

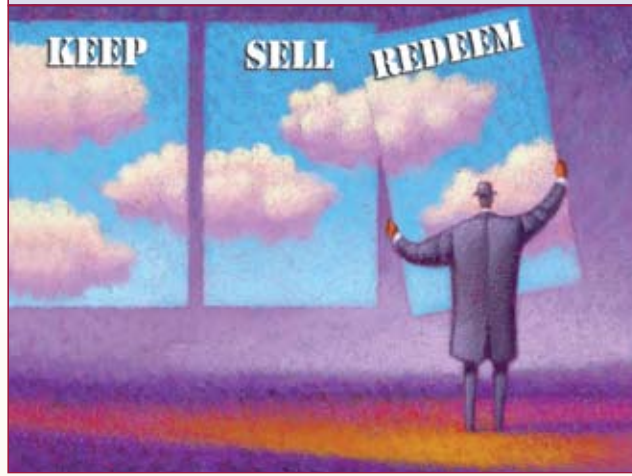
Financial INSIGHT

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Survivor's Options Notes



Looking for peace of mind in an investment? You now have another option with a new fixed income offering that features a "survivor's option," often referred to as a death put bond.

These retail bonds are offered by many companies on a weekly basis. Issuers include GE Capital, Caterpillar Financial Services, Bank of America, UPS and many other, high-quality firms. The issuers dedicate a small portion of their bond issuance to individual investors with denominators as low as \$1,000 and a variety of maturities. This regular flow of bonds has been most attractive to investors as they are able to find a supply of high-quality bonds at very competitive rates. While each issue is small in size, the market for them appears to work efficiently, allowing for purchase and sale at quite fair prices.

The unique feature is the "survivor's option" redemption. The issuer grants the owner, or more correctly the estate of the owner, the right to "put" the bond back to the issuer for redemption at par value in the event of death. This gives the heirs three choices: keep the bonds, sell them at market price or redeem them at par. If interest rates have risen, thus causing the value to decline below par value, then it gives the estate the opportunity to receive a higher-than-market price.

The luxury of choices makes these instruments very appealing to investors who are reluctant to invest in longer maturities, fearing that their heirs may be harmed by unfavorable market conditions. Typically,

longer maturity notes and bonds pay higher interest rates but face more market risk. With much of the risk eliminated for an investor's heirs, these notes become more palatable.

There are several points to understand, however, and each bond may be slightly different. Be mindful that the estate must exercise the survivor's

option before distribution to the ultimate beneficiary. The prospectus or offering circular has all the details. The trustee of the bonds has the ultimate say in the determination of the survivor's option.

Death put bonds must be held for a period ranging from six to 12 months after issuance before being submitted for redemptions. A very few require that they be held or owned for a period of six months irrespective of the date of issuance.

Most have restrictions, which are fairly liberal, on the amount of bonds to be redeemed in any one year. These restrictions are from 1 percent to 2 percent of the outstanding bonds or \$1 million to \$2 million annually, whichever is greater. Furthermore, most issuers have an annual "cap" per person of about \$200,000. If either the time period or the dollar limits preclude redemptions, the bonds become eligible the next period for par redemption.

Redemption payment dates vary also. Some are based on interest payment dates, others on specific calendar dates. The prospectus on each issue gives all

the particulars. Review these carefully with your financial consultant to ensure the bond meets your circumstances.

Why do bond issuers offer this attractive option? Basically, it is to attract individual investors at rates marginally less than large institutional rates. For many investors, this is a very good fit. These instruments are worthy

of exploring because of a combination of factors: high credit-quality issuers, less market risk for heirs, a variety of maturities and very competitive yields.

Talk with your D.A. Davidson & Co. financial consultant to find out if these instruments are a viable investment option for you. Survivor's option notes may be just what you need for your peace of mind.

When there's a will...

2006 has just begun and it is great time to get your house in order. After you have checked or replaced the batteries in your smoke detectors, spend a little time reviewing your financial affairs. I am not referring to New Year's resolutions to spend less or save more, which are laudable goals, but rather to make sure your family could carry on if you suddenly were no longer there.

Is your will current? A quick review of your will is important. Does it take into account changes in all your familial relationships, tax situation and financial circumstances? Most importantly, does it distribute your estate in the manner in which you wish it to do?

Does your personal representative know the location of the document and his or her responsibilities?

If you have minor children, is the correct guardianship appointed?

Are your beneficiaries current? Life insurance and annuities have appointed beneficiaries. So do Individual Retirement Accounts, 401(k) plans, health savings accounts and most retirement vehicles.

Make sure the beneficiaries are correct and all the assets move where they should in the event of your death. Titling of assets and the naming of beneficiaries supersede the will. **Do they all work together?**



On a dreary January day devote two hours to creating a file and index of all your important documents including:

Do your loved ones know where your records are located and what they mean?

- Your will
- All insurance contracts: life, health & disability
- Retirement statements from all sources
- Living wills or medical durable powers of attorney
- Brokerage and bank statements

It is all too easy to have records scattered in several places. A couple of hours to bring order to them is important. Review all your documents for appropriateness. Spend the necessary time with your spouse or family members as needed so they know the location of your information and your trusted advisors.

Few of us want to dwell on our own mortality, but few of us know our dates of death. Committing a modest amount of time to bringing order to your affairs can save your family heartache in the future. It can also bring great satisfaction to you, knowing that your family is cared for, your charitable intent memorialized and burdens for loved ones in time of stress are minimized.

Change the batteries and then bring order to 2006 and beyond.

— **Jim Searles**, Senior Vice President, Director of Professional Development and Product Management

