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FALL 2017

Estate-Planning Tips for Baby Boomers

As the baby boomer generation gradually makes the transition from their working years to retirement, it's time for them to get serious about estate planning. But for a variety of reasons, many boomers have put off this essential task, putting them and their families at risk. These tips can help this generation get back on track with estate planning.

1. Know what your children expect — and what you plan to give them. By and large, boomers' parents were conservative savers. They came of age in the Great Depression, and that formative experience often led them to be cautious with their money. Many of them accumulated far more than they ever spent, and they passed that wealth on to their boomer children. But many baby boomers aren't taking the same approach to money. For one, the world has changed. Even boomers who've saved a lot may end up spending much of what they've accumulated, since retirements are likely to be longer and healthcare costs expensive. But there's also an attitude difference. Active boomers may be planning on spending much of their hard-earned money on themselves. They believe they've done a lot for their children already and don't feel the need to leave substantial assets to them. That's fine — it's your money, after all — but if you plan on spending down most of your assets, you may want to let your children know. It's one thing to not leave money to the next generation, but if they are blindsided by your decisions after your death, they may end up feeling resentful.

2. Have a plan for the end of your life. Many, if not most, boomers are still leading busy lifestyles, and they plan to keep doing so for some time. Boomers who value staying fit and healthy may not really be thinking about what will happen to them when the

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On a Personal Note

Hurricane Irma swept through Florida in early September as an extremely powerful storm. In fact, it was the strongest observed in the Atlantic since Wilma in 2005 in terms of maximum sustained winds. While the worst destruction occurred in the northern Caribbean and the Florida Keys, south Florida saw nearly six million residents evacuate northward, causing unprecedented travel jams, gas shortages and business interruptions.

After wavering on what to do, my wife and I made the decision to leave town with our son and dog. We caravanned with other family members to Orlando, Gainesville, and New Orleans. As the path of Irma kept moving west before turning north, there was a

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Estate-Planning Tips

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inevitabilities of aging finally do catch up. But while taking steps to live a healthy lifestyle is important to enjoying a great retirement, boomers shouldn't stick their heads in the sand and assume they'll be healthy forever. Sickness and disability can happen, and it will be easier for you and your family to deal with if you have a plan. Not only should you think about long-term care and how you'll pay for it, you should also make sure you have end-of-life planning documents in place, like a healthcare power of attorney and a living will.

3. Make sure your estate plan is up to date. Many boomers have estate plans they created decades ago. The primary goal of those estate plans may have been to ensure that their children and surviving spouse were protected in the event of unexpected death. But as you get older, your estate-planning needs change. If your children are independent adults, providing for them is no longer as critical. Plus, if it's been two or three decades since you created your will, your life has likely changed in other ways too. You may have grandchildren who you want to receive part of your estate or new property that should be incorporated into your will. Or your family composition might have changed — you may have been divorced or widowed, for example. You may even have received a health diagnosis that is affecting your estate planning goals. For all these reasons and more, boomers need to sit down and review their estate plans to make sure they are properly conveying all their wishes.

4. Decide if and how you want to leave a legacy. Successful boomers often want to find a way to leave a lasting impact on the world and support causes and organizations closest to their hearts. If you count yourself among those for whom leaving a legacy is important, now is the time to start thinking seriously about how you want to turn those legacy dreams into reality. If your goals are ambitious — like starting a foundation or a charity or endowing a scholarship — you should start planning now. The more lofty your goals, the more important it is that you take clear, concrete steps to turn your dreams into reality — like meeting with the leaders of an organization you support and finding out how you can best help them. After all, you won't be able to do this after you are gone.

Not sure how to put these estate-planning tips into action? Please call if you'd like to discuss this topic in more detail. ❍❍❍

Your 401(k) Plan Has Hidden Gems

Tax-deferred contributions and employer matches make 401(k) plans a valuable retirement planning tool, but there are other features most people are unaware of that can make it even more valuable. Check with your 401(k) plan administrator to see what other gems may be hiding in your plan.

