FALL 2018

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

Are Market Predictions Reliable?

All of us want to know the future. That is why the financial media publishes so many opinions from so many so-called market gurus. Market predictions grab our attention because we would like to know what the future holds. Are there any market gurus we can trust?

First, let's look at what historical evidence tells us about long-term investment returns:

1. Market predictions aren't just lousy; they are less accurate than random guesses.
2. Historically, it has been a bigger risk to be out of the market during unexpected advances than to be in the market during unexpected temporary declines.
3. Concentrated portfolios occasionally hit home runs. Unfortunately, more often than not, concentrated portfolios underperform broad market index returns over the long term.
4. People want to "buy low and sell high," but emotions can make us so uncomfortable during market declines (or greedy during market advances) that many override their logical and long-term investment plan, which results in "buying high and selling low." This leads to disappointing long-term returns.

Historical evidence supports the prudence of broadly diversifying one's portfolio, investing with the long-term in mind, and avoiding short-term speculation.

Second, let's look at what can be said about the market based on historical research and trends:

1. Even though the U.S stock market has historically provided real returns above inflation, it typically earns somewhere between -22% and +35% in any given year. Sometimes, its annual return is even lower or higher.
2. International stocks have typically earned between -27% and +43% annually. Again, the annual return can occasionally be higher or lower. Even though historical long-term returns of international stocks have been slightly higher than U.S. stocks, the level of volatility in international stocks has also been higher than U.S. stocks.
3. Bonds have historically been less volatile than stocks. However, historical long-term returns for bonds have been approximately half that of stocks.
4. Cash has been less volatile than either stocks or bonds. But, the real return of cash has historically been next to zero or even negative after considering the impact of inflation.

(continue on page 2)

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Now and Then by Dave Goetsch

"I haven't changed because the stock market rebounded. I changed because I learned that there was a different way to think about investing."

Dave Goetsch, executive producer of The Big Bang Theory, reflected on his investment experience during 2018's market volatility and contrasted his current perspective with his memories of the 2008-2009 financial crisis. He now embraces a long-term approach with his investment portfolio and noted how that has radically changed the way he navigates the inevitable uncertainty of the market. In his own words:

"In February 2009, the stock market was down around 50% from its high, and everyone seemed to feel like the sky was falling. I was familiar with this state of panic because my relationship to the financial markets was that I didn't trust them.

They were always going up and down in ways no one could predict, and I couldn't trust those folks who said that they could anticipate what was going to happen. So when the market went down, I went down with it—sinking into a depression, knowing there was nothing I could do.

What a difference nine years make. I haven't changed because the stock market rebounded. I changed because I learned that there was a different way to think about investing. I was right not to trust those people who thought they could predict what was going to happen in the markets, but I was wrong in thinking that there was nothing to do. I've learned that I can have a great investment experience if I just accept a few simple truths.

I have to understand the uncertainty of the market. The stock market, as measured by the S&P 500 Index, has returned about 10% per year over the last 90 years, but there are very few individual years in which it has ever actually returned that amount. In fact, how many of those 90 years do you think the S&P 500 was up more than 20% or down more than 20% for that year? The answer is 40. Astounding, right? I wish somebody had explained that to me decades ago. Then I would have known to look at stock-market returns in terms of decades—not years, months, days, or hours. I would understand that so many of those articles and cable news pieces are just noise, designed to keep an audience obsessed and unsettled.

I haven't changed because the stock market rebounded. I changed because I learned that there was a different way to think about investing.

In order to be a long-term investor, you have to have a long time horizon. This can be hard to remember when you're being assaulted by noise, but if you can stay strong, the results are stunning. By results, I don't mean the investment returns, which hopefully are good. The return I'm talking about is how I feel every day. I worry less—not just about the future but also about the present. Of course, I know that there are no guarantees when it comes to investing, but I feel like I'm going to be okay. I have a plan.

There's no way I could've done this without a financial advisor. I needed someone who could not just talk me through what my asset allocation should be but also help me work through how I felt about investing and what exactly I could do to change my perspective.

I was a mess nine years ago. Now, my outlook is totally different. The markets haven't changed; they still go up and down. The difference is I don't anymore."

Are Market Predictions Reliable?

(continued from page 1)

In short, the short-term returns of stocks may swing wildly, but the long-term returns of investing in stocks have been significantly greater than bonds and cash. As such, it is financially prudent to invest at least a portion of your portfolio in stocks and to ignore the inevitable fluctuations.

