SOLID ROCK WEALTH MANAGEMENT
WealthGuide

An Educational Resource From Solid Rock Wealth Management

Investing Proceeds from the Sale of a Farm or Ranch

By Christopher Nolt, LUTCF

Introduction

I grew up working on ranches in Lewistown, Montana. As a financial advisor for over 23 years, I've spent much of my time working with agricultural families and their unique financial needs. In my experience, farmers and ranchers are hard working, industrious, frugal and self-reliant individuals. Most, however, are not proactive at engaging in financial planning and have little experience investing in assets outside of their farm or ranch.

Consequently, many families end up paying large amounts of taxes on the sale of their property and earn inferior investment returns on the sale proceeds. While self-reliance may have served these families well during the years of operating their ranch, failing to plan with the right team of advisors prior to a sale can end up costing them financially.

There are significant tax consequences to selling a farm or ranch that has appreciated in value. Financial tools can help defer or avoid these taxes. Money that would have gone to taxes can instead be used to generate income and provide an inheritance. To benefit from these tools, however, you must be proactive and engage in planning well before a sale takes place.

You may be tempted to invest sale proceeds in things you are comfortable with such as land and certificates of deposit. Even though land has served your family well, it may not provide the cash flow returns that other commercial real estate investment strategies are designed to offer. Likewise, while CDs are "safe" investments, they have not provided returns that have kept pace with the rate of inflation.

You and your family have worked hard to create your wealth. Now it's time to work smart to help preserve that wealth and make it work hard for you.

Ranch Sale: A Hypothetical Example

Bob and Mary, ages 67 and 65, owned a ranch in central Montana. Their two children were grown, had their own careers and weren't interested in taking over the ranch. Bob and Mary deeply loved their ranch but had an increasing desire to travel and spend more time with their kids and grandkids. Bob's back pain was interfering more each year with his ability to operate the ranch and calving season was beginning to take a heavy toll on his health. After much emotional deliberation, they decided it was time to sell.

Throughout the years of operating their ranch, any profit from their operation went back into purchasing more land, cattle and equipment. When Bob and Mary listed their ranch for sale, the value of their home and ranch assets represented nearly 100% of their net worth. The value of their land had greatly increased and based on a tax projection from their CPA, Bob and Mary faced a tax bill of over $600,000 if they were to cash out.

Bob and Mary's CPA referred them to an advisor who owned an independent wealth management firm that specialized in working with agricultural families selling their ranch. After several meetings with the wealth management consultant, their CPA and their attorney, Bob and Mary decided to utilize a 1031 Exchange and a Charitable Remainder Trust (CRT) to reduce the tax burden on the sale and to provide them with a tax-efficient income and retirement plan.

The ranch sold for $5.2 million. Bob and Mary did a 1031 exchange for $2 million into an office building leased to the Social Security Administration. This building offered a 10-year lease guaranteed by the federal government and generated a first year income, after all expenses, of $150,000. $1.5 million worth of land, cattle and equipment was sold through the CRT. Because the CRT is a tax-exempt entity, the proceeds sold in the CRT were not subject to tax. With the help of the wealth management consultant, this $1.5 million was invested in a diversified portfolio of mutual funds within the trust for the benefit of Bob and Mary. They chose a 7% payout rate with the CRT, which provided them a first year income of $105,000.

Bob and Mary paid tax on the remaining sale proceeds. This tax was largely offset by the charitable income deduction they received from making the gift to the Charitable Remainder Trust. They were also able to withdraw $300,000 tax-free from the sale of their home through the Personal Residence Exclusion. By using the 1031 Exchange, Charitable Remainder Trust, Personal Residence Exclusion, and other tax saving strategies, Bob and Mary reduced their tax bill from over $600,000 to less than $100,000.

The net cash available after paying tax and investing in the Social Security building and CRT was $1.4 million. They used $490,000 of this cash to purchase a new home on a small acreage in Montana and a second home in Arizona. Something they long desired but never had the cash or time to do was to take their kids and grandkids to Disneyland. They used $20,000 to take this long awaited trip. They deposited $50,000 into a money market account. The balance of the funds was invested in a diversified mutual fund portfolio comprised of 40% stock and real estate funds and 60% bond funds. From this portfolio, they made annual distributions of 7%, providing a first year income of $77,000.

