands, a high-end suburb of Houston, has found that many wealthy clients have a strong desire to give something back to society. “What I try to do is ask questions and take that desire and focus it,” he says. “My job is to understand what they want to do and then figure out the most tax advantageous way to do it. It doesn’t really pay tax-wise to go in and say ‘I’m just going to donate money’ to this or that. Obviously, if you’re going to do it, you’re going to want the tax write off, but that’s not really why people [make donations].”

Not every client has a well-defined charitable inclination, agrees Chope. He's found that while many of his clients have institutions or organizations that they support with their money on a regular basis, drawing up a long-term philanthropic plan and attempting to create a charitable entity that will outlive them is not common. "It's rare, but if a person makes it known that's an important part of their life, we'll go down that path, discussing possible strategies to employ for leveraging that part of their objective. But it's definitely not something you start out with. Most people don't think about leaving a legacy or think about how they can change the world with their money."

### **Wanting to Do Too Much**

Sometimes Harman finds himself in the unusual position of having to explain to clients that as admirable as their intentions might be, those intentions also might be out of reach. Being a former college athlete who also played in the NFL for the Tampa Bay Buccaneers has helped him develop a client niche made up of athletes and professional and college coaches.

"With athletes, I see a lot of desire to do charitable things," he says, noting that these are usually young men who one day didn't have a lot of money and then the next day signed a big contract and were suddenly wealthy. "One thing I deal with, with them, is the first thing they say is, 'I want to set up a charitable foundation.' I try to get them to understand that it's one thing for Michael Jordan to set one up because he can go and raise millions of dollars for stuff. But most athletes are not Michael Jordan; they're going to be able to raise maybe \$20,000 at a golf tournament."

But for all of his clients who express a desire to do something philanthropic, whether their money comes from athletics or some other endeavor, Harman starts with a simple conversation where he attempts to get down to "what's near and dear to their hearts."

Eric Smith, who operates Lifetime Planning along with his father in Camarillo, California, agrees that the first step in helping clients bring their charitable impulses to fruition is an understanding of how deep those impulses run and in what directions.

"We've done that by periodically asking questions at our regular review meetings to elicit their interest in that area and to educate them about what's out there in terms of charitable planning," he explains. "One of the hypothetical questions is, 'If you had \$100,000 that you couldn't leave to your kids or family and you couldn't spend on yourself, what would you do with it?' It's quite interesting the range of answers that you'll get. If they give the kinds of answers that show they have a charitable motivation, then you can develop that."

Like most advisors, Smith approaches his clients' charitable inclinations from the aspect of a fiduciary. He says the first step is an analysis to determine if the client really does have more assets than they will ever need in their own lifetime. Included in the analysis is an assessment of the client's income and expenses and a determination of how much income is from guaranteed payments such as pensions and annuities and how much is from investments. "We want to make sure they're not hurting their own lifestyle or retirement by making a charitable gift," he says, noting that the firm has several clients who are heavily committed to charitable causes and have put substantial portions of their net worth into charitable trusts. "It's not that they're threatening their lifestyle, but it's more than you would typically advise a client to do."

Many advisors find charitable remainder trusts to be ideal vehicles for allowing clients to help a cause they care about through a legacy without having a negative effect on the donor's last years. Such vehicles can also help assure that the client's money goes to a charity rather than to the government in the form of taxes. Smith tells of one client who put a rental property into a CRT which then sold the property, allowing the client to avoid the capital gains that had built up in the real estate while still deriving income to live on and leaving a larger gift to his charity of choice upon his death.

Tim Truebenbach, who runs the Henderson, Nevada office of the Keller Group, an advisory firm headquartered in Irvine, California, recently helped set up a CRT for a client who wanted to use his money to benefit children. “One of my contacts is a community foundation who knows numbers of charities and they usually do a lot of research on each one of them,” the advisor explains. “This particular charitable remainder trust is pretty big, so we’ve identified five different charities for it. Then we start structuring how we are going to give that money. We talk to the charities about the best way to do that for them and then try and match those needs up as best we can.”

For one of Eric Smith’s clients who had no children of his own and wanted to help both a niece and his university, a CRT was the perfect solution. After a series of in-depth discussions with the client, Smith helped him set up a trust that would provide income to his niece for her lifetime with the remaining assets transferring upon her death to his alma mater to fund a liberal arts scholarship.

### **The Virtues of Planning**

When it comes to charitable giving, the number one consideration, whenever possible, is careful advance planning, according to Truebenbach. “That gives us ways to make it more efficient for their income tax and estate tax planning,” he explains. “When you’re saving them taxes, they have more money to give to charity, if they’re so inclined.”

