



Helping families meet their financial goals
for over 25 years.

REFLECTIONS

1st Quarter Newsletter 2014



WINDGATE

WEALTH MANAGEMENT

SPRING CLEANING

Spring has arrived and not a moment too soon. In Chicago, we finished what turned out to be our coldest winter since records began in 1872. Wherever you live, enjoy the spring sunshine that you deserve – perhaps even by reading this newsletter while you relax outside.

Of course, it is also time for spring cleaning, and yes that includes your financial affairs. Inside you will find information on financial planning, updates on our firm, and some wisdom and humor regarding money that we hope can enrich your perspective. With spring cleaning in mind, remember that we offer the following services that can help organize your financial life:

- We continue to offer our complimentary Financial Planning services to our clients. Call Sean Condon, CFP® at 800-331-8936 to see how we might be able to help you plan for your retirement or short term goals.
- Get help managing your 401(k). We are now offering a secure client website where you can aggregate all of your financial accounts into one, easy to view page online. This allows us to monitor accounts we don't manage, such as your 401(k). The site can be very helpful because it provides a one stop window for your entire financial picture which can be a simple first step in financial planning. Call us for a log-in and tutorial anytime.



If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 800.331.8936

- **Your Account Online**

You can log-in to your personal financial website at www.windgatewealth.com by going to the “see all accounts” tab

INSIDE THIS ISSUE

Happniess For Sale

Windgate Supports Hephzibah Children's Association

Naming Your Trust as IRA Beneficiary?

Meet The Team, Lynn Burmeister, IACCP® Chief Compliance Officer

Quotes on Money, Work and Humor

- **Follow Us**



Connect with us on LinkedIn



Follow us on Twitter

HAPPINESS FOR SALE

The Best Things in Life Are Free.

But Studies Show Financial Security is The Key to Procuring Happiness

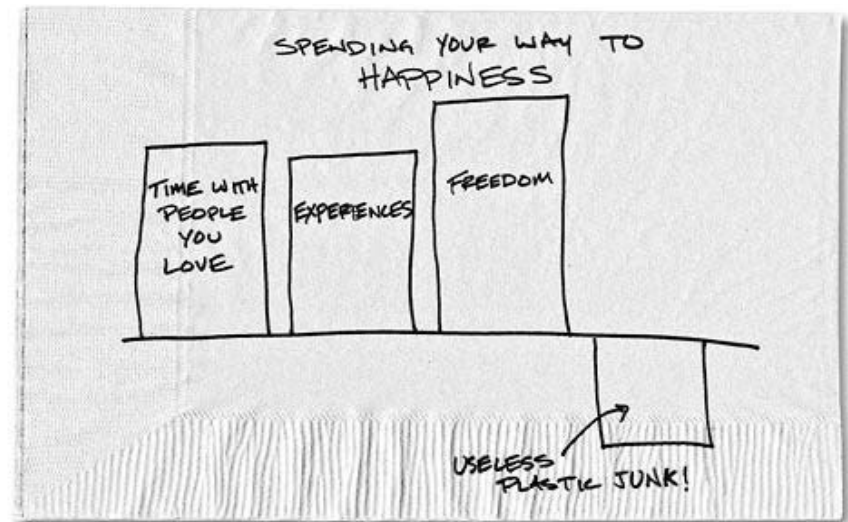
Money can't buy happiness. It's a phrase we've all heard and in some way or another probably agree with. Yet recent research^[1] has revealed that money can help create a happy life - it just depends on how you spend it.

Because we are dedicated to helping you manage your wealth, it goes without saying that we urge saving and investment planning as the path to financial stability. But we can't deny that money is ultimately earned and accrued to be spent. Money & happiness research gives us an opportunity to detour from our usual emphasis on investing and examine the spending side of the equation.

How should you spend money to “buy” happiness?

First, think beyond the boundaries of the self. Money, when spent on others, is giving that goes both ways. This pro-social spending makes others feel valued and empowers you to feel connected. Spend your money on a gift for someone and reap the happy feeling that comes with giving that gift.

Second, find ways to buy time. Spending money to increase your free time—time that can be spent exercising, volunteering, and participating in a community, does wonders for your overall happiness. Outsource some of your daily activities—cooking, cleaning, etc.—to free up your time to do what truly makes you happy. Outsourcing is increasingly seen as a wise investment - no longer a mere luxury for the super rich.



¹"If money doesn't make you happy, then you probably aren't spending it right" Elizabeth W. Dunn, Daniel T. Gilbert, Timothy D. Wilson, , Journal of Consumer Psychology, Volume 21, Issue 2, April 2011, Pages 115-125.

