SUMMER 2019

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

Are There Secrets to Becoming a Millionaire?

Most millionaires didn't receive a windfall of cash. Instead, they prioritized self-sufficiency, hard work, and delayed gratification.

According to the New York Post, the number of millionaires in the United States continues to rise. There are now more millionaires in the U.S. than the total populations of Greece or Portugal. A recent study found there are more than 11.8 million households in the United States with a net worth of more than $1 million.

The U.S. has been called a nation of millionaires, with estimates of 3% to 6% of the U.S. population having more than $1 million in savings. How does this happen? Did they inherit their money? Did they strike it rich in the stock market? Perhaps. But more often, it is the result of smart choices and deferred gratification.

Professors Thomas Stanley and William Danko have studied the affluent for years. They document seven factors that contribute to financial wealth in their landmark book, *The Millionaire Next Door.*

1. Millionaires live well below their means.
2. Millionaires allocate their time, energy, and money efficiently, in ways conducive to building wealth.
3. Millionaires believe financial independence is more important than displaying high social status.
4. Millionaires' parents did not provide economic outpatient care, which is when an affluent parent provides money to an adult child.
5. Millionaires' adult children are economically self-sufficient.
6. Millionaires are proficient in identifying business opportunities.
7. Millionaires chose the right occupation.

Kiplinger's Personal Finance prepared a report in 2018 that outlines similar ideas.

1. Millionaires don't spend beyond their means.
2. Millionaires educate themselves.
3. Millionaires pick the right career field.
4. Millionaires save and invest early.
5. Millionaires don't swing for the fences when investing.
6. Millionaires keep themselves covered with adequate insurance.
7. Millionaires are wise about windfalls.
8. Millionaires hang onto their cars and houses.
9. Millionaires avoid debt.

continued on page 3

THE PRESIDENT'S WORD

The SEC's New Regulation Best Interest Rule

Is the financial advice you're receiving just suitable for you or is it truly in your best interest? Here's how to identify an advisor who is legally required to provide advice that is in your best interest 100% of the time.

Bruce Jentner, CFP®, President

Is the financial and investment advice you receive in your best interest? Or is the advice suitable—essentially just okay—but influenced in part because the broker or agent earns a greater commission than if he or she recommends something else that may be more appropriate for you?

The legal differences when receiving financial advice can be confusing and opaque to consumers. Most consumers prefer to receive advice that is legally in their best interest. Most consumers think (or hope) this is the kind of advice they are receiving.

Legally, investment brokers and insurance agents are required to provide sales recommendations that are suitable. This suitability standard is confusing to the consumer. This is advice that is considered reasonable and appropriate but is not held to a fiduciary standard of being in the best interest of the consumer. Brokers and agents serve the broker-dealers or insurance companies they work for and must only believe their recommendations are suitable for their clients.

On the other hand, Registered Investment Advisors (RIAs) are required to minimize conflicts of interest and provide advice and recommendations that are legally considered in the best interest of the consumer. Registered Investment Advisors work directly for clients and must place clients' interests ahead of their own, according to the Investment Advisers Act of 1940.

On June 5, 2019, the Securities and Exchange Commission passed a set of regulations meant to improve the quality and the transparency of advice received in the financial-advice business. The rules, called the SEC's Regulation Best Interest, have surprised many in the financial industry. Some consumer advocates believe the goal of greater transparency and understanding will not be achieved under the new regulations.

The brokerage industry largely supports the new rules. By telling their clients they are serving their best interest, while also providing a disclosure statement that outlines their various conflicts of interest, they can meet the new Regulation Best Interest standard. This is a lower standard than the fiduciary standard that Registered Investment Advisors are required to follow.

What does this mean to the consumer? It is still important to ask questions and read disclosures to determine if you are receiving fiduciary advice, which is in your best interest, or Regulation Best Interest advice. Sound a bit confusing? This is why consumer advocates are concerned with the new rules.

People who have limited investment capital and do not want to pay for ongoing financial advice may prefer to work with a broker or agent who earns a commission. In these situations, the new Best Interest Rule is probably an improvement over the previous suitability standard. People who have larger amounts of investment capital and who want a personal relationship with an advisor who provides ongoing fiduciary advice will likely prefer paying an advisory fee to a fee-only investment advisor held to a fiduciary standard.

To potentially confuse matters even more, some people providing financial advice are dually registered as both a broker and an investment advisor. They market themselves as fee-based because they are not fee-only. Under the new rule, this distinction must be disclosed because the advisor may not be acting as a fiduciary in every aspect of their client relationships.

The CFP Board recently instituted a new Code of Ethics and Standards of Conduct, which becomes effective October 1, 2019. CFP® professionals will be obligated to provide financial advice under a fiduciary standard. This CFP® fiduciary standard is straightforward, drawn from the common-law standard of fiduciaries. It includes a duty of loyalty to place the clients' interest above their own and above the company they work for.