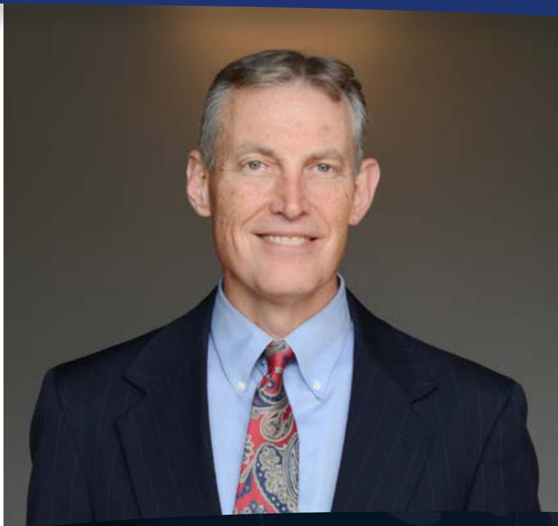
In Allan Roth's *Warning Signs of Market-Forecasting Gurus*, he suggests you ask the following questions to help determine if a market prognosticator should be trusted:

1. Do they come across very sure of themselves?
2. Do they give numbers and dates but not both at the same time?
3. Do they brag about their winners but don't mention losers?
4. Do they appeal to your emotions?
5. Do they forecast the past, claiming they knew the outcomes?
6. Do they claim they are beating the market but provide no evidence?
7. Do they call themselves "contrarians"?

Investing in the market is a way to potentially earn real returns above the rate of inflation. However, there is a range of possible outcomes. Certainty does not exist. No one knows the future. That is why we use global diversification, investing in stocks and bonds, as a cornerstone in all of our clients' portfolios.

THE PRESIDENT'S WORD

When Should You Begin Managing Your Aging Parents' Finances?



Bruce Jentner, CFP®, President

Over the years, we have observed two goals of virtually every client:

1. They want to maintain personal independence.
2. They want to maintain personal control.

As a result, it is difficult to know when to begin assisting aging parents with their financial affairs. Even if there are practical reasons to offer assistance, the offer will likely be met with emotional resistance. Aging parents may become defensive, suspicious, or even confused.

It can be difficult for seniors to keep up with advances in financial technology and misleading advertisements, let alone the well-designed schemes of scam artists. On top of that, cognitive decline is a normal part of aging.

Honest discussions well in advance of actual need can help both generations handle this issue better. It may be wise for the senior generation to proactively raise the topic with their children, rather than waiting for children to bring up the topic with their parents.

There are a number of tools available to help. A durable power of attorney can enable aging parents to retain control over their finances while also empowering the person of their choice to assist if and when necessary. This avoids having to go to court to obtain guardianship over a parent, which can be cumbersome and expensive. Court proceedings are also public record, but a durable power of attorney can allow for privacy. For some families, a funded living trust may provide significant advantages. A successor trustee is named to oversee and manage the assets and financial affairs if a parent (who can be the initial trustee of the trust) cannot. A parent can use the trust to outline his or her preferences while also maintaining privacy from court records.

Engaging reliable, trusted family members sooner than later is an excellent way to help the family learn about the important aspects of their aging parents' financial affairs. This can also give parents the peace of mind that their affairs will be handled appropriately if they need assistance in the future.

Here are some topics that should be discussed:

- What sources of income does the parent have?
- What financial institutions does the parent use? What are the account numbers?
- What reoccurring bills need to be paid?
- What kind of medical insurance does the parent have?
- Who are the parent's professional advisors, such as physicians, accountants, attorneys, and financial advisors?
- How does the parent want his or her estate handled after passing?

Because most of us want to maintain independence and control of our lives, it is natural for aging parents to delay these conversations. Children may need to look for evidence that assistance is needed.

- Do they have difficulty with daily activities such as personal hygiene or food preparation?
- Is their residence messier than usual?
- Do they have difficulty driving their car?
- Are they uncharacteristically forgetful?
- Do they have unpaid bills?
- Are financial statements missing? Are there unfamiliar names on their financial accounts?

If they exhibit any of these early warning signs, they may also be struggling with financial matters. Senior financial abuse is widespread; however, a large majority of elder financial abuse goes unreported. Early discussions, along with early detection, can make the transition to receiving assistance from trusted family members much easier and safer.

The assistance of an experienced attorney is invaluable. They can offer not only important legal advice and perspective but can also develop the appropriate legal tools to help ensure the senior's needs and wishes are met.

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Tax Scams and Identity Theft

If you get a random email from the IRS concerning a tax refund, delete it. The IRS warns it's a scam. The email tricks people into opening a link by saying incorrect information was detected on their tax-refund account. The link goes to a fake page where scammers try to steal personal information. Remember, the IRS doesn't randomly contact taxpayers by phone or email. Most official agency correspondence is first initiated through regular snail mail.

According to the Service, every year crooks use stolen Social Security numbers to claim billions of dollars in fraudulent refunds. And that's not counting the phony refunds the IRS blocks.

What should you do if the IRS rejects your e-filed return and says you've already filed? You may be a victim of tax identity theft.

You have two options to report the problem to the IRS. The first is to complete a paper IRS Form 14039, Identity Theft Affidavit, attach it to your return, and send it in via U.S. mail. Or you can submit the 14039 online at www.identitytheft.gov, a website maintained by the Federal Trade Commission. You will still need to submit your tax return and any taxes owed via U.S. mail.

To help prevent tax identity theft, we recommend you put fraud alerts on your credit records and routinely check your financial accounts.

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