Investor Insights and Outlook

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Welcome Back

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It seems like only yesterday that I was on a friend's boat as part of our local July 4th celebration, making plans for the summer.

Well, now here we are sitting in front of our fireplace, contemplating plans for the upcoming Holiday season.

There is something comforting about the change of seasons; spring to summer, fall to winter. There is a rhythm, a pattern, a routine. As a child, you left summer vacation, returned to school and were greeted with a "Welcome Back."

Of course, even though we understand what to expect (leaves change color, temperature drops, shorter daylight hours) we don't necessarily welcome back stormy weather and the annual cold and flu season. But, we can prepare.

So it is with financial markets. It has been a long time since we experienced the likes of the recent market volatility (a daily or weekly percentile change in index values and investment results).

This really shouldn't come as any surprise. If there is a surprise, it is only in what took so long to return to normal.

I am not suggesting we say, "Welcome back Volatility, we sure missed the anxiety you can create!" However, much like the change in seasons, we can prepare for what is really a normal part of economic cycles and financial markets.

What can you do to prepare? Begin by reviewing your financial plan. What are your near-term and long-term goals? How will increasing up and down values impact you? Are you emotionally ready to deal with the inevitable "Ain't it awful" news reports?

Rest assured, we've been through a number of challenging times over the past 27 years. Each episode feels different as it happens, yet somehow strangely familiar.

Welcome back.

Advisor Corner

Thank you for the opportunity to serve as your advisor.

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Benefits of Staying Invested Through Market Volatility

The recent market volatility has investors questioning, "Are stocks still a good investment?" It's a good question, and one way to address this issue is to look at the recent 2007–2009 market crash. Investors who bailed out of the stock market following the significant decline and moved their money to the safety of cash would be quite disappointed to learn that the stock market, in fact, recovered significantly.

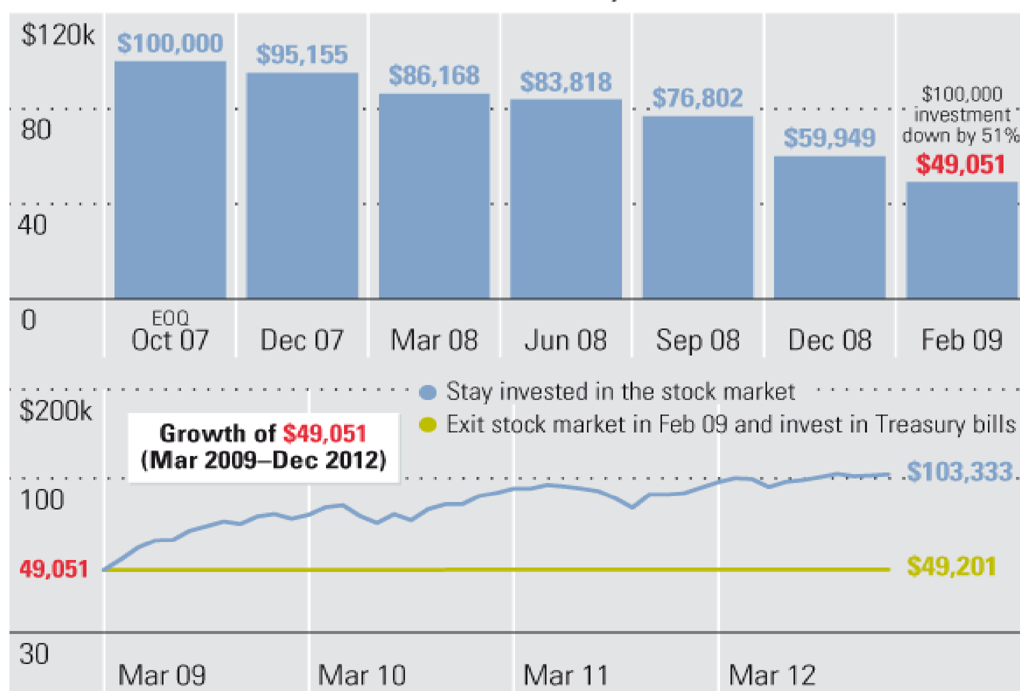
The bar graph below illustrates the value of a $100,000 investment in the stock market at the end of October 2007 (when the downturn began). Over the next several quarters, this $100,000 investment declined significantly, and by February 2009 (the trough date) was down to $49,051, a 51% decline. If an investor panicked and exited the stock market to invest the remainder ($49,051) in Treasury bills (proxy for cash), here's what would have happened.

The bottom graph illustrates the growth of the $49,051 investment in both the stock market and Treasury bills since March 2009. The difference in the ending wealth values of the two investments is considerable. If an investor remained invested in the stock market, the ending value of the investment would be $103,333. If the same investor exited the market at the bottom to invest in Treasury bills, the ending value of the investment would be only $49,201. While exiting the market during a downward spiral may mean avoiding down days, it also means missing days when the market bounces back. While all recoveries may not yield the same results, investors may be well advised to stick with a long-term approach to investing.

The beginning investment time period of October 2007 was chosen to illustrate two concepts: (1) investing right before a significant market downturn and (2) the contrast between exiting the stock market and staying invested during a recovery. The exact timeline of the downturn-recovery is as follows: October 2007 (peak before the downturn), February 2009 (trough), March 2012 (recovery).

Past performance is no guarantee of future results. Returns and principal invested in stocks are not guaranteed. Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks are not guaranteed and have been more volatile than bonds or cash. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss.

