WINTER 2019

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

Good Money Skills Are More Important Than Money

70% of family wealth is lost by the second generation. 90% of family wealth is gone within three generations. According to a U.S. Trust survey, 78% of people with more than $3 million in investments believe the next generation is not financially responsible enough to handle their inheritance. 64% admit they have disclosed little to nothing about their wealth to their children.

A majority of people find it difficult to talk to their children about money. Many children and young adults have not learned the basic principles of financial stewardship from their parents or from school. Studies show that the average recipient of an inheritance buys a new car within 19 days!

Even though the broad statistics may not be good, your family does not need to fall prey to these averages. Yes, we all know we must encourage our children and grandchildren to work for an income, but there is more to it than that. Learning how to prioritize spending, put money aside for emergencies, invest money for the future, and be generous does not happen by accident.

We recommend talking to children about smart money lessons you have learned. Describe the importance of living within your means and paying all your bills and credit-card balances each month.

One tool is to lay out a financial roadmap in terms of spending, saving, investing, and giving. This can include outlining what portion your children are expected to pay for their sports activities, automobile privileges such as gas and insurance, and college expenses (considering academic scholarships and their earnings).

Another idea is to discuss your estate plan with your adult children. Many parents find it valuable to explain their inheritance plans to their children to prevent false expectations and future resentment. If you have included charitable bequests in your estate, it may be a good idea for your heirs to understand this in advance to avoid surprises and to mitigate will contests.

Transferring wealth to children and grandchildren is successful when wisdom has also been transferred to them. Without wisdom, wealth will likely not only be wasted, but it may hurt recipients who may be lazy, struggle with addiction, or lack self-control.

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JENTNER WEALTH MANAGEMENT

THE PRESIDENT'S WORD

John Bogle Leaves a Legacy at Jentner Wealth Management

John "Jack" Bogle passed away on January 16, 2019. He was an American investor, business innovator, and philanthropist and was the founder and chief executive of The Vanguard Group.

John Bogle will be remembered by many within the investment community and within America. He will be remembered by Jentner Wealth Management for his role in helping to formulate the investment philosophy we employ on behalf of our clients.

In the early 1970s, John Bogle concluded that investors would be well served by investing in a low-cost index mutual fund rather than in the relatively expensive, actively managed mutual funds recommended by traditional Wall Street brokers. He observed too many well-meaning, professional investment managers underperformed the market in their attempts to beat it. By keeping cost low and by avoiding active security selection and market timing, he believed investors could earn better long-term returns if they were willing to stay the course and be patient through the ups and downs of the stock market.

He decided to go to market in 1976 with an S&P 500 index fund, the first of its kind. The initial public offering hoped to raise $150 million. Wall Street professionals ridiculed him, and when only $11 million dollars were raised by the end of the day, these professional money managers called it Bogle's folly. The underwriters recommended returning the money to investors and closing the fund. But Bogle persisted, kept the small fund open, and continued to advocate the advantages of low-cost index investing.

In order to offer financial-planning advice without the inherent conflict of interest from earning commissions by selling investment or insurance products, The Jentner Corporation was founded in 1984. Our focus was, and still is, to place the clients' interest first.

Several years later, I was approached by a friend who asked me if an index fund would be a good investment. Based on my traditional Wall Street training, I responded, "What is the point? Why wouldn't an investor want to at least try to beat the market?" However, by the mid-1990s, our firm began asking the same question. Despite our efforts to research the track records of investment and mutual-fund managers to recommend those with superior track records to our clients, we found too many of them were not able to maintain their superior performance. We had to find a better way.

Marty Weisberg, who had recently joined our firm, recommended we avoid security selection and market timing based on market predictions. We began to explore index and asset-class investing. This was a huge departure from the traditional investment approach used by the majority of financial advisors.

Our research led us to Vanguard and Dimensional (DFA) investments as alternatives to active management. Both Vanguard and DFA offered funds with much lower internal management fees and much broader diversification than actively managed funds. In 1998, we adopted a passively engineered investment philosophy long before it became well known.

We believe the legacy left by John Bogle cannot be understated. Over the last 20 years, we have used this approach to successfully navigate our clients' portfolios through the various market fluctuations and challenges. When we began using a passively engineered approach to investing, less than 10% of investments were in index funds. Today, that number has grown to more than 30%.

The financial media has gradually increased its coverage of index investing. More and more companies now offer index mutual funds and exchange-traded funds. Even though Wall Street continues to criticize index funds, more and more people are learning about their advantages.

I used to wonder what will happen when everybody uses index funds instead of actively managed funds. Now, I am of the opinion that will likely never happen. Too many people are unwilling to accept the evidence of long-term investment returns. Too many people believe if they (or someone they hire) does enough research, they can determine when to be in the market and when to be out. They believe that with enough research, they can determine which companies will be the winners and which companies will be the losers.

