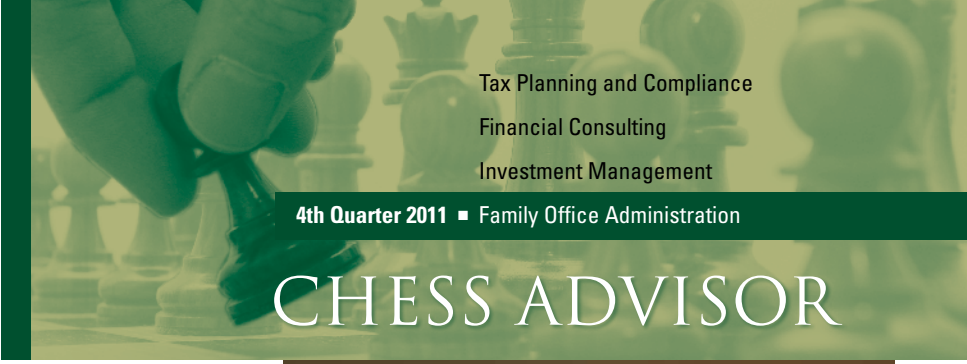
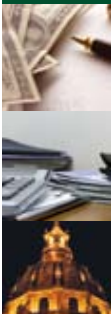




**CHESS**  
comprehensive wealth management



Tax Planning and Compliance

Financial Consulting

Investment Management

4th Quarter 2011 ■ Family Office Administration

# CHESS ADVISOR

## Exciting News at Chess

As Vice-Chairman of the combined organization, I am pleased to announce that Chess Financial Corporation has merged with Hartland & Co. to create a premier, comprehensive wealth management organization in our region and a leading firm nationally. Combined, we oversee more than \$11 billion in assets, work with more than 300 clients throughout the country, have 16 shareholders active in the business (47 people in total) and offer a breadth of services not generally found in most wealth management organizations.

Hartland & Co. is a highly respected, independent investment advisory firm serving primarily institutional investors. It was founded in 1989 by Tom Hartland. They have a strong investment research team with an impressive track record. By combining our resources, we have greatly expanded our capabilities in all areas. Given the increased complexity and volatility of the capital markets, applying institutional rigor to our clients' investment programs provides added benefits and comfort. Our expanded team also greatly enhances our collaborative approach, providing a broader base of experience and expertise in every aspect of wealth management.



Pictured, left to right: Carl Walter and Tom Hartland

Chess will operate as it does today as a wholly-owned subsidiary of Hartland & Co. We remain centered on holistic planning. Applying our comprehensive discipline, we assure that all aspects of each client's financial life work in concert, achieving superior results. Chess continues to provide the highly personalized touch our clients have always enjoyed.

*continued on back cover*

## A Brief Message from Tom Hartland

Like Carl Walter, I could not be more pleased with the combination of Chess and Hartland & Co.

We were attracted to Chess because we share a common business philosophy. We both believe that remaining independent – owned by the professionals of the firm and board of directors – is essential to providing objective and effective service to clients. We also believe that an independent firm helps attract and keep the highest caliber people; at Chess and Hartland & Co. top performers have the ability to become shareholders. With our merger, we have 16 shareholders, including five Chess shareholders who have rolled their interest into Hartland & Co. shares. We also believe clients of both firms will benefit from deeper resources of the combined company.

Please rest assured that we have no intention of changing any of the cornerstones of Chess or the way they operate their business. We are pleased that the financial strength and depth of talent of the combined company bolsters our commitment to take care of your family and you for years to come. It is a privilege and an honor to be partners with the shareholders of Chess in delivering uncommon service to all of our clients. We welcome the opportunity to work with you.

Thomas J. Hartland ■ Chief Executive Officer  
hartland@hartlandco.com



Bradley E. Turner ■ *Senior Managing Director - Investments*  
 bturner@chessfinancial.com

## Portfolio Strategy

A lack of investor confidence exposes the inner workings of the financial markets like no theory or computer model can do. Without it, security prices lose a critical element of support – especially those assets deemed to be the most risky. This is precisely the behavior we witnessed during the third quarter.

