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MOLDENHAUER & ASSOCIATES

MAYNEWSLETTER

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MAJOR RISKS TO FAMILY WEALTH P.2

HOW MARKET CYCLES CAN IMPACT RETIREMENTS P.3

So much is going on in the world, we all need to pay attention. As an advisory firm, we are working hard to keep our clients informed and moving in the best direction with their planning. With the pandemic waning, activity at the office is returning to pre-pandemic levels. The staff enjoys seeing clients, old and new.

Our advice to our clients is simple. Stay prudent, think long-term, and follow solid investment practices. Establish and keep regular review meetings with your advisor. If you can't get to the office, take advantage of our video conference capabilities to stay current. Our principal mission is to serve our client's financial advisory needs in good and not so good times.

The remodeling on the 2nd floor of the office is now completed and the staff seems pleased. The changes make for a more pleasant and efficient atmosphere for planners, paraplanners and staff. There will be some work done on the exterior entry, as well as landscape in the next couple of months.

We recently hired a new employee. His name is Matthew Hayes. Matt is a graduate of the University of Rochester – Simon Business School where he earned an MBA of Science in Finance and currently holds his series 7, 63, and 65 licenses. Once Matt becomes familiar with our customer service process, it is our hope that he will move into a full-time advisor role.

The Moldenhauer family all got together in Charleston over Easter and it was nice to see everyone for a few days. Kathy and I will be in WNY for part of May, and for most of the summer months.
I have attached a picture of a friend who was swimming by my dock a couple of weeks ago.

Richard Moldenhauer

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MAJOR RISKS TO FAMILY WEALTH

Protect your family assets for future generations.

All too often, family wealth fails to last.

One generation builds a business—or even a fortune— lost in the ensuing decades. Why does it happen, again and again?

Often, families fall prey to serious money blunders, making classic mistakes, or not recognizing changing times.

This article is for informational purposes only and is not a replacement for real-life advice. Make sure to consult legal and tax professionals before modifying your overall estate strategy.

Procrastination.

This is not just a matter of failing to create a strategy but also failing to respond to acknowledged financial weaknesses.

As a hypothetical example, say there is a multimillionaire named Alan. The designated beneficiary of Alan's six-figure savings account is no longer alive. He realizes he should name another beneficiary, but he never gets around to it. His schedule is busy and updating that beneficiary form is inconvenient. Alan forgets about it and moves on with his life.

However, this can cause significant headaches for those left behind. If the account lacks a payable-on-death (POD) beneficiary, those assets may end up subject to probate. Using our example above, Alan's heirs may discover other lingering financial matters that required attention regarding his retirement accounts, real estate holdings, and other investment accounts.[1]

Minimal or absent estate management.

Every year, some multimillionaires die without leaving any instructions for distributing their wealth. These people are not just rock stars and actors but also small business owners and entrepreneurs. According to a recent Caring.com survey, 58% of Americans have no estate preparations in place, not even a will.[2]

Anyone reliant on a will alone may risk handing the destiny of their wealth over to a probate judge. The multimillionaire who has a child with special needs, a family history of Alzheimer's or Parkinson's, or a former spouse or estranged children may need a greater degree of estate management. If they want to endow charities or give grandkids an excellent start in life, the same idea applies. Business ownership calls for coordinated estate management with consideration for business succession.

A finely crafted estate strategy has the potential to perpetuate and enhance family wealth for decades, and perhaps, generations. Without it, heirs may have to deal with probate and a painful opportunity cost—the lost potential for tax-advantaged growth and compounding of those assets.

The lack of a "family office."

Decades ago, the wealthiest American households included offices: a staff of handpicked financial professionals who supervised a family's entire financial life. While traditional "family offices" have disappeared, the concept is as relevant as ever. Today, select wealth management firms emulate this model: in an ongoing relationship distinguished by personal and responsive service, they consult families about investments, provide reports, and assist in decision-making. If your financial picture has become far too complex to address on your own, this could be a wise choice for your family.

Technological flaws.

Hackers can hijack email and social media accounts and send phony messages to banks, brokerages, and financial professionals to authorize asset transfers. Social media can help you build your business, but it can also expose you to identity thieves seeking to steal both digital and tangible assets.

Sometimes a business or family installs a security system that proves problematic—so much so that it's silenced half the time. Unscrupulous people have ways of learning about that, and they may be only one or two degrees separated from you.

No long-term strategy in place.

When a family wants to sustain wealth for decades to come, heirs will want to understand the how and why, and be on the same page. If family communication about wealth tends to be more opaque than transparent, then that communication may adequately explain the mechanics and purpose of the strategy.

No decision-making process.

In some high net worth families, financial decision-making is vertical and top-down. Parents or grandparents may make decisions in private, and it may be years before heirs learn about those decisions or fully understand them. When heirs do become decision-makers, it is usually upon the death of the elders.

Horizontal decision-making can help multiple generations commit to the guidance of family wealth. Financial professionals can help a family make these decisions with an awareness of different communication styles. In-depth conversations are essential; good estate managers recognize that silence does not necessarily mean agreement.

You may attempt to reduce these risks to family wealth (and others) in collaboration with financial and legal professionals. It is never too early to begin.

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Citations

1. SmartCapitalMind.com, February 4, 2022

2. Yahoo.com, January 18, 2022

HOW MARKET CYCLES CAN IMPACT RETIREMENT

Sequence of returns can play a role in your overall portfolio.

A thoughtful retirement strategy may help you pursue your many retirement goals. That strategy must consider many factors, and here are just a few: your income needs, the order of your withdrawals from taxable and tax-advantaged retirement accounts, the income tax implications of those withdrawals, and sequence of return risk.

Just what is the sequence of return risk?

In brief, it is the risk that market declines in the early years of retirement, combined with steady withdrawals, could reduce your portfolio's outlook.

A recent CNBC article mentioned how sequence of return risk can affect retirement accounts. It used a 20-year example – someone retiring in 2000 with $1 million in an account tracking the returns of the S&P 500, making withdrawals of $40,000 a year that increased 2% annually in view of inflation.

In 2000, a bear market began. The 37% pullback for the S&P 500 that occurred in 2000-02 would have reduced the $1 million account to about $470,000 by January 1, 2020, the end of the 20-year period. The balance reflects the annual withdrawals of $40,000 and the 2009-20 bull market.[1]

Now, if the order of yearly returns were flipped, the portfolio would show much different performance. At the end of the 20-year period, the retiree would have had more than $2.3 million in that account after the exact same schedule of income distributions.[1]

It's critical to point out that investing involves risk,

and past performance does not guarantee future results. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

The S&P 500 Composite Index is an unmanaged index that is considered representative of the overall U.S. stock market. Individuals cannot invest directly in an index, and index performance is not indicative of the past performance of a particular investment.

In retirement, it is vital to address risk and volatility.

You have less time and may have fewer opportunities to rebuild your savings. Fortunately, there are ways to address the challenge of sequence of return risk and manage your portfolio risk while looking for opportunities.

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1. CNBC, January 21, 2022

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