THE
JENTNER REPORT
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Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

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COMPLEX STOCK MARKET IS STILL THE BEST INFLATION FIGHTER

Market volatility continues as news headlines from Europe and Africa push prices down. Concerned with the return *of* their money more than the return *on* their money, investors consider accepting very low rates on bond investments. Who can blame them?

A big mistake for those funding a lengthy retirement: despite slow economic growth, inflation remains a silent threat for those with longevity. A low 2% inflation rate poses a problem for fixed-income investors. Those willing to lock in a rate for 10 years on a U.S. Treasury will get 2.8%.[1] Depending on your combined tax rate, this could mean, after taxes, a loss in real purchasing power.

Stocks fluctuate in value – which may be scary at times – but historically beat inflation. Since World War II diversified investors have enjoyed stock returns of four to five percentage points above inflation, and forecasters say diversified stock investors still should be able to earn two to three percentage points above inflation.

Waiting for those returns can be painful. But investors who frequently buy and sell make timing mistakes, ending up with much lower returns than if they had stayed steadily invested.[2]

Do not let short-term, daily fluctuations of stock and bond values derail you. Be smart. Work with a qualified investment professional to design a risk-appropriate, diversified portfolio you can live with no matter what the daily headlines might be.

Is there a "free lunch" waiting in inefficient stock markets?

Are there areas of the stock market where stock prices are not efficient and skillful investors can scope out overlooked bargains? That argument is commonly used to justify active stock selection among small stocks and emerging market stocks.

Your information on a particular stock for big U.S. and overseas developed markets is already factored into its price. Thus an investor does well to use an indexed mutual fund for large U.S., European, and Asian stocks.

But many claim that smaller markets – small company stocks or stocks of emerging markets like Brazil, Poland, and India – are inefficiently priced. However, two small-stock investment academics, Eugene Fama of the University of Chicago and Kenneth French of Dartmouth College, say there is no evidence to support this view.

One argument runs, if few people pay attention to small stocks, how could prices possibly be accurate? French says that this argument is out of date today, when "hundreds of billions of dollars" are spent by investors each year looking for pricing errors.

1. The Wall Street Journal, Treasury Yield Hits Two-Year High, Thursday, August 15, 2013, by Min Zeng
2. MoneyNews, Dalbar's Harvey: Individual Investors Brilliant at Mistiming Markets, Monday, March 11, 2013, by Dan Weil

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The President's Word

Are Safe Havens Safe?

Trying to find "safe havens" for your money can cost you. Some investors do what worried investors always do in times of stress – try to avoid risk by buying the "safest" assets. For some, that has meant buying government bonds from the U.S., Germany, Australia, and the Netherlands: countries considered "safe havens." This panic buying has pushed yields very low.

Is this rational? No. Investors seem to be guaranteeing themselves a negative real return after inflation. The only way to make money on such an investment would be to live through a depression with accompanying massive deflation.

Many investors ignore the market's mechanisms for handling risk. The risks that investors are worried about today – financial troubles in Europe, slow economies in the U.S. and China, government deficit spending – are already priced into the market. Investors have pushed down prices of volatile investments and at the same time pushed down yields on less-volatile government bonds.

The risk premium investors now demand for putting money into a risky asset has increased. Investors are pricing stocks, for instance, at a price that expects higher returns sometime in the future.

Now is a good time to rebalance your stock holdings to a level consistent with your personal risk tolerance. Use some of the rewards you've received by rebalancing over-weighted asset classes and putting the proceeds into under-weighted asset classes. That way, if the stock market increases, you reap additional rewards. If it declines, you mitigate your losses. Either way, you position yourself for a long-term, successful investment experience.

Bruce A. Jentner, President
Jentner Wealth Management

"inflation fighter"

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Another argument is that stocks in emerging markets are ripe for picking because their investors are just not as sharp as the rest of us. But according to Fama, that argument is flawed: "People are bright and highly motivated in markets around the world," making those markets efficient, too. Be cautious of active stock picking.

Visit jentner.com to learn the merits of passively-engineered investing.

Learn These Lessons from the Marketplace

Every day, the financial, business and political news reports provide lessons that investors can take away and use.

Public Pension Fund Lessons

Take a look at public pension fund travails; you will see that risk and fees do matter. Some public pension plans have become aggressive, pressured by falling tax revenues and rising retirement costs. Certain funds for state and local employees have sought higher risk investments in order to boost returns and make up for funding shortfalls. They began putting assets into hedge funds, direct real estate investments, and private equity arrangements.

Hedge funds are investment pools with no constraints on their strategies: they can short stocks, speculate in currencies, and engage in other risky pursuits. Private equity funds allow large investors to take direct ownership stakes in private businesses, rather than buying publicly traded stock.

Other pension funds have stuck to a traditional diversified stock and bond mix, with better results.

The New York Times recently reported that ***Pennsylvania State Employees' Retirement System*** has almost half its assets in private equity, real estate, and other high-risk alternative investments. The pension fund had average returns of only 3.6 % over the past five years and paid $1.35 billion in management fees.