HAPPINESS FOR SALE (Continued)

Third, anticipate and experience happiness. Happiness is not something merely enjoyed in the moment. It is anticipated. It is recollected. Create great experiences that become great memories. Use money to help you. By planning ahead—say, a vacation that is months away—you will feel eager for the trip to come. Anticipating such a positive experience is a feeling of happiness we have all enjoyed. Plan ahead a lot—make many small, easy trips (and traditions) so you (and your immediate family) can anticipate and look forward to the happy adventures ahead.

Fourth, when looking to buy happiness... buy experiences. Remember this: Material goods quickly depreciate. That high-end Nordic Track might become a kids' bookshelf in three months. Experiences, like that Hawaiian vacation, add value to your life, and in cases where you are experiencing vacations, outings, and events with others, you are deepening your relationships, and strengthening your bonds.

“Happiness is not something merely enjoyed in the moment. It is anticipated. It is recollected. Create great experiences that become great memories. Use money to help you.”





Also, spend money on what makes you happy. Not the guy down the block happy. Understand why things make you happy and pursue these things. Be conscious of what makes you feel competent and peaceful. Invest your money in items and experiences that increase these emotions. Deliver the care for yourself (and your loved ones) in a way that makes you - not others/outside - happy.

And finally, remember this: Money and happiness are not mutually exclusive. While we put great importance on money and recognize that our salary/bonus/stock options conveys our value as employees to our company, the dollar amount in our paycheck alone does not dictate if we are happy or sad. It is how we spend and save that money - and in this case, spend to wisely create an ongoing environment in which we can derive pleasure from the things that uniquely make us happy. Money is the critical middleman that we can use to unlock happiness in other aspects of our lives. Spend wisely. Spend happily.

“Recent research has revealed that money can help create a happy life – it just depends on how you spend it.”

WINDGATE SUPPORTS HEPHZIBAH CHILDREN'S ASSOCIATION

Windgate was proud to sponsor The Hephzibah Children's Association Heart of Gold Ball in March. Held at Chicago's Bridgeport Art Center, with dramatic views of the city's skyline, the event was a rousing success. "What a fabulous night this was," said Hephzibah Executive Director Mary Anne Brown. It was exactly what we all needed to shake off the winter doldrums. This is a crowd that likes to party, and we raised more than \$230,000 for Hephzibah's kids while having the time of our lives."

Hephzibah is one of Chicagoland's oldest charities—founded in 1897 when Mary Wesels opened her Oak Park, IL home to children from a nearby orphanage that had been destroyed by fire. Today, Hephzibah's mission is to help children thrive and families flourish. Hephzibah serves 1,200 children and families annually through three main program concentrations: A Group Home for abused and neglected children, Family Based Services that provide training and licensing for foster parents, and a Day Care program for working families.



Sean and Elizabeth Condon (second and third from left, back row) and Guests at the Hephzibah Heart of Gold Ball.

Previously this year, Windgate advisor and Hephzibah volunteer Sean Condon, led a financial literacy workshop for a group of foster children. “Sean did a great job of simplifying his message and facilitated good conversation – even our staff took notes!” said Sarah Niederman, a Hephzibah social worker and director of the Life Skills program, a class designed for foster children who are on the brink of adulthood.

“The Heart of Gold Ball was a special event and we are proud to support a group that is changing the lives of abused and neglected children through foster care and other family services,” said Sean. “I was doubly thrilled to introduce the organization to several CPAs and attorneys who do great work with our clients.” At the end of the day, Windgate left with a stronger sense of camaraderie and commitment to community which is vital to the success of any firm. And most of all, we were able to contribute to families and kids in need.

“The Heart of Gold Ball was a special event and we are proud to support a group that is changing the lives of abused and neglected children through foster care and other family services.”

MEET THE TEAM: Lynn Burmeister, IACCP®, Chief Compliance Officer



Lynn Burmeister joined Perritt Capital Management in 2009 and oversees all compliance matters for the firm. She has been in the financial industry since 1980 and her experience includes work at Harris Associates, Gofen & Glossberg and Optimum Investments. Lynn is an Investment Adviser Certified Compliance Professional (IACCP), a designation awarded to individuals who complete a program of study, pass a certifying examination, and meet work experience, ethics and continuing education requirements.