From their annual income, Bob and Mary made annual gifts to a college savings plan for their grandchildren. They established a small college scholarship fund for their local high school graduates. They purchased a $1 million second-to-die life insurance policy on their lives to replace the money gifted to their CRT. Their attorney and life insurance agent helped them set up an irrevocable life insurance trust so their kids could receive the proceeds from the life insurance both income and estate tax free.

For the first time in their lives, Bob and Mary had the ability to travel for extended periods of time. Bob was able to take his son on a hunting and fishing trip to Alaska they had long dreamed about and Mary was able to take a long awaited trip to Hawaii with her daughter. They enjoyed an annual income that far exceeded what they ever made on the ranch and Bob didn't have to pull calves or feed cows in the wet and cold weather to earn it. Besides enjoying a comfortable retirement and providing a large inheritance for their children, Bob and Mary had the joy of knowing that when they both passed on, the charitable remainder trust they established would provide a large amount of money to their church and the Yellowstone Boys and Girls Ranch Foundation.

Annual income

Real estate	$150,000
Charitable Remainder Trust payout	$105,000
Mutual fund portfolio	$ 77,000
Total income	$332,000

For a detailed financial analysis on the sale of a highly appreciate ranch, request Wealth Guide titled: Financial Strategies For Selling a Farm or Ranch.

Pre-Sale Tax Saving Tools and Strategies

In the story above, Bob and Mary took the best possible advantage of today's tax saving tools and strategies, resulting in a savings of a half million dollars. If you sell your farm or ranch and don't utilize any tax saving strategies, you will end up paying more in taxes. This means you will have less money left to invest. While it is usually wise to take cash out of a sale for debt payoff, investment diversification and other reasons, it is also wise to explore tax-saving strategies with professional advisors.

Two effective tools for saving taxes on the sale of appreciated property are the IRC Section 1031 Tax-Deferred Exchange and the IRC Section 664 Charitable Remainder Trust. These allow you to retain a greater portion of the sale proceeds and to generate income. Below is a brief explanation of these financial tools.

IRC Section 1031 Exchange
The Internal Revenue Code Section 1031 Exchange is a powerful tax saving and wealth building tool that allows a taxpayer to sell real estate and purchase other real estate without currently recognizing capital gain tax on the sale. To quote the tax code, "No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment purposes if such property is exchanged solely for property of a like-kind which is to be held for either productive use in trade or business or for investment purposes."

The "like-kind" definition is very broad and allows a real estate investor to exchange land into many different types of commercial real estate such as office buildings, rental homes, apartment complexes, retail centers, etc.

A 1031 Exchange Offers the Following Benefits:

1. Defers tax on the sale of appreciated property.

2. Preserves equity for investment purposes.

3. Allows you to diversify into multiple replacement properties.

How It Works:

1. As the property seller, you must include language in the Purchase and Sale Agreement establishing the intent to perform a 1031 tax deferred exchange upon sale.

2. At the closing, sales proceeds must go to a Qualified Intermediary (QI) and are held in a separate account for your benefit.

3. At this point you have 45 days to identify replacement properties for the potential 1031 exchange. This involves written notification to a QI listing the properties' addresses and/or legal descriptions of the potential new property(s) you will be buying.

4. You have up to 180 days from the closing of the old property (relinquished property) to actually complete the purchase of the identified replacement property(s).

5. To fully defer tax on your capital gain, you must purchase replacement property that is of the same or greater value as the property that has been sold. You can do a partial exchange but with a partial exchange you may be subject to tax.

6. To fully defer tax, you must also have the same or greater amount of debt on the replacement property as the relinquished property.

For more information on 1031 Exchanges, request Wealth Guide titled: IRC Section 1031 Exchange.

Charitable Remainder Trust

A Charitable Remainder Trust (CRT) is another powerful tool to avoid or defer capital gain tax on the sale of appreciated real estate. In addition, a CRT can also be used to avoid or defer tax on the sale of livestock, equipment and stock. Combining a CRT and a 1031 Exchange can be a powerful combination for preserving wealth, diversifying investment assets and providing lifetime income.