Meanwhile, ***Georgia Municipal Retirement System*** is prohibited by law from using such investments. It invested in a standard diversified mix of stocks and bonds and earned a 5.3 % annualized return for the same period while paying only $54 million in fees.

The London-based alternative-investment research firm Preqin found pension funds with over one-third of their money in high-risk alternative investments earned an average one percentage point less than pension funds that avoided such investments – and paid an average of four times more in fees.

Returns on alternative investments don't justify higher fees. Avoid expensive, non-transparent investments with hard-to-understand "secret sauce" strategies. If you don't understand it, stay away from it. Invest in transparent investments that make sense to you.

Lessons from Detroit's Bankruptcy

In 1948, Secretary of Commerce Charles Sawyer said Detroit's automobile industry symbolized how "the American economy could best provide the average American with a steadily increasing abundance of the things he wants and needs." Unfortunately, Detroit now has filed for bankruptcy. The Motley Fool[1] noted all this, with a recommendation we'd all do well to heed: "Things change unexpectedly, and often for the worse. Diversification is [one of] the best way[s] to mitigate that risk."

According to ***The Motley Fool***, the fall of Detroit can teach investors three important lessons:

- ***First,*** organizations that can't adapt eventually crumble. Detroit enjoyed the auto boom but never found its second act.
- ***Second,*** Detroit provides a sad but important lesson in the need to save for one's self. Thousands of retired Detroit public workers wait for word on cuts to their pension benefits. Their story is not unique. Ninety-seven percent of S&P 500 companies with pension plans are underfunded. "By any measure, nearly all state and local pension plans are underfunded."[2] The hard lesson is that you can only rely on yourself to save for retirement and look after your investments.
- ***Third,*** Detroit was overwhelmingly reliant on one industry. The same mistake often trips up investors. Lack of diversification can be one of the surest routes to disappointment. One study showed that the least diversified investors underperform the most diverse investors by an average 2.4% annually.[3] Avoid concentrating your investments, no matter how good they seem.

1. Failure of an American City: Investing Lessons From Detroit's Bankruptcy by Morgan Housel, Contributor, The Motley Fool, July 24, 2013
2. The Congressional Budget Office, 2011
3. William Goetzmann of Yale and Alok Kumar of the University of Texas

Update Beneficiary Designations

We all have "to-do" lists. Maybe it includes cleaning out your garage, or remodeling the bathroom. Yes, you'll get these things done ... eventually. But have you kept your retirement plan and life insurance beneficiary designations up-to-date? Making these updates may not have the immediate gratification of revamping your bathroom or tidying your garage, but the consequences of having outdated beneficiaries could be outright devastating.

When you purchased your life insurance and set up your retirement plan and IRA accounts, you were asked each time to designate a beneficiary. You may not have looked at it since. You should. Life-changing events like marriage, divorce, birth or adoption could easily outdate and nullify such earlier beneficiary designations.

A recent Supreme Court decision shed some light on the importance of current beneficiary designations. Through a divorce decree the wife waived her rights to benefits under her former husband's employer-sponsored retirement plan. This agreement was documented in divorce proceedings, yet the beneficiary designation form was never changed with the husband's employer. Because the plan required that all beneficiary designations be documented on the beneficiary form, the Court ruled the plan pay the ex-wife $400,000 rather than to the decedent's estate.

Carefully review and update each plan's beneficiary designation. Designate a secondary beneficiary where applicable. Seek help from your trusted financial advisor to make sure all your designations are consistent with your family and tax-planning intentions.

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Jentner Wealth Management Expands Offices

As you know (many of you were here for our May open house) Jentner Wealth Management has expanded and relocated to spacious new offices at 3677 Embassy Parkway in Bath. This is another exciting development in our growth since our founding in 1984.

This strategic expansion fits our plan for the future. It has been our dream to have a larger space where we could host social and educational events. Our new place includes a 1,500-sq-ft area for Jentner Wealth's "Center for Financial Excellence," for hosting seminars, workshops, networking and more, including catered events.

These new offices reflect an important aspect of our business – intangibles such as trust and lasting relationships. Being able to host events, to bring clients together, to showcase our clients' interests – these are what make Jentner Wealth Management different. This space also allows us to plan for the future, as we carefully and selectively hire support staff and investment professionals. Building for the future is more than moving into a new building! Controlled growth and the ability to leverage our talent with technology are vital. Jentner Wealth Management has evolved in ways we could not have imagined at the founding.

Managing money on six continents provides safety for our clients through global diversification and a long-term view. While we have clients from Maine to California, in Europe and Israel, and institutional clients such as foundations and endowments, our local personal relationships are the soul of our business, as we help to build wealth in Northeast Ohio.

Come and see us!

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"Strategic financial planning helps you achieve personal and objective goals by asking smarter questions, listening more carefully and applying sound financial and investment strategies. It is not something different or new; it's simply planning the right way."