SUMMER 2018

# THE JENTNER REPORT

**Wealth Management Strategies from Jentner Wealth Management**

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# Take Advantage of Improving Financial Opportunities

*Do improving financial opportunities negate the need to start saving early for retirement?*

An amazing thing is happening across the globe. In spite of human population of more than seven billion, opportunities continue to improve for more people. Life expectancies are rising, daily food supplies are increasing, literacy is improving, and the economic pie is growing.

For tens of thousands of years, humans existed at bare subsistence, on the annual equivalent of $400-$500 per person when equated to 1990 dollars. But with the Industrial Revolution and the availability of electricity, per capita income increased to $1,500 in 1913 and to $10,700 in 2010 (also in 1990 dollars). This kind of economic growth is a relatively new phenomenon in human history.

In spite of these improvements, there is more work to be done. Deprivation has not been eradicated. Food shortages still exist. People still reach retirement with inadequate financial resources.

At one time, reaching retirement with $1 million was considered great. But as the saying goes, $1 million is not what it used to be. Inflation increases the cost of living each year, requiring more money just to maintain a similar standard of living.

Here is a millionaire math quiz: Which savings strategy will get you to $1 million by age 65, assuming a 7% annualized return?

A. Save $300 per month starting at age 20

B. Save $500 per month starting at age 30

C. Save $1,000 per month starting at age 40

D. Save $3,000 per month starting at age 50

The only strategy above that meets the mark is A. The longer you wait to begin saving for retirement, the more it takes—dramatically more—to reach your retirement savings goal.

Investing money for retirement is a habit that must begin as early as possible. Parents, teach your children to save something out of every paycheck toward retirement. Employers, set up automatic 401(k) enrollment to encourage employee participation. IRAs and 401(k)s can provide significant improvements over many pension plans … but only if you take advantage of them.

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JENTNER WEALTH MANAGEMENT

## THE PRESIDENT'S WORD

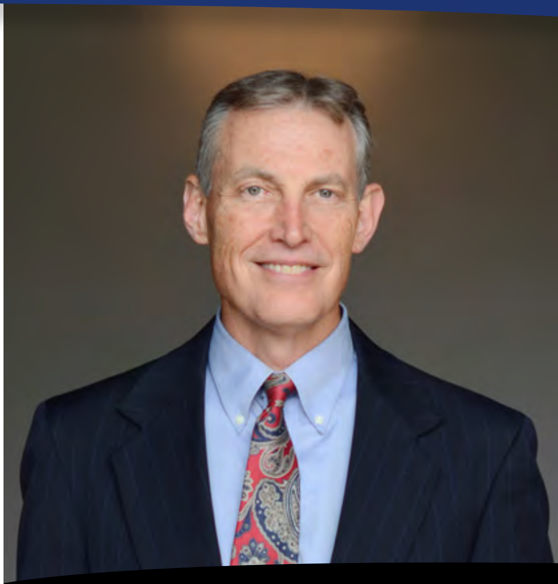
# Responding to Market Volatility

In recent days, the increase in stock-market volatility has resulted in renewed anxiety for many investors. While it may be difficult to remain calm during a market decline, it is important to remember that volatility is a normal part of investing. For long-term investors, reacting emotionally to volatile markets may be more detrimental to portfolio performance than the temporary downturn itself.

Does it help or hinder long-term performance to attempt to time the market to avoid potential losses associated with periods of increased volatility? Let's consider this question from a purely logical, non-emotional point of view.