A Charitable Remainder Trust Offers The Following Benefits:

1. Avoid capital gain taxes on the sale of appreciated property.

2. Generate a lifetime income stream.

3. Diversification of investment assets.

4. Potentially save estate taxes.

5. Benefit a charitable organization near and dear to your heart.

How it Works:

1. You as the owners of the property establish a CRT with the help of an attorney, naming one or more charities of your choice as beneficiaries to receive the remaining assets left in the trust after your death.

2. You gift property to the CRT.

3. You receive an immediate charitable income tax deduction.

4. The trustee of the CRT sells the property and since it is a tax-exempt entity, it does not pay capital gains tax.

5. With guidance from the donors and possibly an investment advisor, the trustee of the CRT invests the sale proceeds in a diversified investment portfolio within the trust.

6. The CRT distributes a percentage of the trust property annually to the donors. These payments can last for the lifetime of the donors or for a specified term of years.

7. Upon your death, the remaining trust assets pass to the one or more charities of your choice.

For more information, request Wealth Guide titled: IRC

Section 664 Charitable Remainder Trust.

Using a combination of a 1031 Exchange and a Charitable Remainder Trust may allow you to maximize tax savings and enhance investment diversification. While the 1031 Exchange is used to invest in real estate, a CRT allows you to invest in other assets including stocks, bonds and mutual funds. While investment strategies cannot guarantee performance results, having a diversified portfolio of real estate, stocks and bonds has been a proven strategy for providing long-term retirement income that has outpaced inflation.

Getting Started Investing

Before jumping into an investment it is wise to perform a self-assessment of your financial situation and determine what you want to achieve with your money going forward. This self-assessment should address factors such as your goals, your time horizon for investing, your tolerance for investment risk and your need for liquidity.

Goals

Identifying your financial goals and the investment return required for attaining those goals is an important first step. We think it is prudent to achieve your goals by taking as little risk as possible. Knowing what return you need to achieve your goals will help determine how you invest. A financial advisor can assist you with this process.

Time Horizon

Once you define your goals, determine how long your money must work for you to achieve those goals. If you are investing for retirement, you typically want to plan for having enough money to last for you're life expectancy. You want your money to last as long as you do. The time horizon for a particular investment will dictate the type of investment options you should consider.

Risk Tolerance

Assessing your tolerance for risk is imperative because if you get into an investment that experiences a loss of more than you can tolerate, you are liable to pull out of that investment at the worst possible time. To determine your tolerance for risk, ask yourself what is the largest percentage loss you are willing to tolerate in a 12-month period. Then look at the historical performance of various portfolios ranging from the most conservative to the most aggressive. When analyzing the historical performance of an investment, it is important to look at as many years as possible. An investment may have a good short-term track record but all investments go through up and down cycles and you want an investment that has proven itself over time. By having a good grasp of your risk tolerance and historical returns of various portfolios, you can help match up a portfolio that is suitable for you.

Liquidity

Another important consideration when investing is to determine your need for liquidity. Liquidity is the degree to which an asset can be bought or sold in the market without affecting the asset's price. Assets that can be easily bought or sold are known as liquid assets. Having adequate liquidity is important because if a need for cash arises and you don't have a ready source of liquid investments, you may have to sell an asset and for less than you could if you had more time.

Account Ownership

An important decision with investing is choosing how to own the account. There are many ways you can own investments such as Individual, Joint Tenancy With Rights of Survivorship (JTWROS), Tenancy-In-Common (TIC), in different types of trusts, corporations or LLC's etc. How an account is owned can have serious tax and estate planning implications. It is critical to make sure your accounts are owned in a manner that lines up with your current needs and your estate planning objectives.

Taxable vs. Tax-Advantaged

The tax treatment of your investments is another important consideration. Not all accounts and investments are taxed the same. Both the types of products you own and the types of accounts you hold them in affect the taxes that you pay. Some accounts and investments offer tax-deferred growth. Some investments have tax-exempt interest and some investments are tax efficient. A good investment plan will help you maximize the tax benefits available to you.