Ending Wealth Values After a Market Decline and Recovery



The stock market is represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general. Cash is represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Do You Have a Plan for Your Digital "Estate"?

Even people who think they've ticked off all of the usual boxes on their estate-planning to-do lists may have overlooked an increasingly important component of the process: ensuring the proper management and orderly transfer of their digital assets. Just as traditional estate-planning relates to the management and transfer of financial accounts and hard assets, digital estate-planning encompasses digital possessions, including data stored on tangible digital devices (computers and smartphones), data stored in the cloud, and online user accounts.

Digital estate planning is, in many respects, more complicated than traditional estate planning. The field of digital estate planning is evolving rapidly, as are digital providers' policies on what should happen to digital assets that are left behind. Digital assets are also governed by a complex web of rapidly evolving laws, both at the state and federal levels. Precisely because of all the potential complications, it's important to take a few minutes and get a plan in order. Here are several key steps to take.

1) Conduct a Digital 'Fire Drill.' A good first step in the digital estate-planning process is to conduct a digital fire drill, which tends to jog your memory about what digital assets you deem important. Consider the following questions. What valuable items would you lose if your computer was lost or stolen today? If you were in an accident, would your loved ones be able to gain access to your valuable or significant digital information while you were incapacitated? If you were to die today, to what valuable or significant digital property would you like your loved ones to have access?

2) Take an Inventory of Your Assets. The next must-do is to create an inventory of the digital assets you named during the fire drill. Document the item/account name as well as user names and passwords associated with that item. Among the items to document in your digital inventory are: digital devices such as computers and smartphones, data-storage devices or media, electronically stored data, including online financial records, whether stored in the cloud or on your device, user accounts, domain names, and intellectual property in electronic format. This document would be chock-full of sensitive information, so keeping it safe is crucial. A printed document should be stored in a safe or safe deposit box, and an electronic document should, of course, be password protected.

3) Back It Up. We've all been schooled on the importance of regularly backing up digital assets, and estate-planning considerations make it doubly important to do so. Even if a specific device malfunctions, storing digital assets on another storage device or in the cloud helps ensure the longevity of those assets. Moreover, online account service providers may voluntarily disclose the contents of electronic communications, but they're not compelled to do so. If you want to help ensure that your loved ones have access to the information in your online accounts, backing it up on your own device is a best practice.

4) Put Your Plan in Writing. Experts also recommend formalizing your digital estate plan. That means naming a digital executor—someone who can ensure that your digital assets are managed or disposed of in accordance with your wishes after you're gone. If your primary executor is savvy with technology, there's probably no need to name a separate digital executor. But if not, or if you have particularly valuable or special digital property, such as intellectual property, experts advise a separate fiduciary/executor for digital assets. Depending on the type of property, the fiduciary may also need special powers and authorizations to deal with specific assets.

This is for information purposes only and should not be construed as legal, tax, or financial planning advice. Please consult a legal, tax, and/or financial professional for advice regarding your personal estate planning situation.

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Take Steps to Keep Your Retirement Income Stream Flowing

After years of accumulating assets, the time will come for you to begin drawing on those assets to provide income throughout retirement. Before that day arrives, be sure to consider some steps to assist you in keeping your retirement income stream flowing.

Set a Sustainable Withdrawal Rate

As tax-advantaged retirement savings vehicles such as 401(k)s and IRAs have proliferated, so too has the trend toward self-funding of retirement. In the future, the share of personal assets required to fund retirement is sure to grow, which makes knowing how much you can withdraw from your investment accounts each year -- and still maintain a healthy cushion against uncertain market and personal circumstances -- a necessity to any retirement income plan.

A number of factors will influence your choice of withdrawal rates. These include your longevity, the potential impact of inflation on your assets, and the variability of investment returns. Therefore, when crafting a retirement asset allocation, a key question will be how much to allocate to stocks.[1] Certainly you will want to maintain enough growth potential to protect against inflation, yet you will also need to be wary of being too exposed to stock market gyrations. Generally speaking, those who have planned well and amassed enough assets to comfortably finance retirement may be in a better position to include more stocks in their portfolios than those who enter retirement with less.

Developing a Withdrawal Rate

The goal of your withdrawal plan is to use your nest egg in such a way as to provide a reliable stream of income for as long as you live. The question is, "How much can I plan to withdraw each year without depleting my financial resources?" Academic studies suggest a yearly withdrawal rate of 3% to 4% of your portfolio's value based on an asset allocation of 60% stocks and 40% cash and fixed-income investments.[2] By staying within this withdrawal range you potentially should be able to maintain your portfolio's value in real, inflation-adjusted terms for an extended period of years, although past performance is no guarantee of future results.

Tax Rules Affecting Retirement Account Withdrawals

IRA and other retirement plan owners may be subject to a 10% income tax penalty if withdrawals begin before age 59½. Also, mandatory withdrawals, called "required minimum distributions" or "RMDs," must begin by age 70½. Failure to take full RMDs may result in a penalty tax of 50% of the required distribution amount.

Consult with your tax and/or financial advisor for additional help analyzing your specific situation. You should also revisit your personal withdrawal strategy each year, as your situation and tax laws may change.

Source/Disclaimer:

[1]Asset allocation does not assure a profit or protect against a loss. Investing in stocks involves risks, including loss of principal.

[2]This example is hypothetical and not intended as investment advice. Your results will vary.

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