

CHANGE OF LIFE EVENT AND HOW THAT IMPACTS YOUR FUTURE

By Fred Taylor

We have all heard the statistic: 50% of marriages in the United States end in divorce. Sadly, this is true.

If a person in Colorado gets divorced, they should expect to receive or give up at least 50% of the joint marital assets. If children are involved, child support and alimony payments may be necessary for a certain period of time.

After a divorce, if a spouse didn't work before (to take care of children, for example), tough choices may lie ahead, including selling the marital residence received in the divorce, living on a tight budget, getting a job, or remarrying.

Northstar can help clients throughout the divorce process, beginning well before a settlement is awarded. Receiving a large settlement can be unnerving; people risk falling prey to investment advice from relatives, friends, and commission-driven sales people—clients certainly don't want to fall into the hands of a “Bernie Madoff” advisor with their settlement—so we meet with clients and their divorce attorneys to map out what to do with the settlement before it's awarded.

Once the exact terms of a settlement are known, an individual must devise a budget and determine if selling the marital residence is necessary. It often doesn't make sense to keep it—emotionally or financially. If that is the case, clients need a good real estate agent to price the house correctly, stage it to sell, and get it on the market quickly.

If an individual received an IRA in the divorce, they will need to manage that asset differently than a taxable account from a tax and risk perspective.

One of the upsides to the massive decline in the stock market last year is that the current investment environment is extremely favorable for recently divorced individuals to build portfolios yielding at least 4% using a balanced portfolio invested 60% in equities and 40% in fixed income instruments. Dividends paid on blue chip large cap stocks are higher than the current yield on the 10 year US Treasury bond for the first time since 1958.

During every market cycle since 1926, a 4% income distribution from a diversified portfolio with 60% in stocks and 40% in bonds is sustainable and will protect the principal value. If someone

can live off a 4% withdrawal rate, annually adjusted for inflation, then the principal value should remain intact for the next 30 years.