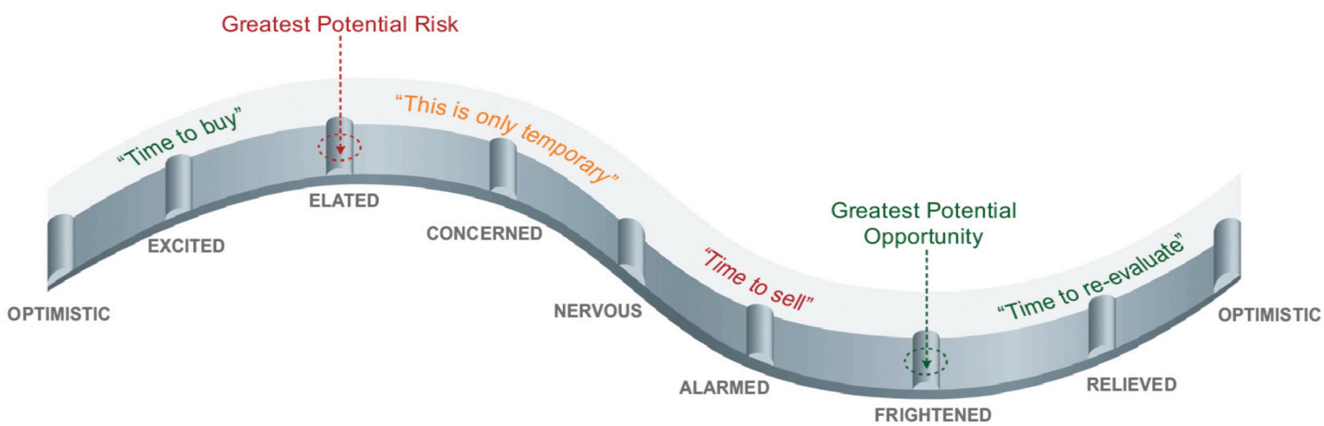
Emotions and Investing

Emotions typically play a destructive role in people's investment decisions. Benjamin Graham, often referred to as the father of investing, once said, "The investor's chief problem and even his worst enemy is likely to be himself."

Behavioral Finance is a field of study that applies psychology to investing. It attempts to explain the role emotions play in investor's behavior. The overall theme found in Behavioral Finance research is that people's brains are "wired" to make costly investment mistakes. A key to successful investing is to adopt a disciplined investment approach that replaces emotion with a proven, rational process.

The Cycle of Market Emotions shows the emotions people often experience when investing. Basing investment decisions on emotion often leads to investors buying high and selling low.

The Cycle of Market Emotions



For illustration purposes only

CD vs. Stock and Bond Indexes

If one is able to tolerate volatility in their investments, they are more likely to accumulate greater wealth over time than if they invested in typical bank certificates of deposit (CDs). The basic concept here is that generally, as risk increases, so does the potential for higher returns.

The chart below compares two investment scenarios. In each scenario, $1 million was deposited on October 1st, 2002 and annual distributions of $30,000 were made for ten years. Scenario One represents investment in certificates of deposit. Scenario Two represents investment in a basic portfolio allocated 60% to the S&P 500 Stock Index and 40% to the Barclays Aggregate Bond Index.

From October 2002 through October 2012, the CDs provided a cumulative return of 24.51%. The stock and bond indexes returned a cumulative of 109.63%. The ending value of the CD after 10 years was $876,012.30. The ending value of the indexes after 10 years was $1,605,339.23.

As you can see below, from 2002 - 2012, the indexes experienced extreme volatility. In 2008, the worst year in the stock market since the Great Depression, the combined indexes lost 20.80%. However, even with this large loss, the stock and bond indexes still provided an average annualized return of 7.68% over the ten-year period and ended with $729,326.93 more money after 10 years than the certificates of deposit.

Scenario One: Certificates of Deposit

Time Horizon	Beginning Value	Withdrawals	Ending Market Value	Cumulative Return
10/01/02 - 12/31/02	$1,000,000.00	$30,000.00	$973,619.11	0.37 %
01/01/03 - 12/31/03	$973,619.11	$30,000.00	$954,772.47	1.15 %
01/01/04 - 12/31/04	$954,772.47	$30,000.00	$939,627.35	1.57 %
01/01/05 - 12/31/05	$939,627.35	$30,000.00	$942,806.86	3.56 %
01/01/06 - 12/31/06	$942,806.86	$30,000.00	$961,875.35	5.25 %
01/01/07 - 12/31/07	$961,875.35	$30,000.00	$983,411.20	5.40 %
01/01/08 - 12/31/08	$983,411.20	$30,000.00	$982,756.40	3.01 %
01/01/09 - 12/31/09	$982,756.40	$30,000.00	$958,216.22	0.56 %
01/01/10 - 12/31/10	$958,216.22	$30,000.00	$931,186.21	0.31 %
01/01/11 - 12/31/11	$931,186.21	$30,000.00	$903,982.65	0.30 %
01/01/12 - 09/30/12	$903,982.65	$30,000.00	$876,012.30	0.22 %

