The Successful Investor

A Quarterly Publication of Runyon & Bowes Financial Consulting Summer 2008

Runyon & Bowes understands the wealth management needs of executives, business owners and their families. We simplify our clients' lives, save them time and enable smart decisions.

Time is your most precious resource. Let us spend our time putting the pieces of your financial puzzle together. Our fiduciary advisors are supported by a network of experts. Our mission is to serve your every financial need.

We strive to make wealth management convenient and simple while focusing on the needs of executives, business owners and their families.

Our service includes investment consulting, advanced planning, access to a network of experts, fiduciary care and time efficiency. We act as your advisor-in-chief, providing a single point of trusted contact.

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As summer approaches most people get into the groove of warm summer nights, a more flexible schedule and time with family and friends. It's important to take time to decompress, especially since the go-go-go of our culture can be exhausting.

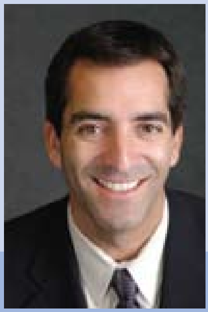
One benefit of having an investment advisor is knowing that your finances are in good hands. Runyon & Bowes carefully works with every client to make sure that we understand your goals and dreams. It's that understanding that allows us to develop a realistic and manageable financial plan.

If you dream of raising financially responsible children and grandchildren, you'll enjoy Chuck's column on that subject. After holding a nationwide Webinar on the topic, he was inspired to write about it.

We also have an interesting profile on Arnold Jacobson, retired doctor, biotech seed investor and family man. As part of the Runyon & Bowes team, Arnold provides a unique and distinct perspective to our clients.

We often get requests from our clients about how to negotiate a stellar compensation package and Glenn Borromeo tackles the subject with aplomb. There's no package that works for everyone but Glenn tells us what to watch for.

So sit back, grab a cold beer and enjoy reading the newsletter on a sweltering summer day. Just remember there's no need to sweat the small stuff as long as you have R&B in your corner. R&B



Ed Runyon, Principal

Chuck Bowes, Principal

Gabriel Brenner, Principal

"Never spend your money before you have it."

— Thomas Jefferson

In This Issue

Money-savvy children don't happen by accident

R&B offers advice on what it takes to raise financially responsible kids

Chuck Bowes
Principal

As we work with our clients to achieve their goals, we often find ourselves delving into uncharted waters. During the past several years, our clients have been increasingly concerned about how their success impacts their children. Our clients are often asking: In an era of affluence, how do you raise financially responsible kids? It doesn't matter if they have a toddler, a tween or a college student, there are many things to consider.

One would assume that by living in arguably the most affluent time in history that raising happy, emotionally healthy, independent children would be easier than ever. But the reality is that more kids are growing up without the basic skills necessary to live productive, independent lives.

Material success and wealth have always been a double edged sword and in today's fast paced, rapidly changing environment both edges are increasingly sharp. On the one hand, affluence gives opportunities to expose children to many different opportunities and experiences. On the other, it makes it easier to focus on materialism and to create a perception of entitlement.

So being aware of the double edge sword of affluence is a first step to developing a basic strategy that will ensure your success and affluence has a positive impact on your children and/or grandchildren.

Identify values

First determine what your values are. Although this can be a challenging process, it will ultimately guide your decisions.

What are values? You don't have to be a philosophy major to figure out the degree of importance things have to you. Just observe how you live your life, where you spend your money and what you do in your free time.

Do you attend church regularly? If so, then religion has a high value. Does your family take vacations on a regular basis? If you said yes, then travel has a high importance to you. Are you saving for your child's or grandchild's college education? You get the idea.

The key is to take time to identify your values. As I mentioned, this isn't a light undertaking but it will make a world of difference in raising your children.

What's your story?

Next, you and your spouse need to figure out how you each feel about money. Basically you need to write and get comfortable with your money story. What's a money story? It's an open, honest and personal story about your money experiences. It's important to step back and really think about money.

Here are a few questions from "Silver Spoon Kids" (see box) to get you started:

• What did you learn about money from your mother? Your father?

• What are your earliest memories about money? (i.e. what was the first item you remember purchasing?)

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Want to read more?

Here are our top three recommendations for books on this subject.