This erosion of confidence is understandable. Our own economy is struggling to grow and the European debt crisis is intensifying. This latter factor has raised fears that a number of large European banks may not be sufficiently capitalized to survive a sovereign default.



Predictably, investors have rushed headlong into “safe havens” like gold, Treasuries and the Swiss franc. Yet, in the process of doing so they may have inadvertently set themselves up for disappointment down the road. As one example, with 10-year Treasuries now yielding 2 percent and core inflation running at 1.8 percent, an investor’s real, after-tax return doesn’t seem too attractive unless your time horizon is very short or you believe that deflation is in our future.

So the lesson we draw from the third quarter is that safety has become expensive and risk more affordable. Therefore, we’re probably at the point in this cycle where it makes sense to consider adding risk to portfolios. However, until the specters of a double-dip recession and credit contagion have diminished,

## MARKET INDICES

	3Q	YTD
<b>Domestic Equities</b>		
S&P 500	(13.9)	(8.7)
S&P Midcap	(19.9)	(13.0)
S&P Smallcap	(19.8)	(13.8)
<b>International Equities</b>		
MSCI Developed	(19.0)	(15.0)
MSCI Emerging	(23.2)	(23.5)
<b>Fixed Income</b>		
Barclays US Aggregate	3.8	6.6
Barclays Global Aggregate	3.0	4.5
Barclays Municipal	3.8	8.4
<b>Real Estate</b>		
S&P Global REIT	(15.6)	(7.2)
<b>Commodity</b>		
Dow Jones – UBS Commodity	(11.3)	(13.6)

this shift needs to be incremental. The key is to make sure that you have the financial flexibility to take on more risk and the wherewithal to hold on until market conditions improve.

From our perspective, the most obvious choice to add risk to a portfolio is large-cap, dividend-paying companies. Generally speaking, these companies are in the strongest financial position they’ve been in for decades. As a result of the market sell-off, many of their stocks yield considerably more than 10-year Treasuries, with the prospect of dividend increases in the years ahead. It’s also worth noting that the number of share purchases by corporate insiders and companies themselves has increased markedly. This suggests that knowledgeable investors see value at these price levels.

Commodities represent our second choice for increasing a portfolio’s risk. Like stocks, commodities have been subject to widespread selling. But if we consider just the increasing demand from the developing world, it’s hard for us to imagine a future that doesn’t include higher prices for most commodities. A modest economic recovery in the developed world would only accelerate this trend.

In previous newsletters, we have discussed the tendency of investors to extrapolate recent experience, and how this causes them to act most decisively near inflection points. Today, investors are selling assets they perceive to be risky to buy assets they perceive to be safe. Along the way, they seem to have forgotten that even safe havens can fall victim to speculative excess. How long this trend will continue is unknowable. However, the longer it persists, the more likely it is that risk assets will prove to be the better investment.



David P. Miller, CFP®, CPA ■ *Director – Family Office Administration*  
dpmiller@chessfinancial.com

**CHES**  
comprehensive wealth management

## Who Do You Trust?

One dictionary defines trust as assured reliance on the character, ability, strength or truth of someone or something. To expand upon this definition, one might add the words “to achieve a particular need or objective.”

We all trust a number of people to provide various personal or business needs in our lives. The nature of our trust may be as basic as trusting the postman to deliver our mail in a timely manner, to as complex as trusting a loved one to meet our emotional needs.



Although our purposes for trusting individuals vary, we often look for common attributes in those whom we choose to trust, whether for personal or business purposes. The following attributes are especially important in financial advisors:

**Integrity** – Individuals who possess integrity are honest, speak with candor and have the best interest of others at heart. Integrity allows room for honest mistakes, but leaves no room for intentional deceit or manipulation from those in whom we have placed our trust. Persons of integrity do not take advantage of the circumstances of others to obtain personal gain.