Scenario Two: 60% S&P 500 Stock Index, 40% Barclays Aggregate Bond Index

Time Horizon	Beginning Value	Withdrawals	Ending Market Value	Cumulative Return
10/01/02 - 12/31/02	$1,000,000.00	$30,000.00	$1,027,451.85	5.92 %
01/01/03 - 12/31/03	$1,027,451.85	$30,000.00	$1,187,654.89	18.64 %
01/01/04 - 12/31/04	$1,187,654.89	$30,000.00	$1,255,644.34	8.30 %
01/01/05 - 12/31/05	$1,255,644.34	$30,000.00	$1,276,081.19	4.04 %
01/01/06 - 12/31/06	$1,276,081.19	$30,000.00	$1,387,654.08	11.16 %
01/01/07 - 12/31/07	$1,387,654.08	$30,000.00	$1,447,683.11	6.52 %
01/01/08 - 12/31/08	$1,447,683.11	$30,000.00	$1,118,286.03	-20.80 %
01/01/09 - 12/31/09	$1,118,286.03	$30,000.00	$1,299,432.29	19.00 %
01/01/10 - 12/31/10	$1,299,432.29	$30,000.00	$1,424,946.60	12.03 %
01/01/11 - 12/31/11	$1,424,946.60	$30,000.00	$1,466,647.98	5.06 %
01/01/12 - 09/30/12	$1,466,647.98	$30,000.00	$1,605,339.23	11.50 %

The Barclays Capital Aggregate Bond Index is a broad base index and is used to represent investment grade bonds being traded in the United States. The S&P500 is a stock market index based on 500 of the top common stocks traded in the United States. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Asset class performance returns do not reflect any management fees, transaction cost or expenses. Asset Classes and Indexes are unmanaged and one cannot invest directly in an Asset Class or Index. Inception Date refers to the date of First Public Offering. 5 Years, 10 Years and Since Inception (FPO) Returns are annualized. *Date of First Public Offering. The 90-day CD index measures total return equivalents of yield averages. The CD rate is a rotating sample (collected by the New York Federal Reserve Bank) of five banks and dealers surveyed daily.

Inflation Risk

When your investments don't keep up with the rate of inflation, the purchasing power of your money declines. This is known as inflation risk or purchasing power risk. While CDs and money markets are safe from market risk, they have historically not outpaced the rising cost of inflation.

The effects of inflation can be devastating. For example, if your annual living expenses are $50,000 per year today, you will need $109,556 in 20 years at 4% inflation to maintain the same standard of living. Ronald Regan once stated: "Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man." If your goal is to have your investments provide an income that keeps pace with the rising cost of living, you need to own investments that have historically outpaced inflation.

Real Return

The Real Return of your investments is the net return you earn after subtracting taxes and inflation. If you are not earning a positive real return, you are going backwards in terms of your purchasing power. For example, if you earn 5% on a CD and taxes and inflation are 33% and 3.5%, your real return is 0%.

CD or Money Market Rate	5%
Less Taxes @ 33% =	3.35%
Less Inflation @ 3.35% =	0%

Asset Allocation

Once you have determined your investment goals, the returns needed to achieve those goals, your risk tolerance, time horizon for investing, and account ownership decisions, you should now focus on the important decision of asset allocation. Asset allocation is the process of dividing your investment dollars among different asset classes. Building an effectively diversified portfolio comprised of multiple asset classes is a prudent strategy for helping you achieve your investment goals.

The definition of an asset class is a group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The four major asset classes are: stocks, bonds, real estate and cash. Within each of these asset classes are sub categories of asset classes. For example, with stocks you can choose to invest in U.S. companies, international companies, large companies, small companies, growth companies, value companies etc. With bonds, you can choose to invest in corporate bonds, government bonds, municipal bonds, high credit quality bonds, low credit quality bonds, short-term maturities or long-term maturities. With commercial real estate, you can invest in raw land, retail, office, multi-family, industrial etc.