Investment Advice — Most people would readily admit that they don't have the knowledge or skills to manage their own investments, but they do not take advantage of the various advice options that may be available through their 401(k) plan. Almost 40% of plans offer online advice for investment recommendations, but only 6% of plan participants utilize these online advice tools. And while about 25% of plans offer managed account advice and 68% offer professional financial advisor services, only about 10% of participants use them.

Investment Customization — A wide range of investment options are available to provide participants with choices based on their investment risk tolerance. On average, 401(k) plans offered 18 different funds in 2016, yet half of plan participants contribute to only one fund.

Changing Investments — While investment selections can be changed in your 401(k) at any time, only 9% of plan participants actually traded within their plan in 2015. On a quarterly basis, you should review the investments in your 401(k) to determine how they are performing in meeting your investment objectives.

Roth 401(k) Plans — In 2015, the Roth 401(k) was available in almost 60% of plans, but only 15% of participants saved with this option. The benefits of investing after-tax contributions in a Roth 401(k) is that contributions may be withdrawn tax free in retirement. While there are rules around how much you can invest in a Roth 401(k) plan, tax-free income in retirement is a great way to reduce your tax liability. Additionally, if you roll your Roth 401(k) funds into a Roth IRA, there are no required minimum distributions at 70½, giving you more flexibility in managing your disbursements.

Catch-Up — About 97% of 401(k) plans offer the option to make catch-up contributions to those 50 and older, but only 16% of eligible participants take advantage of this option. The maximum annual contribution to a 401(k) in 2017 is $18,000, but the catch-up feature allows a participant to contribute an additional $6,000. If you haven't been making the maximum contribution and you're over 50, this is your opportunity to make the most out of your 401(k) with the time you have left.

Please call if you'd like to discuss your 401(k) plan or retirement planning in general in more detail. ❍❍❍

The Dow Theory: Curbing Emotional Investing

In addition to starting the company that publishes *The Wall Street Journal*, Charles Dow (1851–1902) also lent his name to one of the most popular U.S. stock market indices (the Dow Jones Industrial Average) and created a theory regarding major shifts in stock market trends. While neither Dow nor those who refined his theory after him believed they were creating a sure-fire way to beat the market, they did believe following its principles could at least avoid mistakes associated with greed and fear.

Three Assumptions

Behind the Dow theory is a set of assumptions about how the stock market works:

✔ **The stock market moves in broad, cyclical trends.** According to Dow, there are primary trends, which are long-lasting (from months to years), and minor trends, which don't last very long and run in the opposite direction of the primary trend. Primary up trends are bull markets and primary down trends are bear markets — these primary trends are marked by peaks and troughs in price charts. Within these broader trends are secondary (minor) countertrends called corrections, which can retrace anywhere from 33% to 67% of a primary trend's movement. Of course, no one ever knows in advance how long trends will last.

✔ **Primary trends can't be manipulated.** The Dow theory holds that primary trends in the stock market as a whole are driven by forces much bigger than any single individual, cartel, breaking news, or rumor.

✔ **Stock indices reflect all available information.** The Dow theory believes that everything there is to know about a stock and the economy at a given moment is factored into the prices of stocks. This include hopes, fears, and expectations of factors such as interest rates, earnings, revenue, and product initiatives. Unexpected events can occur, but usually they affect the short-term trend, creating what are called reaction rallies that soon lose steam, and the primary trend then resumes.

Three Primary-Trend Phases

According to the Dow theory, major trends consist of three phases of varying length:

Stage 1: Accumulation or distribution – In this phase, the smart money starts major buying or selling programs. Initially, this looks like a secondary countertrend; but trading volume on the major exchanges noticeably increases on up days, while volume tends to be lighter on down days. In a bull market stocks are cheap, but no one other than value investors seems to want to buy them. In a bear market, there's a high level of enthusiasm for stocks, and few people believe the bull market is over.

Stage 2: The big move – In this phase, there are many more days in which the indices move in the direction of the primary trend rather than in the opposite direction. In bull markets, there are strings of up days followed by shorter strings of down days. In bear markets, the opposite occurs. The result is a significant, long-term increase (bull markets) or decrease (bear markets) in market averages.