**Objectivity** – An objective person responds to facts, not to wishes. A trusted friend will interact with us as we are and will not try to make us into someone they want us to be. Likewise, a trusted financial advisor will focus on the reality of financial circumstances and will not attempt to spin such circumstances into something else.

**Competence** – Competence is knowledge, skill and the application of both to the objectives at hand. We trust people to possess the skills to meet our needs, whether personal or business. Professional certifications and training are important in financial advisors as is the bench strength of the advisor’s co-workers and professional contacts.

**Confidentiality** – A trusted friend or service provider assumes that your personal or business information is not to be shared with others unless they are directed by you to share that information. This allows you to retain the power to select whom you will trust with your information.

**Professionalism** – Dignity, courtesy and civility should be expected of all people, even in the most stressful of situations. An unintentional slip in this regard is permitted since we are merely humans. Intentional maliciousness, however, cannot be accepted. Professionalism enables advisors to manage the emotional aspects inherent in financial matters in various situations.

**Diligence** – An advisor who is proactive, prompt and thorough in his or her work is a diligent advisor. Strength of diligence is a good indicator that an advisor truly cares about your needs.

You will be well served if you find these attributes in your friends and advisors. Your advisors at Chess Financial are constantly striving to maintain these attributes.

## Family Office Administration

Our Family Office Administration offers sophisticated financial management and a broad menu of high-touch services to the affluent and ultra-affluent markets. The level of attention offered to families through such services as intergenerational counseling or development of family mission statements has become the hallmark of our Family Office Administration services. In addition, our core principles include:

- Family Legacy Preservation – preserving the family business or family wealth from generation to generation
- Depth and Breadth of Services – superior high-touch, customized and sophisticated family office services
- Specialization and Attention to the ‘Soft Services’ – offerings that vary from bookkeeping and bill paying to family governance and succession planning
- Entity Administration – partnership accounting, trust management and foundation management

Our Family Office Administration team of professionals also handles the following:

### Document and Record Management

- Gather and record data to facilitate effective transaction planning and efficient tax compliance
- Use of record keeping data to report on the entity’s financial status, monitor asset performance and anticipate liquidity needs

### Family Meetings

- Largely because of the complicated lives and finances of our client families, we are able to bring simplicity and structure to their lives by effectively managing their complex affairs and multi-generational issues

### Tax Compliance

- Preparation of all of the various types of trust, partnership, foundation and corporate tax returns
- Minimization of tax liabilities due to advanced planning techniques customized for each client’s unique circumstances

### Succession Planning

- Superior record of advanced transfer techniques effectively saving our clients millions of dollars in taxes
- Effective strategies that maximize and preserve the family wealth and/or family business from generation to generation

## Exciting News at Chess continued

The utmost care was taken in evaluating this opportunity. We were attracted to Hartland & Co. because of the deep cultural and historical similarities of our firms. Our number one priority for the past 25 years has been to assure both the quality and the continuity of the services we provide to our clients. Our “client first” business philosophy and our strict adherence to objective advice is at the center of who we are. These core values are embraced by everyone in the combined organization. The added financial and professional strength further enhances our ability to assure continuity of service to clients over multiple generations.

As we celebrate our 25th year, we are very excited about this significant step in the evolution of Chess. We would be happy to talk to you about our “uncommon service,” now with even more to offer.

F. Carl Walter ■ Vice-Chairman  
fcwalter@chessfinancial.com

Michael S. Dearden, ATP ■ Senior Managing Director  
msdearden@chessfinancial.com



## 'Lock-in' GRAT Appreciation

Over the past few years, several of my clients have established two-year, zeroed-out Grantor Retained Annuity Trusts – or GRATs. And while this article is not meant to address the advantages or disadvantages of establishing GRATs, I did want to discuss a planning strategy that I have helped implement with several clients to ‘lock-in’ the appreciation of their GRATs while continuing to try and capture future appreciation.