While Wall Street and the investment media often promote stock picking and market timing as the key to successful investing, this is simply not true. Studies have shown that asset allocation is the biggest factor affecting the performance of a portfolio. In other words, the asset classes you choose to invest in and the percentage of your portfolio that you allocate to each asset class will likely have a greater impact on your portfolios return than any other factor.

In the late 1980s and early 1990s, Gary Brinson, L Randolph Hood, and Gilbert Beebower conducted two studies that significantly affected the way people invest their money. These studies, published in 1986 and 1991, examined the performance of 91 large U.S. pension plans between 1974 and 1983 and found that, on average, more than 90 percent of the variability in portfolio performance is determined by asset allocation. Of the remaining determinants, the group found that security selection determines approximately 5 percent of performance, while market timing accounts for just fewer than 2 percent. A follow-up study by Roger Ibbotson and Paul Kaplan (published in 2000) that examined returns of 94 stock/bond hybrid funds supported this conclusion. For more information, request Wealth Guide titled: Asset Allocation

Real Estate

Real estate offers attractive investment attributes and beneficial tax advantages. Three tax advantages real estate offers are:

1. Tax deferral through a 1031 Exchange.

2. The ability to offset income through depreciation deductions, and

3. Stepped-up basis to fair market value upon death of account owner.

Another advantage offered with real estate is the ability to leverage your investment. While leveraging real estate with debt can be a source of profit, it is also a big source of risk.

From an investment standpoint, real estate can be a good source of income and has historically been a good hedge against inflation. A disadvantage of real estate is the costs and effort involved in acquiring and owning it. Various expenses such as insurance, property taxes and maintenance expenses can affect your return and tenant issues can be a real headache. Also, unless you can afford to own multiple properties, you may not be able to obtain adequate diversification.

For more information, request Wealth Guide titled: Investing in Commercial Real Estate.

Stocks
Stocks represent a share ownership in a company. By owning stocks, you own a stake in the company and you are able to receive dividends and appreciation of share prices. The advantages of stocks are that of all asset classes, stocks have historically provided investors with the highest rate of return. The disadvantage is there can be extreme volatility in prices and the potential for a company to go bankrupt. From a tax standpoint, stocks offer the same stepped-up basis at death that real estate offers. This tax advantage can save your heirs money.

Bonds
A bond is a debt security, similar to an I.O.U. When you purchase a bond, you are lending money to a government, municipality, corporation, federal agency or other entity known as the issuer. In return for the loan, the issuer promises to pay you a specified rate of interest during the life of the bond and to repay the face value of the bond (the principal) when it "matures," or comes due. The advantages of bonds are that they can be a relatively safe investment and a good source of income. The disadvantage with bonds is prices are volatile and don't offer the same potential appreciation in price as stocks do.

Investment Vehicles

There are a variety of investment vehicles you can invest in that allow you to diversify among multiple stocks, bonds and real estate properties. These are passive investments that are professionally managed and can often be opened with low initial investment amounts. Three of the most common investment vehicles are: Real Estate Investment Trusts (REITs), Exchange Traded Funds (ETFs) and Mutual Funds.

For detailed information on how to invest wisely in the stock and bond market, request Wealth Guide series titled: Smart Investment Strategies.

Retirement Income Planning

Accumulating assets is one thing. Converting those assets into a retirement income stream you can't outlive is another. One way to derive income from your investments is to distribute only the interest and/or dividends the investments generate each year. Another way is to take a combination of interest, dividends and capital gains each year and to rebalance the portfolio regularly to its target allocation.

The 4% Rule for Systematic Withdrawals
A systematic withdrawal strategy is designed for a person to take predetermined periodic withdrawals from a portfolio of stocks, bonds or mutual funds. A rule of thumb for creating sustainable retirement income is the 4% Rule. According to this rule, if you invest in a portfolio comprised of 60% stocks and real estate and 40% bonds, you can initially withdraw 4% of your money, increase that amount in subsequent years to keep pace with inflation, and still have a 90% probability of not running out of money over a 30-year retirement.