"Silver Spoon Kids: How Successful Parents Raise Responsible Children" by Eileen Gallo, Jon J. Gallo and Kevin J. Gallo

"The Price of Privilege: How Parental Pressure and Material Advantage Are Creating a Generation of Disconnected and Unhappy Kids" by Madeline Levine, Ph.D.

"The First National Bank of Dad: The Best Way to Teach Kids About Money" by David Owen

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• What did you admire about how your parents managed their money? What did you find offensive?

• What emotional issues around money do you remember growing up?

• Who was responsible for acquiring, spending and managing money in your family?

• Do your attitudes and feelings about money differ from your parents', siblings' or spouses'? If so how?

• What messages are you sending to your children?

I recommend that you and your spouse answer these questions individually and then share them with each other. Thinking through these questions will help you understand how you feel about money.

It's crucial that you and your spouse understand and respect each other's money stories and find common ground in which to raise your own children. Be sure to avoid sending mixed messages about money to your children.

Money-savvy kids

"Money-smart kids" can mean many different things. So how does R&B define financially responsible kids?

1. Children who have the ability to budget.
2. Kids who can save, spend and give comfortably.
3. A young adult who can become independent in early adulthood.

Obviously it's important to take your child's age into consideration when working on budgeting or spending. From our experience, most parents introduce allowance around the age of five or six.

There are lots of theories floating around about how much to give (for example, $1 for each year) but the most consistent advice we've heard is to not tie allowance to chores. Kids need to understand there are responsibilities of being part of a family and that you don't get compensated for those. It's a personal choice, but our advice is that children should have chores and get an allowance, but the two should not be linked.

Once you start giving allowance, you need to start giving your child help with money.

It's important to help them understand what money can buy. Remember that kids have no framework about how much things cost. They don't understand that ice cream is $2 and a fancy toy is $20. It's your responsibility to help them.

Financial literacy and youth

• High school seniors scored an average of 52.4% on a basic financial literacy survey.

• One in four students leave college before completing their sophomore year.

• 19% of all bankruptcies are filed by people under age 25.

• 66% of teenagers don't know how to balance a checkbook.

• 29% of teens are already in debt with an average debt load close to $300.

Source: Financial Literacy Education for Children

You should also be realistic about how much allowance you give and what you expect the kids to be responsible for with that money. If you want your children to purchase clothes, then obviously they need a higher allowance. If allowance just covers the "extras," then a smaller amount will do.

It's important to empower kids and ultimately let them decide what they spend their money on. You might not be thrilled with the beeping-blingy gadget they save up for but it's important that the decision on how they spend be their money be theirs — as long as it falls within the established values of the family.

Many families adopt the spend-save-donate theory on allowance. It's as simple as it sounds and each family needs to decide how much goes in each bucket. Some families choose equal amounts while others place a higher value on saving or donating. Check your values and money story and use this to discuss as a family what choice should be made and why.

In addition, simply talk about money. You don't need to have a sit-down meeting but rather be present and take advantage of teachable moments with your kids. The more you talk openly and honestly about it, the less of a mystique it will have.

Whether it's your toddler asking what a penny is or your tween asking when they can have a credit card, these are ripe opportunities to interact with your child about money.

Remember to let your decisions about money be guided by your values, your money story and the situation. As we work together to keep your financial house in order, let's both stay tuned in to opportunities to bring the kids (or grandkids) into the process and create some "teachable moments" together. The culture of affluence that we live in will have an impact on your child, but it doesn't need to be a negative one. R&B

Jacobson, proud family man

The Jacobson Family in Santa Barbara last summer: Bottom row (l. to r.): John Sorkin (son-in-law), Emma Sorkin (age 9), Ryan Jacobson (age 4), Andrew Jacobson (son), Lilly Sorkin (age 5). Top row (l. to r.): Jessica Jacobson, Sarah Jacobson (married to Andrew), Judy Schiffner (Sarah's mom), Jo-Ann and Arnold Jacobson, Brady Jacobson (age 1).

Arnold Jacobson, M.D., enjoyed a successful career in medicine, is a seed investor in a biotech firm and has traveled the world. But when you talk to him, it's clear that the accomplishment he's most proud of is his family.

Arnold grew up in Boston with a conservative Jewish family. After attending Brandeis University and the New York University School of Medicine, he trained in reproductive endocrinology and infertility at the National Institutes of Health in Bethesda, Md.

