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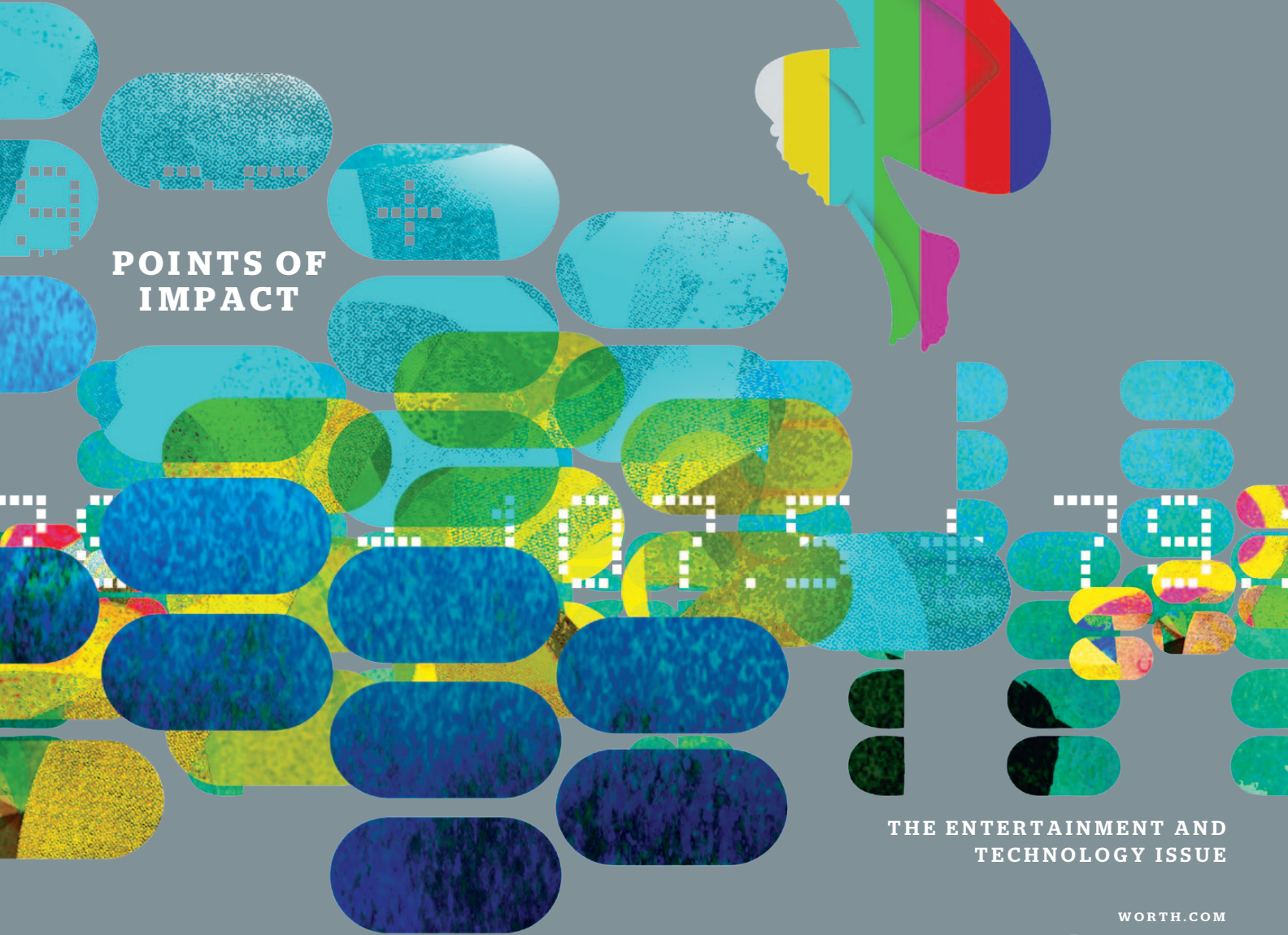
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Waldron Private Wealth

John Waldron, Founder, Chief Executive Officer; Matthew Helfrich, Managing Director, Chief Investment Officer; Jeff Howden, Managing Director, Chief Investment Strategist; Jim Mendelson, Managing Director; Michael Krol, CFP®, CPA, Managing Director; Chris Roe, CPA, Managing Director

“How can I generate cash flow to support my lifestyle and principal growth to leave a financial legacy?”