Bucket Approach
Another strategy for distributing income from an investment portfolio is to divide your money into two different "buckets." Bucket one is comprised of safe investments such as money market funds, CD's, short-term high quality bond funds and possibly an immediate annuity. Deposit enough money into bucket one to pay your income needs for five years. All income for the first five years is distributed from that bucket. In bucket two, invest in more aggressive investments such as stock and real estate funds. No distributions are taken from bucket two until the end of year five. After year five, you refill bucket one from bucket two with another five years income and repeat the process.

Intellectually, people know they could live to be age 85 or longer and need the higher investment returns offered through stocks and real estate to make their money last and keep up with inflation but emotionally it is scary to hold onto these investments when they experience losses.

The idea behind the bucket strategy is that it can help you mentally separate your investments into two groups. It gives you the confidence of having stable income from bucket one while having investments that will help outpace inflation in bucket two. By segregating your money, it may help you tolerate volatility in bucket two.

For more information, request Wealth Guide titled: Retirement Income Planning for the Agricultural Family.

Hiring an Advisor

You can invest in many investments today on your own and avoid paying the fees of an investment advisor. This may or may not be a smart thing to do. Besides saving you time, a good investment advisor should be able to help you achieve better performance over time net of all fees. They can help you establish and maintain the right asset allocation, provide access to investment products that are unavailable to the general public, and help you develop and stick to a sound investment plan. In addition, a good advisor will provide value through advice on a variety of financial related topics.

Selecting an Advisor
Choosing the right advisor is critical. You and your families financial security depends on the guidance your advisor(s) provide, so choose wisely. Unfortunately, many "advisors" selling investment products today are concerned about their own interests more than those of their clients. In addition, many only sell investments and have insufficient knowledge and experience in tax, retirement and estate planning.

Some guidelines for selecting an advisor are:

1. The advisor is independent. Large investment firms have inventories of products and quotas to meet as well as company sponsored incentive programs. Being truly independent helps avoid these conflicts of interest.

2. The advisor uses a fee-only or fee-based compensation structure. Advisors who are paid commissions on the products they sell and/or on the trades they place face a conflict of interest. They may be influenced to sell products that pay higher commissions or place excessive trades in an account. Using true no-load funds and charging a separate investment advisory fee can help better align your advisor's interests with yours.

3. Uses low-cost investment products. Just because an advisor is fee-based doesn't mean the fees on the products they sell aren't high. You should work with advisors who offer low-cost solutions.

4. The advisor uses a consultative process. They take a comprehensive, planned approach to managing your wealth versus just selling you a product.

5. Uses a team approach. A good advisor will collaborate with a team of other professional advisors such as: CPA, attorney, charitable giving specialist, insurance specialist, 1031 Exchange intermediary and real estate agent.

6. The advisor has many years of experience, is trustworthy and is someone you get along well with.

Conclusion

The tax planning and investment decisions you make when selling your farm or ranch will affect the quality of life you and your heirs enjoy. You owe it to yourself to make wise decisions with the wealth you and your family worked so hard to create. By working with the right team of advisors prior to selling your farm or ranch, you can develop a comprehensive wealth management plan that enables you to save tax on the sale and invest in a manner that will give you a high probability of achieving your financial goals.

A 1031 Exchange and Charitable Remainder Trust are powerful tools for saving taxes on the sale of a farm or ranch. Using one or a combination of these tools may allow you to preserve your wealth and invest more money for retirement income and other purposes.

Assessing your investment goals, risk tolerance, time horizon for investing, liquidity needs and account ownership decisions all play a part in developing an effective investment plan.

Emotions greatly impact the decisions many investors make. Decisions based on emotion tend to hurt you more than they do help you. Developing a sound investment plan and having the patience and discipline to stick to your plan will likely increase your chances of having a successful investment experience.

Inflation can have a devastating effect on your future lifestyle. If your investments do not keep pace with the rising cost of living, you risk running out of money or facing an ever-decreasing standard of living. Having investments that keep pace with inflation can help you maintain the lifestyle you desire in later years. If you are able to tolerate the volatility of investing in real estate and the stock and bond market, you are likely to accumulate more wealth over time than investing only in certificates of deposit.

