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The "R" Word

MIKE BOOKER, CFP®, CHFC®, CFS®
SHAREHOLDER, FINANCIAL ADVISOR

I want to get this out right off the bat - recessions are a part of the business cycle, thus part of every investor's investing life. They occur every 4-10 years, so we must expect them. Some clients feel that we are on the precipice of a new recession. Maybe so, but you may be surprised to learn that we often don't know we were in a recession until it has nearly run its course! For example:

- Remember the Great Recession that began in December 2007? The economists at the National Bureau of Economic Research (NBER), who are basically the official scorekeepers of recessions, didn't discover the recession until December 2008 – a year late, and only a few months before the episode (officially) ended.

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- The previous recession began in March 2001 – but the NBER didn't call it a recession until November 26th of that year. By amazing coincidence, that was actually the same month it ended (as they told us many months later).

- The recession that began in July 1990 wasn't called until April the following year. The recession that began in July 1981 wasn't recognized until January of 1982. (Source: Are We Already in a Recession?/Marketwatch)

What we all really want to know is, "How have stocks performed in and around these past recessions?" You may be surprised to learn that the S&P 500 has finished positive during four of the last nine recessions. Stocks were positive in six out of the past nine times in the year leading up to the start of a recession, dispelling the myth that the stock market always acts as a leading indicator of economic activity.

	1 Year Prior	Recession	+1 Year	+3 Years	+5 Years
Aug 1957 - Apr 1958	0.8%	-6.4%	37.2%	66.1%	89.3%
Apr 1960 - Feb 1961	3.1%	18.3%	13.5%	34.8%	67.7%
Dec 1969 - Nov 1970	-10.7%	-3.4%	11.3%	20.4%	24.8%
Nov 1973 - Mar 1975	-0.1%	-18.2%	28.3%	21.6%	54.8%
Jan 1980 - July 1980	18.5%	16.4%	13.0%	56.0%	100.0%
July 1981 - Nov 1982	20.7%	14.4%	25.5%	66.4%	102.4%
July 1990 - Mar 1991	16.5%	7.6%	11.1%	29.9%	98.3%
Mar 2001-Nov 2001	-8.2%	-7.2%	-16.5%	8.4%	34.2%
Dec 2007-June 2009	7.7%	-35.5%	14.4%	57.7%	136.9%
Averages	**5.4%**	**-1.5%**	**15.3%**	**40.1%**	**78.7%**

There are some other numbers shown in the above chart that are noteworthy.

1. Stock market performance during the last 9 recessions has averaged -1.5%. In 8 of the last 9 recessions (throwing out the last one) and stocks average +2.69% per recession.

2. While performance of the market in the year prior to recession is usually positive, the returns in the 1 year, 3-year and 5-year periods have averaged 15.3%, 40.1% and 78.7% respectively are impressive. This is another compelling piece of evidence that investing in periods of unrest usually pays off, often handsomely, for investors.

3. Market returns before, during and after a recession are unpredictable and vary widely.

As difficult as markets are to predict, recessions seem to be even more difficult to forecast as proven by the fact that in numerous past recessions, we didn't even know when one had started until months after it began! Don't fret about a coming recession. It will arrive one day and when it does, it won't be the end of the world – not even close.

Strive to tune out the noise that the financial media puts out which can tempt you to take some sort of action with your portfolio to avoid their predicted downturn. Don't be that investor who thinks people on radio or TV can predict recessions, markets, or the weather. They can't.

The Power of Compound Interest

BRYAN ZSCHIESCHE, CFP®, MS, MBA | SHAREHOLDER, FINANCIAL ADVISOR

Albert Einstein called compound interest "the eighth wonder of the world." He went on to say, "He who understands it, earns it; he who doesn't, pays it."

So, what is compound interest? Put simply, it's when you earn interest on your interest. Here's an example. Let's say you invest $100,000 in a diversified portfolio, and in the first year, you earn a 7% return. Your $100,000 grows by $7,000 to $107,000.

Now you have a choice. You could take the $7,000 profit out of the portfolio and keep only your original $100,000 invested. Or you could leave the $7,000 profit invested.

Let's say you keep the profit invested, and you earn another 7% the following year. Your $107,000 would grow to $114,490. That extra $490 is the effect of compounding. You only earned that kicker because you kept the $7,000 invested. You earned interest on our interest.