By John Waldron

Human nature becomes a source of angst when we try to balance our need for safety with our desire for more risk and adventure. This angst extends to investments when we consider our desire to grow assets for our heirs. Generating cash flow and growing assets over time are important goals, but trying to accomplish both often seems daunting.

Further complicating the achievement of these goals, we find that many individuals approach investing backwards. To use an analogy: When you seek medical advice, your doctor may spend the majority of his or her time diagnosing your issue and only prescribe the medicine at the end. With investing, many investors start with the “medicine,” which is the investment selection, and spend very little time on the “diagnosis,” which is the goal and strategy of the investment portfolio. By approaching investing backwards, investors leave themselves susceptible to both financial and emotional risks.

To properly diagnose your situation, we recommend completely segregating your investments into two distinct portfolios: a lifestyle portfolio and a legacy portfolio.

Lifestyle Portfolio: The “diagnosis” often begins with the lifestyle portfolio, which consists of those assets required to fund your lifestyle. Before selecting investments or even an investment

allocation, one must answer some important questions, the first being: “What is the asset base I need to support my lifestyle?” This will be determined by earnings, spending, taxation amounts and of course age. The next question is: “What is the required return I need from these assets?” Because the singular purpose of these assets is to generate cash flow to support your lifestyle, the portfolio selection should focus on investments that are less volatile and produce a higher yield. It is important to remember, however, that many of the highest-yielding assets are often some of the riskiest.

Selecting the placement of investment assets in the appropriate account type is another important decision. For example, an IRA may be a great account to hold taxable fixed-income investments, while a Roth IRA is a great account to hold high-growth investments that are not “tax-efficient.”

With an appropriately constructed lifestyle portfolio, the events of the various financial markets should not impact your ability to live your desired lifestyle.

Legacy Portfolio: Depending on an investor’s goals, a legacy portfolio may consist of assets not needed for the lifestyle portfolio and/or the asset base necessary to meet your legacy goals. The first step in constructing a legacy

portfolio is determining the appropriate ownership structure of the investments. The assets are often held in trusts or other tax-efficient vehicles. If the ownership is not structured appropriately, you could potentially lose between 70 and 80 percent of your investment earnings to combined income and estate taxes (in some of the higher state tax environments). You should focus on investment allocation and selection only after determining the appropriate ownership structure, while making sure to utilize investments that have a higher expected rate of return within these structures.

Benefits of a Lifestyle and Legacy Portfolio: Financially, segregated lifestyle and legacy portfolios can help accomplish the twin goals of generating cash flow for lifestyle and growing assets for heirs. By “diagnosing” the ownership structure of these assets, you may avoid significant taxes over time.

Emotionally, your lifestyle assets will be less volatile and less susceptible to bear markets. Your legacy assets may fluctuate more, but should not impact your ability to live your desired lifestyle.

By focusing on the “diagnosis” first and employing separate lifestyle and legacy portfolios, you can take two potentially conflicting investment objectives and instead create complementary strategies which support your goals. 🎯