After a short stint in biotech, he completed his OB/GYN residency training at Harvard University and at Highland Hospital in Oakland. He went into private practice in 1976.

Then on July 25, 1978, Louise Joy Brown, the world's first successful test-tube baby, was born in Great Britain. This wondrous event changed his life forever.

"I remember going to a lecture by one of the test-tube team members and thinking to myself 'I could do that,'" explained Arnold.

Thus his career was born.

In 1983 he established the Reproductive Science Center of the Bay Area in Walnut Creek. The center grew and evolved into its present location in San Ramon where it's been since 1996.

"I was very blessed with an incredible career," remembered Arnold, 70, who retired in 2004.

Like many retirees, Arnold has been busier than ever. In addition to playing golf and bridge at Alamo's Roundhill Country Club he found time to pursue one of his first passions: economics.

"I've been reading the Wall Street Journal since I was 10 years old," Arnold says with a quiet chuckle.

He studied for and passed the Series 65 exam, which empowers him to give investment advice.

His interest in all things mathematical also led him to be a seed investor in Mountain View Pharmaceuticals. MVP just completed a successful phase III clinical trial for Puricase, a promising drug that will reverse the effects of gout.

But the bulk of his time now is spent with family. Arnold will be enjoying his summer with his granddaughters, Emma, 9, and Lilly, 6, who will be spending 10 weeks in Alamo.

Emma and Lilly live in New York City with the Jacobson's daughter, Jessica, and her husband John. Jessica followed in her father's footsteps and is a pathologist at NYU Medical Center.

The summer will be filled with tennis, golf, swimming and a week at UC Santa Barbara's Summer Camp.

Arnold and Jo-Ann, his wife of 44 years, took their children, Jessica and Andrew, to UCSB summer camp for many years and now carry on the tradition with their four grandchildren. Andrew, who holds an MBA and a law degree, and his wife, Sarah, have two boys, Ryan, 4, and Brady, 18 months. They live in Los Angeles.

"We essentially spend most of our vacations with our four grandchildren," explains Arnold with pride.

The Jacobsons' love of travel has taken them on a cruise of the Black Sea, a trip down the Nile and to the plains of Kenya. They just returned home from an educational journey to Israel.

"I'm very proud to be a cultural Jew and appreciate the long, rich tradition," Arnold said.

Clearly learning is a tenant in which Arnold walks the talk. Whether it's his career or a hobby, he strives for understanding and knowledge. As the tagline on his e-mail says "Be the Best You Can Be." R&B

Is your portfolio adequately diversified?

Investment advisors generally recommend that a portion or all of an executive client's investments be diversified in order to minimize investment-specific risks. The level of diversification recommended will generally depend on the stage of the client's life and career.

Given that many executives derive much of their wealth from their employment (in compensation and benefits), they often overlook the investment risks inherent with their employer's and their compensation and benefit plans.

Investments in Retirement Savings Plans

Many executives will diversify their investments in and outside of a Section 401(k) plan, nonqualified deferred compensation plan or supplemental executive retirement plan, but will neglect to diversify all of their investments taken together.

Executive Benefit Arrangements

Executive benefit arrangements, including group term and supplemental executive life insurance plans, long-term disability plans and severance arrangements can be viewed as a source of funds for wage continuation, retirement savings and protection for dependents.

It is important to consider, however, that these benefits will generally be available only while the executive is employed by their employer. After the executive retires or otherwise terminates employment, he or she should review his or her financial planning without those benefits.

Employer Stock

Many executives hold a high proportion of their wealth in employer stock. This may include employer stock held or acquired under a stock option, employee stock purchase plan, or restricted stock or restricted stock unit award. Note, however, that unexercised stock options are unique in that they can be likened to an interest-free loan to make a risk-free investment in the employer stock. The executive has locked in the purchase price but does not need to exercise the option unless it is in the money.

Glenn Borromeo

Employer-Specific Risk

Employer-specific risk includes risk of loss of future wages and benefits if the executive's employment is terminated or the employer is not able to pay future wages and benefits or continue director and officer liability insurance for the executive.

An executive would be well-advised to periodically have his or her investment advisor review the executive's portfolio, taking into account the benefits and risks of these fund sources.

In doing so, the executive should consider the tax-effectiveness of the above benefits. For example, retirement plans can provide for a tax deferral that would increase future savings while a supplemental long-term disability plan can be structured by an employer to provide tax-free disability payments.