When you begin investing, the effects of compounding aren't obvious. In the graphs below, we continue the example of $100,000 invested in a diversified portfolio which experiences an average annual return of 7%. Our original investment is shown in gray, and the growth is shown in blue. Note how little the portfolio value changes over the first few years. The three-year graph shows just a small sliver of growth.

However, as time marches on, the compounding begins to build momentum. After 10 years, the portfolio has nearly doubled in value, and after 25 years, you have over 5 times as much as you started with!

It is also interesting to look at our first three years of investment history on the 25-year graph. We were only able to achieve this exceptional long-term result because of the foundation built by those first few years.

Consider this metaphor from James Clear's bestselling book, *Atomic Habits*:

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"Imagine you have an ice cube sitting on the table in front of you. The room is cold, and you can see your breath. It is currently twenty-five degrees. Ever so slowly, the room begins to heat up.

Twenty-six degrees.

Twenty-seven.

Twenty-eight.

The ice cube is still sitting on the table in front of you.

Twenty-nine degrees.

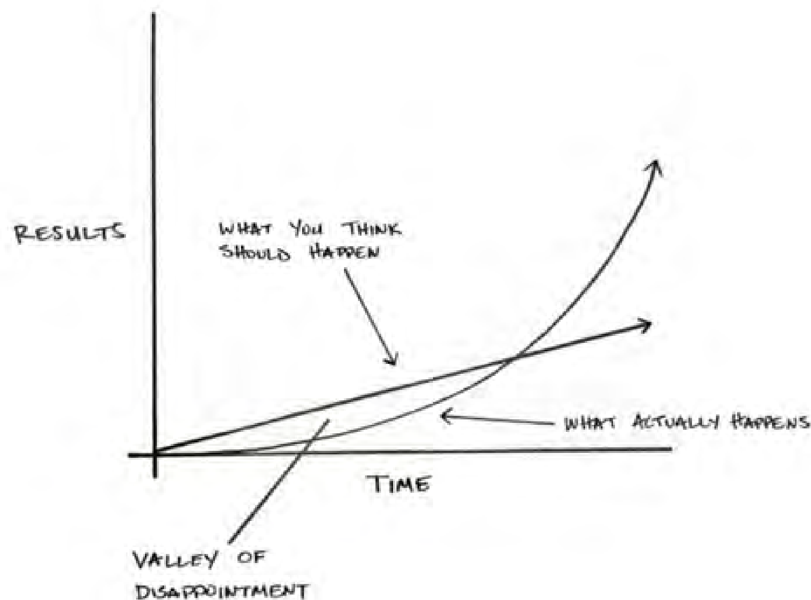
Thirty.

Thirty-one.

Still, nothing has happened.

Then, thirty-two degrees. The ice begins to melt. A one-degree shift, seemingly no different from the temperature increases before it, has unlocked a huge change.

Breakthrough moments are often the result of many previous actions, *which build up the potential to unleash a major change*." (emphasis, mine)



Similarly, compound gains are the result of smaller foundational gains all along the way. The only way to achieve the long-term benefit of compounding was to be patient with the foundational years at the beginning.

As Clear concludes, "All big things come from small beginnings." If you have just started investing with us, take heart. The temperature is rising, even if you don't feel it just yet.

Source: Clear, James. *Atomic Habits*, pp. 20 – 22.
Special thanks to Brock Hedgecoke, who created the first three graphs in this article.

When a Corporate Trustee Makes Sense

HEATH HIGHTOWER, CFP® | SHAREHOLDER, FINANCIAL ADVISOR

In 2014, Wells Fargo published the findings of a study that focused on how American families communicate about personal finance. They discovered that money is harder for families to talk about than death! Forty-four percent of respondents ranked money as the most difficult topic to discuss with family; followed by death (38%), taxes (21%), and personal health (20%). So today, I thought I'd tip-toe into a subject that combines all 4 topics into one super-fun conversation…Choosing a trustee for the family trust.

There's no doubt that choosing a trustee can sometimes be delicate. Why, you ask? Because the trustee has complete control of the trust. They control how much and when money is distributed to beneficiaries. They also control the investments within the trust, the accounting, and the administration. Choosing the right trustee is mission critical.

As the grantor of a trust, you have only two options for selecting a trustee. You can choose a trusted individual, or you can choose a trust company. Naming a friend or a family member may seem like a simple solution, but very often it's not the best solution.