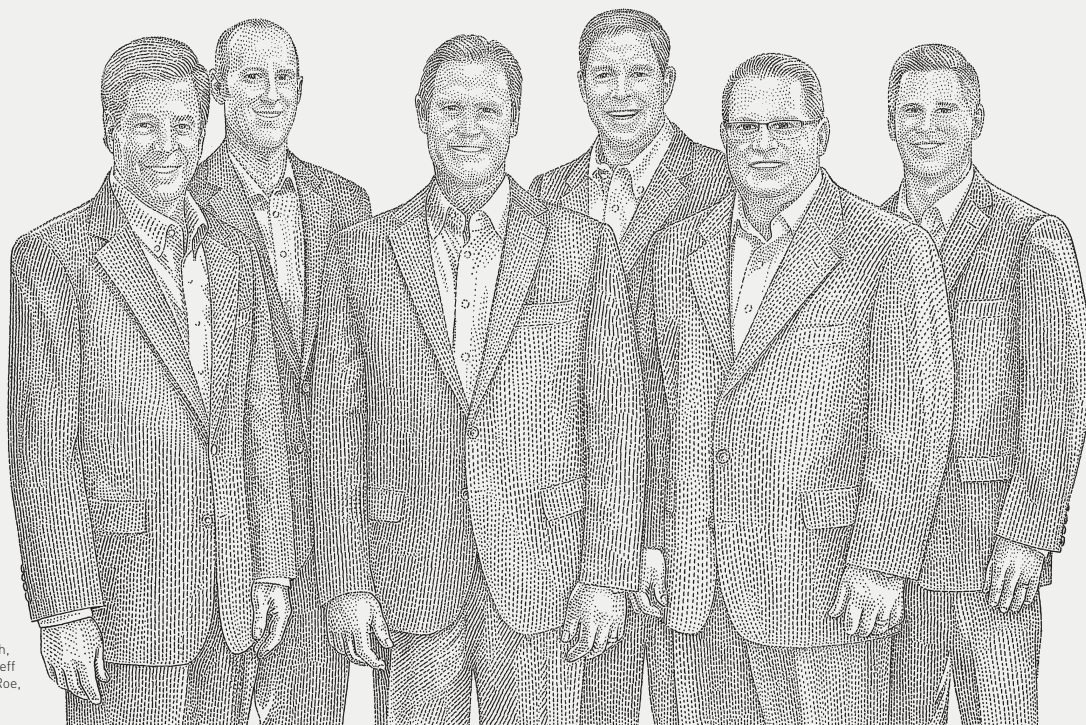
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—John Waldron

How to reach **Waldron Private Wealth**

You can reach Waldron at 412.221.1005, and we would be happy to discuss our process and approach with you.



Left to right:
Jim Mendelson,
Matthew Helfrich,
John Waldron, Jeff
Howden, Chris Roe,
Michael Krol

About Waldron Private Wealth

Waldron Private Wealth is a boutique private wealth management firm that advises a select group of high net worth individuals, families and family offices. By limiting the number of clients it serves, Waldron can offer greater focus on how to best simplify the complexities of significant wealth, so all clients can achieve what's important in their lives. Waldron's advisory team is prepared to serve its clients across a wide range of key financial disciplines. The advisory team includes: three CPA's, seven CFP's, an attorney, a certified divorce financial analyst and three members holding certificates from the Institute for Preparing Heirs.

Financial Services Experience
112+ years (combined)

Assets Under Management
\$1 billion (as of 12/31/13)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
**\$5 million (planning services)
\$3 million (investment services)**

Largest Client Net Worth
\$250 million+

Compensation Method
Asset-based (investment services), hourly and fixed fees

Primary Custodians for Investor Assets
Fidelity Family Office Services and Pershing

Professional Services Provided
Planning and investment advisory services

Website www.waldronprivatewealth.com

Email jwaldron@waldronpw.com
mhelfrich@waldronpw.com
jhowden@waldronpw.com

jmendelson@waldronpw.com
mkrol@waldronpw.com
croe@waldronpw.com



John Waldron
Founder, Chief Executive Officer

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Managing Director, Chief Investment Strategist

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Michael Krol, CFP®, CPA
Managing Director

Chris Roe, CPA
Managing Director

Waldron Private Wealth
1150 Old Pond Road
Bridgeville, PA 15017
Tel. 412.221.1005

jwaldron@waldronpw.com
mhelfrich@waldronpw.com
jhowden@waldronpw.com
jmendelson@waldronpw.com
mkrol@waldronpw.com
croe@waldronpw.com
www.waldronpw.com

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