Glenn J. Borromeo is a principal with Catalyst Counsel, APLC (www.Catalyst-Counsel.com), a consulting law firm advising on executive compensation matters.

What's happening behind the scenes at R&B. . .

Ed just completed a successful season as a little league coach for his son Blake's team, The Mets.

Gabe will be coaching his 6-year-old daughter's soccer team this fall. He'll be going through coaches training this summer.

On May 28 Chuck presented a nationwide Webinar on "Raising Financially Responsible Kids" that was hosted by Intuit.

In our Winter 2008 newsletter, we mentioned that Gabe had taken a position as a financial planning instructor. We heard from a few clients who were concerned that Gabe had left R&B so we wanted to clarify that he's still a partner and an integral part of R&B.

Ed will serve as chief of his 8-year-old son Blake's Indian Guide tribe. Indian Guides is a father-and-son program through the YMCA that works to create meaningful memories while having fun and making new friends.

In order to better serve our growing clientele on the San Francisco Peninsula, Runyon & Bowes has opened an office at 71 Stevenson St. in San Francisco. R&B will keep its Walnut Creek office to serve the large contingent of East Bay clients.

Ed was recently highlighted in the 2007 annual report for Big Brothers/Big Sisters of Orange County for his volunteer work with the nonprofit.

Chuck presented to the Family Wealth Advisory Council (FWAC) on Feb 29. The topic was the Runyon & Bowes "Interactive Client Planning Process." Chuck also was invited to become a member of the council, effective August 2008.

Ed recently participated in the "Camp Pendleton Famous Mud Run," which is a six mile cross country military obstacle course. He finished 14 out of 117 in his age group (wow!).

Chuck just completed coaching his 7-year-old son CJ's first year of Little League Baseball. The NOLL/SOLL (North Oakland/South Oakland) Peanut Level Giants had a fun-filled season with lots of lessons learned!

Gabe and his family moved to San Carlos in April so he's been in the throws of furniture placement, landscaping and unpacking boxes.

Lisa Runyon, Ed's wife, was recently appointed volunteer coordinator for the Capistrano Unified School District Foundation. The goal of the foundation is to raise money that will be used to hire back teachers who have been laid off because of the state budget crisis. This volunteer position will put Lisa's organizational and motivational talents to good use.

Chuck and his brother-in-law, H.B. Mok, just completed building a chicken coop for Chuck's Oakland backyard. The coop is part of "Farm Bowes" and now home to two cute lil' chicks, which will soon provide tasty eggs for the family. R&B

Top 10

California is home to four of the Top 10 counties with highest number of millionaire residents.

1. Los Angeles County, CA
2. Cook County, IL
3. Maricopa County, AZ
4. Orange County, CA
5. Harris County, TX
6. San Diego County, CA
7. King County, WA
8. Santa Clara County, CA
9. Nassau County, NY
10. Suffolk County, NY

Millionaire milieu

$4.6M: The average net worth of a U.S. millionaire is $4.6M, and the mean age is 66.

9.9M: Millionaire households (those with $1M+ net worth, not including primary residence) increased 5.9 percent from June 2006 to June 2007, reaching an estimated 9.9 million.

Retirement: The single most important financial goal of surveyed millionaires (56 percent) continues to be "assure a comfortable standard of living during retirement."

All statistics are from a May 2008 report by TNS Financial Services; www.tnsglobal.com

For More Information...

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Address: ______________________________

City: ____________________ State: __________ Zip: __________

Home phone: ____________________ E-mail: ____________________

Question/Comment: ______________________________

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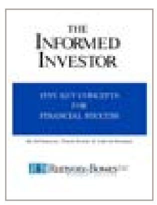
Runyon & Bowes recently published "The Informed Investor" which discusses our comprehensive approach to your financial life and utilizes five key concepts for financial success. If you'd like to learn more about our consultative process, please send us your information and we'll share a copy with you.



❑ Yes, please send me a copy of the Informed Investor

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Address: ______________________________

City: ____________________ State: __________ Zip: __________

Home phone: ____________________ E-mail: ____________________

Question/Comment: ______________________________

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*"Wondering how to raise **financially responsible kids**?"*

*"**Who is** Arnold Jacobson?"*

*"Do you know how to negotiate a stellar **compensation plan**?"*

Find Out More Inside...

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