Q. What is a compliance program and why is it so crucial for Investment Advisory firms?

Investment Advisory companies have many different areas of work and expertise. Each of these areas are very specific and often do not interact with other areas of work. Portfolio Managers evaluate investment opportunities, Trading professionals execute work with a network of brokers and Advisors communicate with clients. I look at our compliance program as the thread that binds all areas of an Investment Advisory firm together with a code of ethics and behavior standards for all employees and areas of business.

Based on laws passed by Congress, the Securities Exchange Commission, FINRA, and other regulatory agencies write guidelines and requirements for Investment Advisory firms to follow to help protect client's assets from misuse and abuse, and to assist an Investment Advisory firm with a strong commitment to its compliance program, in building a solid practice with a good reputation.

The Chief Compliance Officer's role in an Investment Advisory company is to "prevent, detect and correct" areas where policies may be weak or rules and regulations may have changed.

Q. How did you come to Perritt Capital/Windgate Wealth Management?

I began my career in 1980 at a privately owned investment advisory firm where I reached a senior administrative position before ultimately leaving after the birth of my son in late 1990. When I left the full time work force, I began consulting on compliance programs for investment advisory firms throughout Chicago. In this role, I performed mock SEC audits and reviewed and re-wrote policies and procedures to bring firms in line with the changing compliance requirements set forth by the regulatory agencies. I met with senior management of these firms to make recommendations to improve their compliance programs, and held staff meetings to educate employees on best practices for account administration and compliance matters.

In 2005 when the Securities Exchange Commission required Investment Advisory firms to designate a Chief Compliance Officer, I was in the right place at the right time. With my children in middle and high school (having had a daughter 4 years after the birth of my son), I was ready to focus on building my career again and found a part time position at Perritt Capital Management. I worked with Chief Compliance Officer Robert Laatz to bring policies and procedures up to date and audited client files for completeness. I eventually left Perritt to home school my daughter and prepare her for high school.

In 2009, when the Chief Compliance Officer announced his retirement, Michael Corbett contacted me about returning to Perritt to transition into the Chief Compliance Officer position for both the advisor and The Perritt Funds. Again, perfect timing, as my daughter was entering high school, and I readily accepted the offer. I joined Perritt Capital Management in December of 2009, was named CCO in February 2010 and Vice President/CCO of The Funds in May 2010. I look forward to serving as CCO in the upcoming years.

Q. How does compliance relate to our clients?

The trust that our clients place in us is one that I value and respect. I see my place in our relationship with clients as the system of checks and balances to create policies and procedures that enforce the fiduciary standards we are required to follow.

“Compliance is the thread that binds all areas of an Investment Advisory firm together with a code of ethics and behavior standards for all employees and areas of business.”

NAMING YOUR TRUST AS BENEFICIARY OF AN IRA? BEWARE OF THESE POTENTIAL ISSUES.



Sean Condon CFP® Financial Planner, Wealth Advisor

Estate planning can be a complicated and tricky business, yet you can accomplish a great deal by simply preparing the basics. Naming the right beneficiary of your IRA is a simple, crucial, yet often misunderstood first step in planning your legacy.

According to the Investment Company Institute (ICI), at the end of 2013 US investors owned more than \$5.4 billion in Individual Retirement Account (IRA) assets, more than the amount held in Defined Benefit (pension) accounts. With so much at stake, the IRA beneficiary form is not an afterthought to be taken lightly. For many investors, it represents the most important piece of a proper estate plan.

It is a common desire to name a Trust for a spouse as the IRA beneficiary. After all, Trusts offer control over distributions to beneficiaries and protections against creditors, often fulfilling very legitimate goals. Before naming a Trust as IRA beneficiary, however, you must understand the repercussions.

By naming a Trust as IRA beneficiary you lose the spousal rollover and the ability to “stretch” the tax-deferment advantages across generations. When you name a spouse as your IRA beneficiary, he or she rolls the assets into their own IRA at death. Assets are not required to be taken out of the IRA until the surviving spouse turns 70 1/2, and at that point the annual required minimum distributions (RMDs) are calculated based on the spouse’s life-expectancy (or in the case of Roth IRAs, distributions are not required).

The result here is that distributions are smaller, less tax is paid, and law of compound returns enables your IRA to grow by a larger amount than it may have otherwise. If you have children, the IRA can be further passed on to the next generation, and distribution requirements are again re-calculated based on the child's life-expectancy. This completes the "stretch" and provides a potential longevity to your assets and payout to heirs. It should be noted that the "stretch" technique has previously come under fire by lawmakers. Ex-Finance Committee Chairmen Max Baucus (D- Mont.) proposed a requirement (voted down in 2012) that all inherited IRAs to be distributed within 5 years of the original owner's death. Like any tax or investment issue, we can only plan based on the laws as they are currently known, but this issue needs to be watched closely.

