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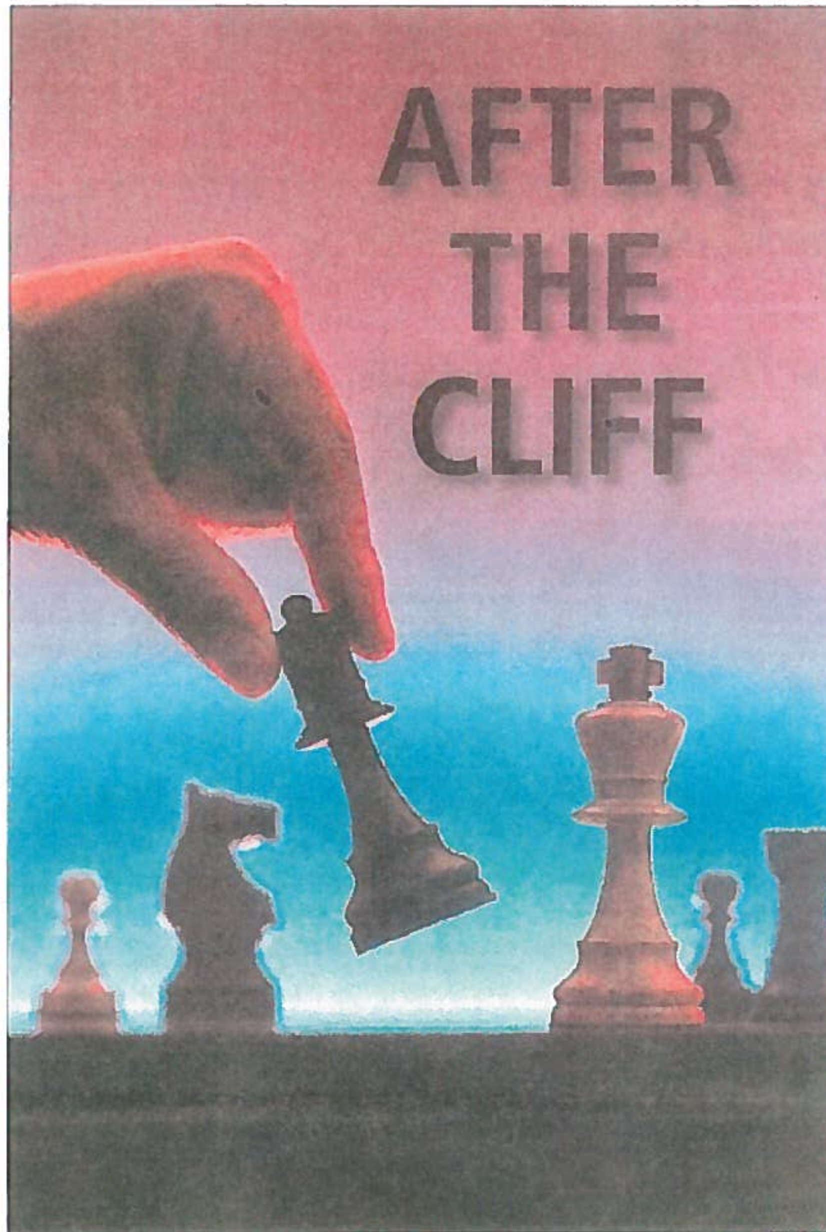

Experts: Gold, real estate, even limited partnerships look better than stocks for 2013.

By GAIL LIBERMAN
Special to the Daily News

Now that Congress averted the "fiscal cliff," in which big tax increases and spending cuts automatically were to kick in Jan. 1, were Palm Beachers' efforts to plan for it overkill?

What should you do financially about the forthcoming budget showdown and the still-uncertain economy?

Some on the Island are experiencing "buyer's remorse," stemming from a frantic effort last year to give away money to get it out of estates. The race was aimed at beating the anticipated expiration of the generous inflation-adjusted $5 million estate and gift tax exemptions. Without action by Congress, that exemption was to have reverted to $1 million on Jan. 1, threatening to leave heirs saddled with estate taxes as high as 55 percent.

But with the retention of the larger estate and gift tax exemptions, a few clients of Certified Public Accountant Richard Rampell wonder whether those gifts should have waited. Palm Beachers with $5 million to $20 million in assets might seem rich, he says. But some in their 50s to 70s are worried their gifts could leave them without enough money to maintain their lifestyles.

On the other hand, Rampell says, clients who made charitable deductions and prepaid real estate and their Northern state taxes last year are happy with their decisions. "You might call it 'seller's glee,'" he said. The reason is Congress agreed to limit itemized deductions this year for higher-income clients.

It's possible that, thanks to the deal, giving to charity may not be as beneficial tax-wise, says Leonard Adler, managing director and fiduciary counsel at Bessemer Trust in Palm Beach. A chief reason is the return of the itemized deduction phase-out for those making $250,000 or $300,000 for married couples.

