IN THIS ISSUE

**Trusts**
How a living trust makes living easier
Trusts at a glance

**Investing**
The importance of dividends

**Estate planning**
A rush to the courthouse?

# Trust UPDATE

Stillman BANK

## How a living trust makes living easier

You've probably heard about living trusts, the modern marvels of estate planning. At a person's death, a trust established during life can eliminate probate delays and serve as a ready source of income for beneficiaries. Estate administration expenses may be reduced.

Most of our living trust customers value these estate-planning advantages. But they didn't set up their trust *primarily* for that reason.

Generally, our living trust customers come to us because they seek responsible, capable assistance in managing and organizing their assets. In the words made iconic by *Star Trek*, they hope to "live long and prosper." Our job is to help them do it.

Here's how our living trust service is helping them . . . and *could* help you.

### 1. Disinterested investment guidance.

Take a good look at that adjective, *disinterested*. You don't see it much any more. It means "free from selfish motive or bias." As trustee, we have no securities for sale nor any interest in encouraging frequent transactions. When you place cash, securities or other assets in trust with us, and we develop an investment program for your trust account, our sole concern is to meet your requirements and protect your prosperity.

### 2. A convenient way to organize your financial life.

With a typical living trust, we invest the funds that you place in our care, tend to all details relating to ownership of securities, maintain accurate records, collect dividends and interest, and pay the income to you. In short, we do much to save you time and worry. In addition, you can shape our services to meet your own needs in any number of ways.

Perhaps you'll want us to receive and invest your deferred compensation, or the installment payments from the sale of real estate or a business. Perhaps you'll wish us to make regular

income payments to another member of the family, or to a charity to which you have pledged support. Our procedures are readily adaptable to your special instructions.

### *3. Comprehensive assistance with your financial planning.*

Although not a formal element of our living trust service, our financial planning assistance proves to be much appreciated. Our aim is to help you protect your prosperity, and your family's, in every way that we properly can.

To that end, your account officer will work with you, your attorney and other advisors in updating your will, reviewing your life insurance program, setting aside education funds for your children and grandchildren, or developing ways to safeguard the future of a family business.

Planning charitable gifts? Here again, a trust officer's insights may prove helpful.

### *4. If you can't act, we will.*

In your living trust agreement, you and your attorney may include instructions empowering us to pay out income and principal for your benefit and do whatever needs to be done, for yourself and even for your dependents, if you should be unable to act on your own because of illness or disability.

### *Summing up*

People who have found it productive to explore the money-management benefits of a living trust include busy executives, the recently retired, young heirs and widows with investment worries, professionals and business owners who don't have time for researching securities.

The *estate administration* advantages of a trust, as mentioned earlier, are becoming well known. Discuss them with your attorney and with us. One of the most useful facets of a trust, we find, is the way that it can be used to *organize* a diverse estate. Additions to a living trust may be made by will, and by making life insurance policies payable to the trust. This approach can facilitate tax-wise estate planning.

Does a living trust promote long life and prosperity? We know of no scientific studies demonstrating that proposition. But people with trusts have reduced stress, because they have greater confidence in their financial future—maybe they do live longer!

Whether or not our services actually increase the *quantity* of your life, there's a good chance that we can help you improve the *quality*. We will be pleased to meet with you at your earliest convenience to tell you more. ☐

## Trusts at a glance

**Living trust**—one that you create during life, either for your own immediate benefit or entirely for the benefit of others.

**Revocable trust**—a living trust that you can change or cancel after it goes into action.

**Irrevocable trust**—one that you cannot change or cancel. It must run for the specified term. Sometimes irrevocable trusts save taxes.

**Testamentary trust**—one that you set up in your will, to take effect only after your death.

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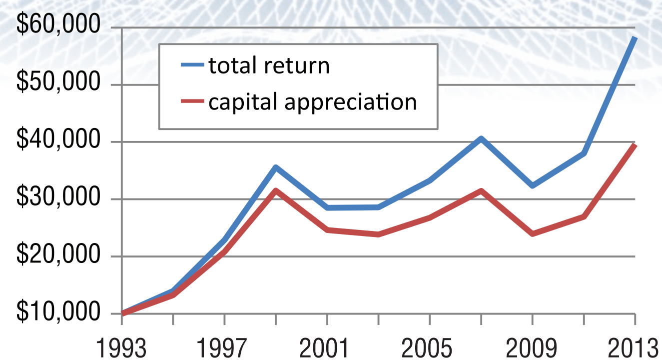
# The importance of dividends

## DIVIDEND POWER

Assume that you invested $10,000 in the S&P 500 in 1993. Over the long term, stock prices are on an upward trend, despite the occasional retreat, as shown by the red line in the graph below. The data is for large company stocks, and comes from the *Ibbotson SBBI 2014 Classic Yearbook*. The *total return* from stocks includes dividends as well, and those dividends are reinvested in stocks for compounding growth. The blue line shows the total return of large company stocks since 1993.