The strategy of naming a spouse as beneficiary of your IRA allows your assets to grow tax-deferred for much longer than if the IRA had been left to a Trust. Under IRS rules, when you name a Trust as beneficiary, the best deal you can get is that assets will be fully taxed over the life of the oldest beneficiary of trust. Required distributions from an IRA left to a Trust are based on the life expectancy of the trust beneficiary. If there are multiple individuals who will receive assets from the Trust, the RMDs are based on the life expectancy of the oldest beneficiary. Distributions that are retained in the Trust (which Trust terms will often require) will also be taxed at high trust tax rates should they result in future gains and/or income.

“By naming a Trust as IRA beneficiary you lose the spousal rollover and the ability to “stretch” the tax-deferment advantages across generations.”

NAMING YOUR TRUST AS BENEFICIARY OF AN IRA? (Continued)

Even this “best case” outcome above is not guaranteed, as Trusts need to be written to pass a strict “look through” rule for the Trust beneficiaries to be considered “designated beneficiaries” and have RMDs based on their life expectancy. Trusts that fail to pass this test must have IRA assets fully distributed within five years (if the IRA owner dies before 70 ½) or over the original owners’ life expectancy, which can be quite a short time frame (if the IRA owner dies after age 70 ½). The “look through” rules require that 1.) the trust must be valid under state law, 2.) the trust is irrevocable by will or become irrevocable upon death of the account owner, 3.) the beneficiaries of the trust must be “identifiable from the trust instrument” and 4.) certain documentation must be provided to the plan administrator “within a reasonable time.” *If you do decide to name a Trust as the beneficiary of your IRA, it is absolutely crucial that you speak with the professional who drafted the Trust to ensure that it will pass this “look through” test.* Also ensure that you name a contingent beneficiary so that you are protected in the event that your primary beneficiary predeceases you. This is of course another reason to review your IRA beneficiaries to make sure that they are up to date with living primary beneficiaries listed.

Stretch



Income can last multiple generations.

No-Stretch



Income goes to the beneficiary and stops. Income cannot be stretched for future generations.

“Retirement benefits left to Trust could be taxed sooner and at a higher rate than if the benefits had been paid directly to spouse or children.”

Naming a beneficiary of your IRA that accomplishes your goals is a crucial piece in estate planning, yet it is often taken lightly because it is deemed as being so simple. However, the consequences of this decision can be significant. By naming a Trust as your IRA beneficiary you will lose the stretch payout to spouse and children over their life expectancies. Retirement benefits left to Trust could be taxed sooner and at a higher rate (most likely) than if the benefits had been paid directly to spouse or children. This could likely result in fewer assets for the widow to live on and the children to inherit. There are many good reasons to leave retirement assets in Trust to beneficiaries. Just be sure that you understand the implications.

Should I Name a Trust as IRA Beneficiary?

Advantages

Protection of assets from creditors

Control of post-death distributions. Restriction of access to beneficiaries who might be considered spend-thrift

Protection from second-marriage situations

Disadvantages

Loss of spousal rollover and ability of spouse to take assets as their own

Loss of tax-deferral and "Stretch" payouts over generations

Trust must pass strict "look through" test or assets could be required to be taxed over just a five year period

MONEY CAN BUY HAPPINESS, BUT WORDS ARE FREE

Favorite quotes regarding Money, Work and Humor

- "You don't pay taxes - they take taxes". Chris Rock
- "The art is not in the making money, but in keeping it." Proverb
- "Everyone has a purpose in life. Perhaps yours is watching television." David Letterman
- "If you think nobody cares if you're alive, try missing a couple of car payments." Earl Wilson
- "Opportunity is missed by most people because it is dressed in overalls and looks like work." Thomas Edison
- "In the short run, the market is a voting machine, but in the long run it is a weighing machine." Benjamin Graham, Pioneering Value Investor
- "Financial security requires just three steps: An above average work ethic, a below average propensity to consume, and a desire to invest for the long haul. That's it." Morgan Housel, The Motley Fool.
- "Some see private enterprise as a predatory target to be shot, others as a cow to be milked, but few are those who see it as a sturdy horse pulling the wagon." Winston Churchill.
- "We completed the deal without the involvement of investment bankers or lawyers - an experience that can only be described as heavenly". Warren Buffett

The information provided herein represents the opinion of Windgate Wealth Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

WINDGATE
WEALTH MANAGEMENT



300 S. WACKER, SUITE 2880
CHICAGO, IL 60606