Stage 3: Excess – The final phase of a primary trend is marked by extremely high levels of emotion, which are signs the primary trend is about to change. These extremes can be seen in the behavior of individual investors: in bull markets, even the most conservative investors are buying stocks. On the other hand, in the excess stage of a bear market, everyone is concerned about safety of principal, while those who bought stocks at high prices have finally given up and sold their stocks at a loss.

The Indices Confirm the New Trend

For Charles Dow, the primary trend was reflected in the Dow Jones Industrial Average, which today comprises 30 stocks. But Dow also looked to another index to confirm the emergence of a new trend. In his day, that was the Dow Railroad Index. Today, it's the Dow Transportation Index of 20 companies engaged in the shipping and transportation of manufactured goods. The idea was a true change in the trend of business activity in big manufacturing firms would show up as business for the companies they hired to move their goods.

For the second index to confirm the first, the Dow theory looks for both averages to be moving in the same direction. And new highs or lows in one index are accompanied by new highs or lows at the same time or shortly thereafter in the other index.

The Dow theory isn't intended to help short-term traders. What it's designed to do is tip off long-term investors to changes in trends, so they can shift their money from stocks to another asset class such as bonds or cash during a full business cycle. ❍❍❍

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moment when we felt like she was following us. The path eventually moved up our state, but the lesson we learned is that you cannot outrun a hurricane. In the end, we were thankful to return home a week later to restored power and minimal damage to our neighborhood.

In October, I attended ValMark's Annual Meeting in Orlando. This year, I participated in a panel discussion with two of my peers on the relevance of financial planning in today's economy. I explained that there are three conditions that make holistic planning more important than ever: 1) product commoditization, as money continues to flow out of actively managed accounts into passive index funds, 2) investment fee compression, and 3) increased regulation, such as the phase-in of the new Fiduciary Rule. I reinforced my message by referencing the American Professor Richard Thaler (U. of Chicago), who earlier this month, was awarded the Nobel Prize in Economics. Mr. Thaler earned this coveted award for his life's work of challenging the notion that people make rational decisions with their money. Mr. Thaler's accomplishments underscore the close link that exists between psychology and finance.

Finally, on November 12, my wife, Tanya, and I took part in the Walk to End Alzheimer's in Boca Raton. I agreed to Chair our local Rotary Club's Alzheimer's Committee. Rotary International has been raising funds to combat polio throughout the world. Now that this disease has been virtually eradicated, the next big health care initiative that Rotary has taken on is Alzheimer's.

This walk is the flagship fundraising event of the year for Alzheimer's and we walked in support of my mother-in-law, who is battling this disease.

3 Mistakes When Saving

Here are some of the biggest mistakes people make when trying to save money.

1. They stop spending — If you think stopping spending is the best way to save, you're only partially correct. *Limit* your spending — don't just stop it outright.

2. They buy cheap — Buying the cheaper brand of certain items may seem like a way to save some money, but it's almost always a bad idea. Over time, you'll eventually have to replace the item after it either breaks or starts functioning improperly, which is why it's smarter to buy quality items the first time — even if they cost more.

3. They make massive life changes — Just like dieting, learning how to save money isn't something that happens overnight. This is why crash diets generally tend to end in failure. The same can be said for those who change their spending habits too drastically. Instead, work toward gradually learning how to save money without disrupting your overall lifestyle.

Looking to save money? Please call if you'd like to discuss this in more detail. ❍❍❍

Financial Thoughts

Retirement income comes from the following sources: 33% from Social Security benefits, 32% from postretirement work earnings, 21% from pensions, 10% from savings and investments, and 4% from other sources (Source: Social Security Administration, 2014).

The average annual premiums for family healthcare coverage increased from $11,480 in 2006 to $18,142 in 2016, a 58% increase (Source: *Money*, April 2017).

Approximately 800,000 Americans lose their spouses each year, and 700,000 of those are women (Source: U.S. Census Bureau, 2017).

In 2017, the average pay raise is expected to be 3%. However, top-rated employees typically receive increases that are 77% larger than average workers (Source: *Money*, March 2017).

About half of college students from families earning more than $106,000 per year pay part of their college costs through work or loans. However, working more than 15 hours per week during the school year increases the chances of dropping out of college (Source: *Money*, March 2017). ❍❍❍