Asset allocation is the process of dividing your investment dollars among stocks, bonds, real estate and cash. Your choices of which asset classes to invest in and how you divide your money among those asset classes are the most important investment decisions you will make.

There are many types of investment vehicles today that allow you to invest in multiple stocks, bonds and real estate properties for a very low fee. Mutual funds, exchange traded funds and Real Estate Investment Trusts (REITs) are three effective investment vehicles for building a diversified investment portfolio.

There are many different approaches for distributing income from your investments. How much income you distribute each year and how you make those distributions can have a big impact on how long your money will last. A strategic approach to retirement income planning can help you maintain the right asset allocation over time and enjoy an income that keeps pace with inflation.

Choosing the right financial advisor is critical to you and your family's financial health. Working with an experienced, independent, fee-based advisor with extensive knowledge of agricultural families unique needs will help you make informed decisions on how to manage your wealth. Your advisor should offer low-cost investment solutions and use a comprehensive, consultative wealth management process. Selling a farm or ranch can involve complex tax, retirement planning and estate planning implications. No one advisor can provide you the level of expertise you need in each area. Your best approach is to work with an experienced team of advisors that collaborate together on your behalf.

Chris Nolt is the owner of Solid Rock Wealth Management, Inc. and Solid Rock Realty Advisors, LLC, with offices in Bozeman, Montana and Fountain Hills, Arizona. Solid Rock Wealth Management and Solid Rock Realty Advisors specialize in working with families who are selling a farm/ranch or other business and transitioning into retirement. We help our clients to save tax on the sale and to create passive income from sale proceeds. We employ a comprehensive planning approach with a team of financial professionals, which addresses retirement planning, investment planning, estate planning, tax planning, charitable giving and risk management. Our wealth preservation strategies are designed to help our clients reduce taxes increase retirement income and maximize the amount of wealth they pass on to their heirs and favorite charitable organizations.

Solid Rock Wealth Management

Solid Rock Wealth Management is an independent, fee-only registered investment adviser. We offer globally diversified portfolios of no-load, low-cost institutional asset class mutual funds and exchange traded funds. Are portfolios are diversified among as many as 15 asset classes and market sectors and are comprised of holdings in roughly 12,000 companies in 45 different countries. Our model portfolios range from conservative (100% fixed income) to aggressive (100% equities) and are designed to achieve optimal returns for your level of risk tolerance.

Solid Rock Realty Advisors

Solid Rock Realty Advisors assists investors who are seeking secure income producing real estate investments. We specialize in office buildings leased to the U.S. Federal Government and primarily work with investors who are purchasing properties through a 1031 tax-deferred exchange. These fee-simple real estate properties offer long-term leases guaranteed by the full faith and credit of the U.S. government with competitive cap rates and professional property management.

Chris Nolt, LUTCF

Chris grew up in Lewistown, Montana. He received a Bachelors degree in business from Montana State University in 1987 and entered the financial services industry in 1989. Working on ranches throughout his high school and college days, Chris gained a deep respect for the work ethic and character of the agricultural family. Having seen the effects from a lack of good financial planning among the agricultural community, Chris determined to help these families make smart decisions with their money so they could preserve the wealth they worked so hard to create. For over 25 years, Chris has been helping farm and ranch families to reduce taxes, invest wisely and preserve their wealth. Chris has earned the designations of Certified Retirement Financial Advisor and Life Underwriter Training Council Fellow.

For more information or to request other Wealth Guides, call 406-582-1264 or send an email to: chris@solidrockwealth.com

SOLID ROCK
WEALTH MANAGEMENT
PLAN • GROW • PRESERVE

www.solidrockwealth.com

SOLID ROCK
REALTY ADVISORS
SECURE INCOME PRODUCING PROPERTIES

www.solidrockproperty.com

This material was created to provide accurate and reliable information on the subjects covered. It is not, however, intended to provide specific legal, tax or other professional advice. Tax information provided can be sourced at www.irs.gov and your state's revenue department website. Because individuals' situations and objectives vary, this information is not intended to indicate suitability for any particular individual. IRC Section 1031 and IRC Section 664 Charitable Remainder Trust are complex tax codes. The services of an appropriate tax or legal professional should be sought regarding your individual situation.

The names Wealth Guide and Plan, Grow, Preserve are registered trademarks with the Montana Secretary of State.