There are several reasons why. If the person named as trustee is either incompetent or dishonest, the plan will quickly go wrong. Or, if the named trustee is uninterested or preoccupied with their own life, sloppy decisions can lead to costly results. The stories that we hear about incompetent or dishonest trustees are truly frightening.

On the other hand, you could hire a corporate trustee to do the job. A trustee's job is to follow and execute the rules of the trust document. Corporate trustees tend to offer more structure to the overall execution of the trust document. They understand taxes, legal issues, etc.… And, when it comes to making distributions to beneficiaries, they tend to follow the direction of the trust document, rather than playing favorites.

A corporate trustee is not right for everyone. Many people simply prefer to appoint someone that they know and trust rather than paying a professional. Many of our clients have chosen a trusted individual to serve as the primary trustee but named a corporate trustee as a contingent. In any case, choosing a corporate trustee can be a daunting task. If you're considering it, we're happy to help you find a corporate trustee that is a good fit for your specific situation.

Feel free to call or email me if you'd like to learn more about appointing the trustee that is best for you and your family.

https://www.everplans.com/articles/how-difficult-is-it-to-talk-with-your-family-about-money

https://wealthadvisorstrust.com/picking-a-trustee-4-easy-steps/

https://newsroom.wf.com/press-release/community-banking-and-small-business/conversations-about-personal-finance-more

Why Target Date Funds May Not Be the Best Choice for You

KEVIN NELSON, CFP®, CDFA™ | FINANCIAL ADVISOR

Target date funds are now a standard component in retirement plans across America. They are designed to provide a simple solution to investing, where the asset allocation becomes more conservative as the target date nears. They have been added to almost every 401(k) plan I have seen through my years in the industry (13 and counting). These funds are an ideal concept for 401(k) providers as they allow employees pick one fund where they can "set it and forget it".

The employees are often put into these funds as a default investment option when they make no specific elections. Certainly, this is better than leaving funds in a cash or money market position. However, once you select a target date fund and it nears the date, they get more conservative, but as you can see below, they are more conservative than most portfolios at retirement age:

Below is a brief example using Fidelity Freedom funds, which are widely used target date funds:

Fidelity Freedom 2020 (FFFDX): 27% US Stock, 22% Non-US Stock, 35% bond, 2% Other, and 14% CASH

The account is very conservative going into the first year of the retirement. At 49% stocks and 49% bonds/cash, the cash level is higher than most conservative investors would want or should hold, especially in a qualified account. Depending on risk tolerance, the bond exposure may also be too high for someone that has a very long-time horizon in retirement.

These conservative investment levels held into retirement should be customizable to each person.

Here's another example of someone who is currently five years into their target date fund:

Fidelity Freedom 2015 (FFVFX) 22% US Stock, 19% Non-US Stock, 41% bond, 1% Other, and 17% CASH

For someone that is retiring at the age of 65 this may be too conservative for the long run. These are all things to be considered when selecting investments in your retirement accounts. If you have questions or updates to your 401k investment options, please reach out to us!

Sources:
https://www.morningstar.com/funds/xnas/fffdx/quote
https://www.morningstar.com/funds/xnas/ffvfx/quote

Please join us in congratulating Brock Hedgecoke, who has has achieved National Social Security Advisor certificate (NSSA) from the National Social Security Association LLC in Cincinnati.

The NSSA certificate promotes advanced Social Security education providing the certificate holder with the knowledge to counsel clients on the best way to claim Social Security benefits in order to optimize lifetime Social Security income.

Brock is our second NSSA certified advisor, as Will Goodson also holds the certification. This certification program is the gold standard in Social Security training and certifications in the nation. We are proud that we can help our clients navigate the many questions they may have when making decisions about Social Security and Medicare.

The Value of Automatic Savings

BROCK HEDGECOKE | ASSOCIATE FINANCIAL ADVISOR

Nick Murray, one of the most prolific scholars in our industry, states in his book *Behavioral Investment Counseling* that "your family's financial well-being in later life, and its ability to leave significant legacies to its children, will depend largely on what percentage of its income it manages to save – perhaps the ultimate behavioral variable."

If Nick Murray is right – that the most important factor in a financial plan is the percentage of income saved – we would do well to listen. Now, to be clear, the purpose of this article is not to promote higher savings percentages. The purpose of this article is to discuss the single most important phrase in the quote above: "manages to save." How do we maximize efficiency in savings? Better yet, how do we make sure savings actually happen? My suggestion is to automate everything (or at least what you can).