Let's say GRAT ‘1’ was funded in November 2010 with \$5,935,000 in gold bullion bars and coins (plus \$65,000 in cash) for a total contribution amount of \$6,000,000. Additionally, let's say that the value of the assets as of today is approximately \$8,000,000. The required payments back to grantor under GRAT ‘1’ equal \$6,180,469, or \$3,090,235 per year.

Therefore, currently, if the grantor survives the term of the GRAT (November 2012), the GRAT would pass \$1,819,531 gift and estate tax free to his children (\$8,000,000 FMV minus \$6,180,469 in required payments).

Therefore, in order to lock in the current value of GRAT ‘1,’ the grantor will purchase back the gold in GRAT ‘1’ for a promissory note. The grantor will take all of the gold back and leave a note for \$8,000,000 (value of GRAT today) inside GRAT ‘1.’ So, the remaining transaction is that the grantor ‘owes’ GRAT ‘1’ \$8,000,000, BUT the GRAT ‘1’ owes him the required payments of \$6,180,469. So every time the GRAT owes him a payment, it would essentially reduce the note by that amount, i.e. after the first year the note would be for \$4,909,765, and then, after the second year the note would be for \$1,819,531, or essentially the appreciation that we are ‘locking in.’ So in order to ‘pay off’ the note, the grantor would contribute cash in the amount of \$1,819,531 into the GRAT, and the note would be ripped up.

Now, the second part of this transaction is that the grantor would take the \$8,000,000 of gold that he or she is purchasing from GRAT ‘1’ and create a new GRAT ‘2.’

All of this planning is contingent upon the grantor surviving the term of GRAT ‘1’ and GRAT ‘2,’ or all of the assets come back into the grantors estate.

## DID YOU KNOW...?



### 65 and 44

Percentage of people who agree that people can be trusted in Norway and in the United States. (World Values Survey)

### 29

Percentage of employees reporting a high level of trust within their current organization. (DDI retention surveys)

### 19

Percentage of time people who trust government in Washington to do the right thing. (Gallup)

### 3

The number of times the phrase “trust in me” appears in the King James version of the Bible. (Answers.com)

### Lying

The number one reason kids do not trust their parents. (Essortment)

Visit us online at  
[www.chessfinancial.com](http://www.chessfinancial.com).

You can learn more about our services and register to receive this newsletter electronically.

Questions or comments? Email us at [comments@chessfinancial.com](mailto:comments@chessfinancial.com).



## UNCOMMON SERVICE TO EXCEPTIONAL PEOPLE

Chess Financial Corporation is an independent, non-product-based financial planning firm providing comprehensive wealth management. Please call Greg Althans, Mike Dearden, John Marino, Saticia Rice, Carl Tippit or Carl Walter if you have an interest in learning more about us. The views expressed in this publication represent an assessment of market conditions at a specific point in time, are opinions only and should not be solely relied upon as investment advice regarding a particular investment or markets in general. Any tax advice in this communication was not intended or written to be used, and cannot be used, by any persons for the purpose of avoiding penalties that may be asserted by the Internal Revenue Service or other taxing authorities.

25825 Science Park Drive, Suite 100, Beachwood, OH 44122 T 216 831 2400 F 216 831 2401 E [comments@chessfinancial.com](mailto:comments@chessfinancial.com) W [www.chessfinancial.com](http://www.chessfinancial.com)

This material is confidential and not to be reproduced or redistributed without the prior written consent of Chess Financial Corporation (Chess). This document is intended for informational purposes only and contains the opinions of Chess. Nothing herein constitutes an offer to sell, or solicitation of an offer to purchase, any securities, nor does it constitute an endorsement with respect to any investment area. ■ Some information contained herein has been obtained from third-party sources and such information has not been independently verified by Chess. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of such information by Chess or any other person; no reliance may be placed for any purpose on such information; and no liability is accepted by any person for the accuracy and completeness of any such information.