Truebenbach has also found that contrary to conventional wisdom, deferred charitable giving can help take the teeth out of the alternative minimum tax. “If our clients are exposed to AMT, charitable giving can help them,” he explains. “Traditionally, without considering AMT, the mentality is to accelerate your deductions: ‘Let’s buy that computer before the end of the year and let’s try and push some income back into next year.’ With AMT, which hits most of our clients that are still working and haven’t hit that retirement mark yet, you want to defer the deductions and accelerate income in the current year. So for someone who is thinking ‘I’d like to donate money to this charity, it’s Christmas time,’ we might say, ‘Why don’t you make the pledge now, but write the check in January.’ This way the church knows they’re getting the gift and they can plan on the money, and the client can avoid as big an AMT hit by deferring the deduction.”

The client that Truebenbach worked this out for found that this strategy saved him about \$12,000 in taxes, which he then tacked on to his original gift, which made everybody feel good, the advisor included. “We discovered a way to help them give more with the exact same amount of dollars. It’s kind of like magic, so it feels pretty good. That’s unconventional thinking. Usually everybody thinks that you want to get the deduction this year, when you really don’t,” he notes. “Sometimes, you want it next year because of your AMT exposure.”

### **Putting Your Money Where Your Heart Is**

When it comes to charitable donations, most people look to support causes or organizations that reflect their personal values. Not anywhere near as many people, however, look for investments that are reflective of those same values.

Doug Ikenberry is an RIA in Shenandoah, Texas, with more than 35 years experience in the business. His current firm, Post Oak Management, has been around for about two-and-a-half years, has about \$22 million under management, and offers separate account management services to individual clients, institutions, and other advisors. Among the portfolios that Post Oak offers is a “Values Growth Portfolio” that starts with an active asset management strategy and then adds an overlay of “values” to screen out companies that profit from (in descending order of priority): “abortion; non-traditional lifestyles; anti-family entertainment; pornography; tobacco; alcohol; and gambling.”

Currently about \$7 million, about a third of the firm’s total AUM, is placed in Post Oak’s values portfolios. “About two-thirds of the folks just say ‘Make me a lot of money if you can and I’ll take care of it [the values] myself,’” notes Ikenberry.

Clients for the values-based investments include a number of churches as well as members of many of those same churches' congregations. "We went into this wanting to do one set of things and then found out that doing good is in the eye of the beholder," recalls Ikenberry, noting that the values-based portfolio hasn't attracted the level of attention that he originally thought it would.

"We're in Texas, which is, if you will, a pro-church state," he points out. "If you go neck-and-neck with, 'These are my values and I'd like to have my money invested that way,' and 'Here is a significantly better return,' almost always the significantly better return wins. What folks are saying is 'One of the things of being a good steward is that I need to take care of my family, or take care of my retirement, or meet whatever goals I have for education, and I will use my money wisely as I see fit. But if you can give me a dollar and somebody can give me two dollars, I'll take the two dollars, thank you very much.' From my point of view that's kind of a real world approach."

A more common approach for advisors who have clients that want their investments to reflect their values is to choose SRI or faith-based funds, of which there are many options. According to data cited in the *Capgemini/Merrill Lynch World Wealth Report 2007*, there were 201 SRI funds open at the end of 2005 representing \$179 billion in assets. Although compared to the mutual fund universe as a whole the SRI segment is still minuscule, growth over the last decade has been impressive. In 1995 there were only 55 funds with AUM of \$12 billion.

Advisor Harman recently had a client who told him she wants socially-conscious investments that reflect her personal opposition to child labor, alcohol, tobacco, and firearms. To him the only realistic option was to match the client with SRI funds. "There's no way we can do the level of research that the funds can," he says.

### **Go Beneath the Surface**

When exploring these options with clients, it's also important to determine how deeply the client wants to take the approach. For this particular client, alcohol, tobacco, and firearms are pretty easy to identify, but adding child labor issues into the mix raises another set of concerns. Where does a company like Nike, which has had well-publicized problems in the past but has taken steps to correct them, fit into the picture? What about a restaurant chain that derives a significant percentage, but not a majority, of its revenue from alcohol sales? Or a hotel company that draws a slight revenue stream from in-room sexually-oriented movies? In most cases it comes down to determining how big a part of the company's business the offensive segment represents, though for some investors there are some absolute no-nos. For those most vehemently opposed to abortion, for instance, virtually the entire pharmaceutical industry as well as any company that makes a donation to Planned Parenthood is off limits.

Before Harman will make any investment recommendations, he wants the client to know the potential pitfalls of what they're buying into. "You have to make sure that the client understands that first of all none of this is easy, without any restrictions," he says. "It's important they understand that the more restrictions we put on the portfolio, the fewer choices that we'll have."

Chope says the instances of his clients looking for values-based investments have been rare. Smith says SRI funds come up occasionally, but his firm has yet to find a balanced, diversified portfolio that comprises only SRI funds. For clients who feel that values-based investing is the right thing to do, Smith will often suggest an SRI fund as one of the client's holdings, but would advise against a total allocation in that direction.

"I think if you always try to do the right thing, whether you can prove it or not, it's going to come back to you some way or another," says Harman, summing up why helping clients is good, but helping clients help others is even better.

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