Most online banks and investing platforms offer an option to set up electronic one-time or recurring automatic contributions. The institution simply requests information on your checking or savings account and withdraws the money automatically on the date(s) specified.

Because of the power of compound interest and time value of money (read more about this in Bryan's most recent article), the earlier you start saving the better. $100,000 saved now growing at an annual interest rate of 7% will be worth $542,743 in 25 years as opposed to $196,715 in 10 years. Add an extra $250 dollars a month and the 25-year ending value goes to $776,241. Coupled with inflation and the need for financial capital upon retirement, adequate savings and portfolio growth is necessary for a successful financial plan.

For many of you, I am preaching to the choir. You have set up automatic savings and trust time and the power of the markets to build your portfolio. For others, I would ask you to consider the following points for why you should automate your savings.

1. **Destroy confusion over market timing**

How often have you thought or heard the statement, "the market seems too high to invest my money right now?" With the S&P 500 currently trading at a price well over 4 times the lowest point of the Great Recession and near its all-time closing high of 3,025.86[1], I understand why this fear exists. Yet, history would show that playing this game is risky. First, if you always played this game, you might have never invested at all. At any point in the market's history an argument could be made (and probably was) for why it was a bad time to invest. Whether because the market was "too high", or because it was trending downward, the claim could be made: "now is not the right time."

The chart below does a great job illustrating the harm of missing out on market growth[2]. If you missed the 15 best days of the market from 1990-2017, your return would have been 6.18% compared to the market's 9.81% (a 37% reduction). Miss the 25 best single days and you're getting close to the average return of short-term U.S. Treasuries!

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Timing the market is difficult, if not impossible to do. However, the consequences for missing out on growth can be quite substantial over time. Saving dollars on your own terms may add unnecessary temptation to time the markets. Automatic recurring contributions are not concerned about your feelings or the status of the current market environment. They occur faithfully at the specified interval over and over. As time passes, these contributions build, grow with the market, and lay the foundation for a successful financial plan.

2. Eliminate psychological stress

There's value to relieving yourself of the task to manually save dollars each month. First, by trying to manually save, you run the risk of forgetting. Second, you bear the burden of having to willingly "let go" of dollars month after month. This can prove to be psychologically taxing, even if you don't realize it.

In his book, The Power of Habit: Why We Do What We Do in Life and Business, Charles Duhigg says, "Willpower isn't just a skill. It's a muscle, like the muscles in your arms or legs, and it gets tired as it works harder, so there's less power left over for other things." We know that saving dollars consistently, over a long period of time is imperative to the solvency of almost every financial plan. However, savings doesn't have to be contingent on your will-power or ability to consistently complete a task. Automating contributions lifts this burden off your shoulders.

3. Achieve your goals

In the financial planning world, there is a commonly used phrase that says, "pay yourself first." The meaning of this phrase is straightforward: as soon as you get paid, before paying for anything else (housing, groceries, bills, etc.), send money to your savings account(s). Failing to follow this principle results in the ongoing appeal to spend dollars in your bank account instead of saving them. Automatic savings protect you from yourself while, over time, bolstering the health of your financial plan.

It might be uncomfortable to see less dollars in your bank account at the beginning of every month. Yet, over time, you will likely become accustomed to spending within the limit of visible dollars in your account, post-savings. Whether early retirement, paying for your child's college education, or buying a new house, the simple choice to initiate automatic savings will help make your goals a reality.

At Financial Synergies, we can help you set up automatic savings. Let us know the amount and how often you want the contribution to occur (monthly, bi-weekly, etc.). We can make contributions match the timing of your paycheck so that your dollars go to savings first. For those of you with inconsistent cash flow, please reach out to us to discuss how we can maximize the amount you save when you are paid. We exist to help you solve these problems.

Automatic savings free you from futile attempts at timing the market, eliminate unnecessary psychological stress, and place you on the path to achieving your goals. Every day spent waiting there is value lost. However, there is no time like the present. Grab your phone, give us a call, and turn on automatic savings.

[1]Based on market close 10/06/2019
[2]In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero. S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. "One-Month US T- Bills" is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

References:

Duhigg, Charles. *The Power of Habit: Why We Do What We Do in Life and Business*. Random House Trade Paperbacks, 2012.

Murray, Nick. "Introduction." *Behavioral Investment Counseling*, The Nick Murray Company, Inc., 2008.