On the plus side, charitable gifts of appreciated hard assets, such as stock, could prove more attractive due to the increase in capital gains tax on the high net worth. Not only does the capital gains tax rate rise to 20 percent-plus from 15 percent for those making at least $400,000, but a new 3.8 percent passive income tax takes effect for higher-income earners (see table).

Palm Beach attorney Leslie

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Options include plain old cash, which can be put to work after stocks swoon

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R. Evans, publisher of the *Evans Report*, notes that concern over the estate tax prompted people to sell Palm Beach properties for three or four weeks at year-end. Their aim was to give money to heirs, taking advantage of the larger estate and gift tax exemption while they could.

Gold, real estate

But now eyes are turning to gold and real estate as longer-term hedges against anticipated inflation triggered by the $16 trillion federal debt. Due to the new fiscal cliff deal, the limited quantity of oceanfront and Intracoastal residential property in Palm Beach will only rise in value, Evans says. The deal, he adds, gives real estate an edge over stocks.

"If you invest in stocks, you can't tell if the business will do better in the future. You'll be taxed on all distributions," he says. "If you invest in a home, you're not going to be taxed yearly on the appreciation." If you've lived in a home for two of the past five years, you can shelter the first $500,000 (per married couple) from capital gains taxes. Capital gains tax rates, he adds, are lower than top ordinary income tax rates, which, under new rules, rise as high as 39.5 percent for income of at least $400,000, $450,000 per couple.

"We're getting mostly U.S. citizens looking at 'What do I do with my money'," Evans said. "I see that going into the housing market." At least in Palm Beach, Evans thinks, the real estate market is not as manipulated as the stock market.

Brent Fykes, senior investment partner for SunTrust Banks affiliate, GenSpring Family Offices LLC, in Jupiter, says high-net-worth clients have shifted concern from taxes to the debt ceiling. Some captured gains and preserved losses last year for future years in anticipation of higher taxes. Those losses are expected to become even more valuable in coming years when higher taxes may prove inevitable, he says.

Many clients are looking for yield in investments that don't move with the stock market, he says. Sources include non-agency residential mortgage-backed securities, defensive high-yield corporate debt and municipal high-yield bonds. For stocks, the interest is in non-U.S. and emerging market stocks.

Clients are accessing gold through exchange traded funds, such as SPDR Gold Shares (GLD). Others own physical gold, such as coins and bars. They're turning toward gold mining stocks, such as Van Eck Global's Gold Miners Exchange Traded Fund (GDX).

In a quest for commodities, some clients have been inquiring about specific agricultural commodities as an inflation hedge. While Fykes cites at least two exchange-traded funds containing agricultural commodities, he largely has met this need through the Invesco Balanced-Risk Commodity Fund. That diversified fund, he notes, is evenly weighted among agricultural, energy, precious metals and industrial sectors. It is designed to move opposite the stock market.

Master limited partnerships, which largely invest in energy, are gaining steam as clients seek diversification from stocks, coupled with tax benefits. Fykes notes that the United States is expecting to emerge as an energy leader in coming years, though it will take time, he warns.

Master limited partnerships were sold off late last year amid concerns they could lose tax advantages, said Dennis Melchior, vice president of UBS Wealth Management. Now they're looking more attractive.

"People are selling corporate bonds and fixed-income securities, and buying master limited partnerships." With the rise in capital gains taxes on high-income clients, master-limited-partnership distributions include return of capital. That capital gets subtracted from taxable capital gains — a plus for those now in the higher capital-gains tax bracket.

Good news

The new fiscal cliff deal, according to Melchior, has eliminated client fears that master limited partnerships, municipal bonds and dividends would be subject to higher tax rates in 2013.

Municipal bonds are more attractive as a shelter against increased taxes expected on the high net worth, he says. While their value is limited, there are opportunities in municipal bonds for those who make very careful selections.

> *Municipal bonds are more attractive as a shelter against increased taxes.*

"People are staying away from corporate bonds," Melchior said. "You're starting to get into a market where these things are very expensive."

Another popular investment: Plain old cash. By keeping larger cash positions, clients make some money if the markets rise, but won't get killed if the market drops in value, Melchior says. Once market values drop, they can put their money to work, buying investments at lower prices.

For those who might regret jumping the gun on the estate and gift taxes last year, the Miami law firm, Holland & Knight, lists several advantages to getting money out of estates last year.

"Largely, it still works because the estate and gift taxes were 35 percent and now they're 40 percent," says Christopher W. Boyett, chairman of the firm's Private Wealth Services Group in South Florida.

"If you made a transfer, any appreciation you transferred is out of your estate."

Other advantages: If you have a grantor trust, it's possible grantor trust rules could change this year. Those created last year likely are safer than those created this year, the law firm suggests.

Plus, you're less likely to be audited for gift or estate tax purposes. Not only might your 2012 gift leave you with less money exceeding the estate- and gift-tax exemptions, but the clock is already ticking on your 2012 gift for the IRS' three-year statute of limitations on audits.

Moreover, come this year, those with beaucoup assets can move more money out of their estates annually. That's because you can give away $14,000 annually, up from $13,000, gift-tax-free.