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MOLDENHAUER & ASSOCIATES

MAYNEWSLETTER

Editor: Richard C. Moldenhauer, CLU, CEP, RFC *Chartered Financial Consultant*

Yes, it has been a challenging year. For reasons beyond rational expectations, the world is in a state of constant stress. As advisors, we are taught to study issues that affect the economy. In a world of 24 hour a day news, hundreds of media outlets, and a volatile globe, things change fast. Too fast in many ways. The American economy is still the world's strongest, but it is continually challenged by the other large economies.

As the genuine experts recommend, diversification, rebalancing and understanding your own risk tolerance is more important than ever.
I always look at estate planning as the great stabilizer. The old saying "You cannot take it with you" is so true.

Being prudent and thinking about the next generation and the world to come is so important. Reviewing testamentary documents, related "powers documents" and owning adequate life insurance can save the day.

When I speak with successful people, very few ever bring up the planning that is important to protect those we love and our society's charitable organizations. Even religious organizations seem to be short sighted. When we are asked for donations, it is always to cover current expenses. There is never enough. Few seem capable of thinking long term.

This ignores tomorrow, and tomorrow will certainly come. When it comes, the world will be harder, more desperate, and there won't be enough.

Plan for those you care for because they certainly will benefit from the help you provide.

As I look back on a long career, I believe, more than ever, that planning is important. Yes, many people believe the future will take care of itself. It does not. Quite the opposite happens. If you don't plan, someone else will and that never benefits you.

The fundamental question is: "Does the government spend the dollars you pay as prudently as you would?" A little more time spent on what is truly important would go a long way in this world.

As I close this brief article, Kathy and I are enjoying our life and family in South Carolina. Soon, we'll be back in WNY to visit and get our home ready for the summer. I hope we get a chance to see many of our friends and clients over the coming months.

Richard Moldenhauer

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WHY HAVING A FINANCIAL PROFESSIONAL MATTERS

A good professional provides important guidance and insight throughout the years.

What kind of role can a financial professional play for an investor?

The answer: a very important one. While the value of such a relationship is hard to quantify, the intangible benefits may be significant and long lasting.

A good financial professional can help an investor interpret today's financial climate, determine objectives, and assess progress toward those goals. Alone, an investor may be challenged to do any of this effectively. Moreover, an uncounseled investor may make self-defeating decisions.

Some investors never turn to a financial professional. They concede that there might be some value in maintaining such a relationship, but they ultimately decide to go it alone. That may be a mistake.

No investor is infallible.

Investors can feel that way during a great market year, when every decision seems to work out well. In long bull markets, investors risk becoming overconfident. The big-picture narrative of Wall Street can be forgotten, along with the reality that the market has occasional bad years.

This is when irrational exuberance creeps in. A sudden market shock may lead an investor into other irrational behaviors. Perhaps stocks sink rapidly, and an investor realizes (too late) that a portfolio is overweighted in equities. Or, perhaps an investor panics during a correction, selling low only to buy high after the market rebounds.

Often, investors grow impatient and try to time the market. Poor market timing may explain this divergence: according to investment research firm DALBAR, the S&P 500 returned an average of 8.91% annually across the 20 years ending on December 31, 2015, while the average equity investor's portfolio returned just 4.67% per year.[1]

The other risk is that of financial nearsightedness. When an investor flies solo, chasing yield and "making money" too often become the top pursuits. The thinking is short term.

A good financial professional helps a committed investor and retirement saver stay on track.

He or she helps the investor set a course for the long term, based on a defined investment policy and target asset allocations with an eye on major financial goals. The client's best interest is paramount.

As the investor-professional relationship unfolds, the investor begins to notice the intangible ways the professional provides value. Insight and knowledge inform investment selection and portfolio construction. The professional explains the subtleties of investment classes and how potential risk often relates to potential reward. Perhaps most importantly, the professional helps the client get past the "noise" and "buzz" of the financial markets to see what is really important to his or her financial life.

This is the value a financial professional brings to the table. You cannot quantify it in dollar terms, but you can certainly appreciate it over time.

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Citations.

1 - zacksim.com/heres-investors-underperform-market/ [5/22/17]

ARE YOUR BENEFICIARY DESIGNATIONS UP TO DATE?