It appears the best way to ensure you are receiving fiduciary advice from an advisor 100% of the time is to work with a CFP® professional who works for an RIA firm that is fee-only. Call us if you have any questions. Let us know if you have family or friends who are looking to develop a relationship with a professional who offers ongoing fiduciary advice 100% of the time.

Smart Family-Enterprise and Business-Succession Planning

Demographic trends indicate a growing number of family-owned business transfers and sales will occur over the next 20 years. Some family-owned businesses are not prepared for these transitions. Take a look at the data:

- Almost one third of private business owners are older than 67, not yet ready to retire, and still actively running their business.
- Less than one third of businesses are preparing family members for future business leadership.
- Two thirds of businesses do not have a written business-succession plan.
- Nearly half of businesses may be operating in fields that are potential targets for disruption by new and evolving technologies.

The time is ripe for families to determine what their ultimate objectives are. Have you considered these questions regarding your business?

- Does the family want to keep the business within the family or sell to a third party?
- How will business decisions impact family closeness and collaboration?
- What business leadership skills do the younger family members have?
- When is the owner willing to give up control and be replaced?
- What technical business systems and governance systems are required to help the business thrive?

Consider these strategies to promote positive and healthy family dynamics:

- Adopt a family enterprise mindset to help identify family members who may be a good fit for roles in the family business. Other family members may be better equipped for roles outside the family business.
- Consider acquiring other businesses that cater to the strengths and interests of family members, who may not be the right fit for your current business.
- Establish a functional family governance system to determine how family resources will be managed and allocated.
- Educate future generations in sound financial management and leadership skills.
- Establish a family philanthropic foundation to encourage charitable giving in future generations.
- Communicate with all family members in an open, honest, and transparent fashion, including those not involved in the business.

Some business owners may be riding a crest of economic success. Some may have faced lean financial conditions for many years. Others may find the business challenging and lonely, feeling the need to keep their hand on the pulse of every decision. Regardless, some business owners find it difficult to construct a group of trusted, competent advisors who share the future vision, provide guidance, and bring in new ideas to help prepare for the business owner's retirement.

Seth Jentner, CFP®
Vice President and COO

Being technically smart and knowing how to run a successful business are two very different skills. Working "in" the business is different than working "on" the business. For most families, the business is a tool to promote the wellbeing of not only their customers and clients but also the family. Promoting the wellbeing of the family takes intentional planning, wisdom, and action. If you need help, please ask! We are here to help.

Are There Secrets to Becoming a Millionaire?

(continued from page 1)

Yes, some people get into financial trouble due to factors beyond their control. This is certainly unfortunate. However, most of us have opportunities to take advantage of our free-market economy. With attention to the principles outlined above, the opportunities to become economically secure abound. But even in a relatively wealthy society, economic independence does not generally happen by accident. Slow and steady wins the race.

Statistically 90% of family wealth is dissipated within three generations. Financial education does not occur by accident; it must be intentionally taught. We would be wise to make the financial education of ourselves, our children, and our grandchildren a priority.

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How to Prepare for the Next Big Downturn

"Not to be alarming, but we believe the stock market will eventually decline." This is a clear example of stating the obvious. Of course, it will. What is not obvious is when, for how long, and how much. So, how should one prepare for the next big downturn?

If your objective is to earn meaningful long-term returns, invest in a properly diversified portfolio of stocks and bonds. Stay invested throughout the inevitable downturns and take advantage of rebalancing opportunities.

History is a useful tool to guide the investment decision-making process. History is not a useful tool to predict when the markets will rise or decline, nor for how long or how much. Investment crises are a fact of life. Over the past 50 years, we have experienced several wars, an oil crisis, multiple recessions, a dot-com bubble, a financial crisis, and numerous terrorist attacks. Over time, the markets have provided significant long-term returns despite the short-term volatility and many individual companies failing. Deciding to get out when the market declines or deciding to get back in once the market recovers is a recipe for disappointing long-term returns.

A broadly diversified portfolio of stocks and bonds, which has been constructed with an expected level of volatility within the investor's risk tolerance, has been an enormously useful tool to participate in solid long-term gains. If a person believes humans will continue to seek ways to develop and market goods and services to people who want them, we have every reason to believe stocks and bonds will ultimately do what they've always done as a group—increase in value over time. If a person does not believe this, there is good reason to question whether that person should invest in the stock and bond markets at all.

If you are comfortable with the diversified investment strategy being employed on your behalf, do not fear or act surprised when the next big downturn occurs. If you are not comfortable with your investment strategy, either make a change you can stay with or conclude you are not an investor.

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