Source: M.A. Co. Data: *Ibbotson SBBI 2014 Classic Yearbook*

Last year was a very good one for the owners of dividend-paying stocks. The S&P 500 companies paid a total of $340 billion in dividends in 2014, which was 12.4% higher than the year before. Standard & Poor's reported 3,308 positive dividend actions for 2014, versus just 291 negative actions, such as a reduction or suspension of a dividend.

When people talk about making money in stocks, they are usually referring to capital appreciation. After all, when we hear that the Dow Jones Industrial Average or the S&P 500-stock index has set a new record, it is the prices of the shares that is being referred to. But over the years, dividends have contributed importantly to the total return of stocks. A study by Standard & Poor's reported that since 1926, some 34% of the total return of the S&P 500 has come from dividends. In the 1940s and again in the 1970s, dividends were responsible for 50% or more of the total return!

Here's another way to look at that phenomenon. If you had invested $1,000 in the S&P 500 as 1926 began and held it for the next 87 years, your investment would have grown to $144,853. That assumes you spent your dividends as you received them. If instead you had reinvested those same dividends in the S&P 500, you would have accumulated $4,676,880! That shows the compounding power of reinvesting dividends. (*Data from* Ibbotson SBBI 2014 Classic Yearbook*. Example for illustrative purposes only; you cannot invest in an index*.)

The weight of dividends in the total return of large company stocks fell to 14% in the 1990s, when investors were hunting for lightly taxed capital gains instead of dividends. The trend began to reverse when qualified dividends were given the same favorable tax treatment as long-term capital gains. The graph above shows the recent history of stock returns, with and without dividend reinvestment.

### *The impact of low interest rates*

The long period of low interest rates has spurred investor curiosity about the alternative of relying upon dividends for their investment income. As a percentage of personal income, interest payments have declined over the past 20 years, while dividends have increased.

Dividend payments have much less volatility than do stock prices. They provide a cushioning stream of income during down markets. Although it is true that companies have the option of lowering or suspending dividend payments, they are generally very reluctant to do so.

During periods of economic growth, companies may decide to "share the wealth" with shareholders via an increase in dividends. Dividend increases are thought by some market observers to provide a reasonable hedge against inflation, which payments from fixed-income securities do not.

Are you confident with the role that dividends are playing in your portfolio planning? Would you benefit from getting a second opinion about your investment strategies? Please give us a call; we will be pleased to be of service in this regard. ☐

# A rush to the courthouse?

With the shocking news of the suicide of Robin Williams came word that he had a well-planned estate plan in place to take care of his family. Two trusts had been created, one for Williams' third wife, Susan, and another for his three adult children. The trust for Susan referred to and was consistent with a prenuptial agreement that the couple had signed before marrying in 2011. Susan was entitled to live in the couple's Tiburon home for the rest of her life, and a fund was to be established to cover the costs of maintaining the residence. The children inherited the larger Napa Valley estate and its contents.

The Robin Williams Trust provided that his children would receive Williams' "clothing, jewelry, personal photos taken prior to his marriage to Susan," as well as the actor's "memorabilia and awards in the entertainment industry." Although that seems reasonably clear, Susan went to court in December, just five months after Williams' death, to resolve what she considered ambiguities in the language. Specifically, she wants a watch collection to be declared "not jewelry," and she wants "memorabilia" narrowly defined and limited to items directly related to Williams' acting career. Apparently, Williams collected toys, carved figurines, theater masks, graphic novels, movie posters and skulls, and Susan wants to claim them for herself as "knickknacks."

The three children put up a united defense in opposition to Susan's claims in January, saying that they were heartbroken by the developments. They dispute the characterization of the various collections as "knickknacks," stating that they participated in the formation of the collections as they grew up and so have an emotional attachment to them.

Williams' estate planning attorney and his accountant were named trustees of the trusts. One goal of having a detailed, trust-based estate plan with independent trustees is to avoid family fights in the public eye. It's unfortunate that this objective has not been met in this case. Some observers wonder why the matter had to go to court so quickly, before the independent trustees even had time to do a proper inventory of the estate and its assets. Hopefully, with the strength of the main estate plan intact, the disputes can be settled relatively quickly.

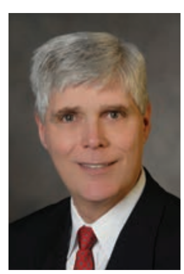
Although the parties have, by their actions, made portions of the trust language public, it is worth noting that the bulk of the trust terms remains private. We don't know what assets are in the trusts, what the rights may be of the various beneficiaries, the duration of the trusts, even how large they are. At least to this extent, so far, Robin Williams' estate planning has been successful. ☐

*"Should I consider a trust?"*

We can help you with your long-term investment goals, just as other professional asset managers do.

But a *living trust* can be more than a prudent investment program. A trust can create a continuity of financial management for you and your family.

To learn more about the distinctive advantages that we offer, visit us for a personal consultation. We look forward to discussing your goals and requirements.



**Kirk Hosler**
Senior Vice President & Trust Officer
(815) 332-8872
kirkh@stillmanbank.com

**Jeffrey Hartle**
Vice President
(815) 332-8843
jeffh@stillmanbank.com

Stillman BANK
Trust & Asset Management
8492 E. State Street • Rockford, IL 61108
815-332-8100

www.stillmanbank.com