We applaud them for trying. This is what keeps investment markets viable and efficient. Every day, millions of investors "vote" with their money, choosing what to buy and what to sell. And investors who avoid short-term reactions by following a disciplined, long-term investment strategy have historically fared well. Today, we have factor-based funds that don't simply mimic an index but quietly invest with even broader diversification based on factors that historically have tended to provide superior long-term returns without predicting when to be in or when to be out of the markets.

We are grateful for the innovation and persistence of John Bogle. His leadership played an important role in the development and success of Jentner Wealth Management and our clients. We look forward to continuing our strategic relationship with The Vanguard Group. We will continue in his legacy by using long-term investment evidence to employ quiet, low-cost, globally diversified investment portfolios designed to provide our clients with a successful, long-term investment experience.

Tuning Out the Noise

It can be especially difficult to ignore daily market news and commentaries, but a relationship with an experienced investment advisor can help you tune it out and keep you on track.

For investors, it can be easy to feel overwhelmed by the relentless stream of news about investment markets. Being bombarded with data and headlines presented as impactful to your financial well-being can evoke strong emotional responses from even the most experienced investors.

Headlines from the "lost decade," the time period from 1999 to 2009, can help illustrate several periods that may have led market participants to question their approach.

- May 1999: Dow Jones Industrial Average Closes Above 11,000 for the First Time
- March 2000: Nasdaq Stock Exchange Index Reaches an All-Time High of 5,048
- April 2000: In Less Than a Month, Nearly a Trillion Dollars of Stock Value Evaporates
- October 2002: Nasdaq Hits a Bear-Market Low of 1,114
- September 2005: Home Prices Post Record Gains
- September 2008: Lehman Files for Bankruptcy, Merrill Is Sold

While these events are now a decade or more behind us, they still serve as an important reminder for investors today. For many, feelings of elation or despair can accompany headlines like these. We should remember that markets are volatile. Doing nothing in response to the daily financial news may be frightening.

Despite these ups and downs, however, if one had invested $100,000 in U.S. stocks in May 1999 and stayed invested, that investment would be worth approximately $280,000 as of March 2018. When faced with short-term noise, it is easy to lose sight of the potential long-term benefits of staying invested. Adopting a long-term perspective can help change how investors view market volatility. A long-term perspective helps all of us look beyond the headlines.

The Value of a Trusted Advisor

Part of being able to avoid giving in to emotion during periods of uncertainty is having an appropriate and diversified asset allocation that is aligned with your willingness and ability to bear risk. It also helps to remember that if returns were guaranteed, you would not expect to earn much of one. Creating a portfolio you are comfortable with, understanding that uncertainty is a part of investing, and sticking to a plan should ultimately help lead to a better investment experience.

However, as with many aspects of life, we can all benefit from a bit of help in reaching our goals. The best athletes in the world work closely with coaches to increase their odds of winning. Many successful professionals rely on the assistance of a mentor or career coach to help them manage the obstacles that arise during a career. Why? They understand that the wisdom of an experienced professional, combined with the discipline to forge ahead during challenging times can keep them on the right track. The right financial advisor can play this vital role for an investor. A financial advisor can provide the expertise, perspective, and encouragement to keep you focused on your destination when it matters most.

Having a strong relationship with an advisor can help you be better prepared to live your life through the ups and downs of the market. That's the value of discipline, perspective, and remaining calm. That's the difference the right financial advisor makes.

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Can Volatility Predict Returns?

When investing in stocks, understanding the volatility of returns can be an important ingredient to help maintain a disciplined approach. People invest their capital hoping to earn a rate of return above that of just holding cash, and there is ample evidence that capital markets have rewarded disciplined investors, particularly over longer periods of time. Unfortunately, returns can be negative for days, months, and even years.

When volatility spikes, remaining disciplined can be even more challenging as pundits are quick to link volatility to any number of impending "crises" and to predict that short-term returns will be poor. Based on these predications, their advice for investors is often "sell now" to avoid these poor returns. But as Professor Eugene Fama explained "The onset of high volatility should be associated with price declines that increase expected returns going forward (to compensate investors for the higher volatility)."

Do recent stock-market volatility levels provide statistically reliable information about future stock returns? In other words, is there any relation between current volatility and subsequent returns? Research indicates there does not appear to be an economically meaningful difference in average equity returns based on the volatility of the prior month. The results suggest it is unlikely we can learn anything about the current month's equity premium based on last month's volatility. That is, recent volatility does not indicate if future returns will be high or low.

What can we take away from this analysis? Put simply, we can expect volatility when investing in stocks. There is considerable academic evidence that an investment strategy attempting to forecast short-term price movements is unlikely to be successful. Forecasting short-term stock-market performance based on current volatility is no different. We believe that developing an asset allocation to match your desired risk tolerance and investment objectives and staying disciplined and rebalancing in all market environments remains an effective way to pursue your long-term investment goals.

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