Who should inherit your IRA or 401(k)? See that they do.

Here's a simple financial question: who is the beneficiary of your IRA?

How about your 401(k) or annuity? You may be saying, "I'm not sure." It is smart to periodically review your beneficiary designations.

Your choices may need to change with the times.

When did you open your first IRA? When did you buy your life insurance policy? Was it back in the Nineties? Are you still living in the same home and working at the same job as you did back then? Have your priorities changed?

While your beneficiary choices may seem obvious and rock-solid when you initially make them, time has a way of altering things. In a stretch of five or ten years, some major changes can occur in your life and may warrant changes in your beneficiary decisions.

In fact, you might want to review them annually. Here's why: companies frequently change custodians when it comes to retirement plans and insurance policies. When a new custodian comes on board, a beneficiary designation can get lost in the paper shuffle. (It has happened.) If you don't have a designated beneficiary on your retirement accounts, those assets may go to the "default" beneficiaries when you pass away, which might throw a wrench into your estate planning. An example: under ERISA, your spouse receives your 401(k) assets if you pass away. Your spouse must waive that privilege in writing for those assets to go to your children instead.[1]

How your choices affect your loved ones.

The beneficiary of your IRA, annuity, 401(k), or life insurance policy may be your spouse, your child, maybe another loved one, or maybe even an institution. Naming a beneficiary helps to keep these assets out of probate when you pass away.

Many people do not realize that beneficiary designations take priority over bequests made in a will or living trust. For example, if you long ago named a son or daughter who is now estranged from you as the beneficiary of your life insurance policy, he or she will receive the death benefit when you die, regardless of what your will states.[2]

You may have even chosen the "smartest financial mind" in your family as your beneficiary, thinking that he or she has the knowledge to carry out your financial wishes in the event of your death. But what if this person passes away before you do? What if you change your mind about the way you want your assets distributed and are unable to communicate your intentions in time? And what if he or she inherits tax problems as a result of receiving your assets?

How your choices affect your estate.

If you are naming your spouse as your beneficiary, the tax consequences are less thorny. Assets you inherit from your spouse aren't subject to estate tax, as long as you are a U.S. citizen.[3]

When the beneficiary isn't your spouse, things get a little more complicated – for your estate and for your beneficiary's estate. If you name, for example, your son or your sister as the beneficiary of your retirement plan assets, the amount of those assets will be included in the value of your taxable estate. (This might mean a higher estate tax bill for your heirs.) And the problem will persist: when your non-spouse beneficiary inherits those retirement plan assets, those assets become part of their taxable estate, and their heirs might face higher estate taxes. Your non-spouse heir might also have to take required income distributions from that retirement plan someday and pay the required taxes on that income.[4]

If you properly designate a charity or other 501(c)(3) non-profit organization as a beneficiary of your retirement account assets, the assets can pass to the charity without your estate being taxed, and the gift will be deductible for estate tax purposes.[5]

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Citations.

1 - forbes.com/sites/ashleaebeling/2018/01/08/five-retirement-housekeeping-moves-for-the-new-year/ [1/8/18]

2 - thebalance.com/why-beneficiary-designations-override-your-will-2388824 [8/28/17]

3 - nolo.com/legal-encyclopedia/estate-planning-when-you-re-married-noncitizen.html [2/4/18]

4 - corporate.findlaw.com/law-library/who-should-be-the-beneficiary-of-your-qualified-retirement-plan.html [2/4/18]

5 - ameriprise.com/research-market-insights/financial-articles/insurance-estate-planning/charitable-giving/ [2/4/18]

UPCOMING EVENTS:

Our June seminars are at:

Terry Hills Golf Course & Banquet Facility

Tuesday, June 12, 2018 at 6 p.m.
5122 Clinton Street Road
Batavia, NY 14020

Ilio DiPaolo's Restaurant

Thursday, June 14, 2018 at 6 p.m.
3785 South Park Avenue
Blasdell, NY 14219

We encourage clients who live in the area to introduce potential clients to our firm by bringing a friend to one of our seminars. These are informational and educational events. We are not there to convince people that we are the only firm to consider. Rather, we believe our firm offers a quality opportunity for people looking for a new advisor. Please attend a seminar in your neighborhood with a friend.

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