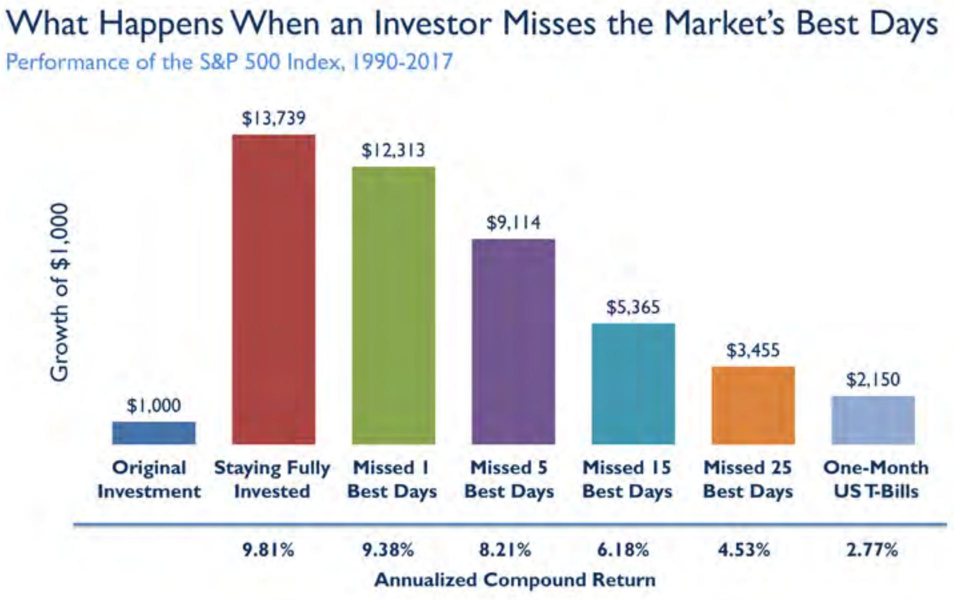
A substantial proportion of the total return of stocks over long periods comes from just a handful of days. Because investors are unlikely to identify in advance which days will have strong returns and which will not, the prudent course is to remain invested during periods of volatility rather than jump in and out of stocks. Otherwise, an investor runs the risk of being on the sidelines on days when returns happen to be strongly positive.

To illustrate this, look at the impact of missing out on just a few days of strong returns. The bars represent the hypothetical growth of $1,000 from 1990 to 2017 and show what happened if you missed the best single day during the period and what happened if you missed a handful of the best days. The data show that being on the sidelines for only a few of the best days in the market over this 28-year period would have resulted in substantially lower returns than staying invested throughout the total period.



*Bruce Jentner, CFP®, President*

While market volatility can be nerve-racking for investors, reacting emotionally and changing long-term investment strategies in response to short-term declines historically has proven more harmful than helpful. By adhering to a well-thought-out investment plan, investors may be better able to remain calm during periods of short-term uncertainty and capitalize on potential long-term investment returns.




Our recommendation is for investors to consider investing in a globally diversified portfolio comprised of stocks, bonds, and cash to avoid placing all their eggs in one basket. A diversified portfolio that is aligned with an investor's risk tolerance is designed to improve one's comfort level, enabling an investor to remain fully invested throughout the inevitable market fluctuations, improving the probability of earning long-term competitive returns.

Some people may not be investors and therefore may not be candidates to invest in the stock and bond markets. But for people who want to be long-term investors, we believe this approach is vital for achieving their goals over the long term.

# When Interest Rates Go Up, Do Stocks Go Down?

*Is there a relationship between interest-rate changes and stock returns?*

Research shows that, much like stock prices, changes in interest rates and bond prices are largely unpredictable. It follows that an investment strategy based on interest-rate predictions isn't likely to be a fruitful endeavor. Despite the unpredictable nature of interest-rate changes, investors may still be curious about what might happen to stocks if interest rates go up. Should stock investors worry about changes in interest rates?

Unlike bond prices, which tend to go down when yields go up, stock prices might rise or fall with changes in interest rates. For stocks, it can go either way because a stock's price depends on both anticipated, future cash flows to investors and the discount rate applied to those expected cash flows. A discount rate is the expected return investors demand for holding a stock, also known as the required rate of return. When interest rates rise, the discount rate may increase, which in turn could cause the price of the stock to fall. However, it is also possible that when interest rates change, expected future cash flows from holding a given stock could improve.

Since theory doesn't tell us what the overall effect should be, the next question is, what does the data say?

### *Recent Research*

Recent research performed by Dimensional Fund Advisors helps provide insight into this question. The research examines the correlation between monthly U.S. stock returns and changes in interest rates. While there is a lot of noise in stock returns and no clear pattern, not much of that variation appears to be related to changes in the effective federal-funds rate.

For example, in months when the federal-funds rate rose, stock returns were as low as -15.56% and as high as 14.27%. In months when rates fell, returns ranged from -22.41% to 16.52%. Given that there are many other interest rates besides just the federal-funds rate, the research also examined longer-term interest rates and found similar results.

### *Rates Up, So Stocks Down?*

To address the initial question: when rates go up, do stock prices go down? The answer is yes, but only about 40% of the time. In the remaining 60% of months, stock returns were positive. This split between positive and negative returns was about the same as when examining all months, not just those in which rates went up. In other words, there is not a clear link between stock returns and interest-rate changes.

There's no evidence that investors can reliably predict changes in interest rates. Even if they could, this knowledge would provide little guidance about subsequent stock-market returns. Instead, staying fully invested and avoiding the temptation to make changes based on short-term predictions should increase the likelihood of capturing the long-term returns of the market.

*Daniel J. Bloom, CFP®, NSSA®*
*Director of Financial Planning*

## Is This the Last Generation to Use 401(k)s?

The 401(k) retirement savings account has become a preferred retirement plan offered by many employers over the last 30 years. But some retirement-planning experts predict that 401(k)s will be overtaken by a new form of retirement savings in the future.

The reason is simple: 401(k)s don't help employees who lack the ability or the commitment to save for retirement. They also put each saver at individual risk with their personal investment selections, without the ability to pool risks with other employees.

Remember pensions? Traditional pension plans were a hit for many employees because they didn't have to sacrifice current earnings to contribute to their pensions. The investment risk was borne by everyone in the pension so individual employees were not subject to the risks of their own investment selections.

Alternatively, each 401(k) participant is on his or her own when it comes to investment risk, and each employee must save enough money to fund their own retirement. Some feel this is a daunting task.

If your employer offers you the opportunity to participate in a 401(k) plan, take it! At minimum, invest enough of your income to take full advantage of any and all employer-matching contributions. If possible, deposit at least 10% of your income through payroll deduction.

Work with a qualified investment advisor who can help you take advantage of this type of retirement plan. When used wisely, employees are able to earn potentially higher retirement benefits than with a traditional pension plan. Remember, a 401(k) retirement plan may not be available to you in the future. The earlier you start participating, generally the better your results will be.

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# The Importance of Financial Literacy

The median income in the United States is about $54,000. The median salary for an NFL player is roughly $860,000. For 2017, the NFL rookie minimum salary was $465,000. Unfortunately, a higher income doesn't come with better money-management skills. An estimated 78% of NFL players are bankrupt or in financial stress within two years of leaving the game.

Financial literacy is important but is not common. It's easy to think money will take care of itself, but it doesn't.

Recent financial data indicate that many Americans are not financially literate.

1. 25% of Americans do not have a single dollar saved to cover an unexpected emergency. About 60% of Americans do not have enough money to cover an unexpected $500 expense.
2. More Americans are concerned with having enough money for vacations than for retirement. This may explain why more than half of all Americans are not able to retire comfortably.
3. Americans have more than $1 trillion in credit-card debt, another $1 trillion in car loans, and another $1 trillion in student loans. Too often, paychecks are spent before they are earned.

Good financial stewardship is like diet and exercise: You cannot delegate it. Each person must decide to eat healthy and to exercise regularly. Similarly, each person must decide to get a good education to get a good job, to invest something out of every paycheck, to live within their means, and to use debt cautiously. In other words, each of us must learn to value education, work, and good financial stewardship.

As parents and grandparents, we must demonstrate to our children and grandchildren the value of living within our means, avoiding too much debt, and investing something out of every paycheck toward retirement. We must encourage our children and grandchildren to pursue an education to attain meaningful employment because we know that financial literacy and financial discipline are prerequisites to financial independence.

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