SUMMER 2020

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

Best 50 Days for the S&P 500 Index, Ever

No one can reliably predict the market. Just look at the market over the last three months.

On March 23, 2020, the S&P 500 hit a year-to-date low as the world faced new fears from COVID-19 and unemployment numbers were approaching those of the Great Depression. Then, on May 25, the death of George Floyd in Minneapolis during an arrest led to national protests. Despite these events, in the trading days from March 23 to June 3, the S&P had its best 50-day rally in history, up 37.7%.

How can this happen? According to Bloomberg, "The stock market is primarily focused on a single thing, which is the restart of U.S. and global economic activities." During these 50 days, states started to gradually reopen, with improving economic activity. Investors are becoming more optimistic as the number of coronavirus cases are decreasing and second-wave predictions appear less severe because of precautions and potential new treatments and vaccines.

It's important to note that markets and world events are not always connected. "History shows markets look through many sorts of tumultuous events and have done so for decades," according to Nicholas Colas, co-founder of DataTrek Research. Average investors, looking at current events and news, sell when they should be buying. If you wait until "things improve" to start, it's often too late. Timing the market can be hazardous to your long-term investment success.

Ignore the media-induced panic and stay committed to your investment plan and Investment Policy Statement. Use risk-appropriate diversified portfolios and rebalance to take advantage of market drops. Understand that successful investors look at much longer time horizons, often 10 years or more. To paraphrase Abraham Lincoln regarding these present times, "This too shall pass." It appears equity markets are agreeing.

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THE PRESIDENT'S WORD

Robo-Advisor or Personal Advisor?

Bruce Jentner, CFP®, Chairman

Robo-advisor is a term used for automated investment services, including investment management using software and computer algorithms. Some financial advisors even lease robo-advisor platforms and combine them with advisory services.

Advances in technology have helped robo-advisors become more popular, mostly because of their low cost. But they do not provide investors interaction with a human financial advisor who knows them and who can make specific recommendations appropriate for their current and future needs.

Here are some of the pros and cons to using robo-advisors to manage your investments.

Advantages

We sometimes refer younger people with less money and relatively simple financial situations to robo-advisors. These platforms are a good way for investors to get started accessing the markets because there are generally low minimum account balance requirements, fees are lower, and they are easy to use.

Robo-advisors typically apply optimized indexed strategies and target allocations that are appropriate for many investors. They use algorithms to automate investment strategies based on risk preferences. In general, the algorithms rely on evidence-based models and recognized investment theory and research. Using algorithms to make investment decisions is designed to take emotions out of the process as markets rise and fall. Also, the software automatically monitors and rebalances multiple portfolios in real time as markets move.

The advantages of robo-advisors can be attractive to some. For those who do not want to think about their investments or talk to financial advisors, letting algorithms do the work enables them not to monitor their investments on a regular basis. Also, investors with simple asset allocations and strategies may not need ongoing rebalancing or guidance from an advisor.

Disadvantages

Robo-advisors offer less flexibility in investment options. While some robo-advisors have customer service agents at a call center or financial advisors available to call, many cannot make investment recommendations or change assets in portfolios that are adjusted through algorithms.

Lack of personal human interaction is the greatest disadvantage of robo-advisors for many investors. Global market and investment information is available in real time 24 hours per day. But information is not the same as personal investment recommendations. Think about websites like WebMD, which provide useful medical information. However, few people would substitute a website for a personal physician who knows them and can make specific recommendations. Even if robo-advisors permit you to input and edit your goals in their software, you will likely benefit more from talking with an advisor about your issues and concerns.

Our Solution

The internet has moved us beyond the information age. We now live in the recommendation age. Investment management and financial planning are both important and are not the same thing.

Robo-advisors and financial advisors do not need to be mutually exclusive. As fiduciary advisors, we use robo-like technology on efficient, low-cost custodial platforms to manage investments. We use technology to reduce expenses in our client portfolios. We also spend the time to understand each client's needs and circumstances in order to provide meaningful fiduciary advice that is right for them.

We start our advisory process by getting to know you, your goals, and your risk tolerance. Then we develop a customized plan and tailor it over time as your needs change. We work with investors with relatively complicated personal and business issues and provide advice based on our years of experience working with others with similar issues.

This holistic approach gives our clients the benefits of lower-cost investment management along with the advantages of personal relationships and trusted advice. That's the difference a financial advisor makes.

The Vanguard Group, a leader in low-cost index funds with a robo-advisor platform and a strategic partner of Jentner Wealth Management, conducted research that found comprehensive wealth managers can, on average, add 3% annual return over the long term. Quoting directly from the Vanguard research, "This return is not added over a specific time frame but varies each year and according to client circumstances. It can be added quickly and dramatically, especially during periods of market decline or euphoria. It may be provided slowly. It will not appear on a client's quarterly statement, but is real nonetheless. Remember, providing services such as estate and succession planning, or offering advice on long-term care insurance and charitable giving, have value as well, even if they are not quantifiable."

The Balance of Risk and Return

Investment uncertainty is normal, so finding your personal comfort level between risk and expected return is an essential element to a successful investment experience.

Uncertainty is an inherent and ever-present part of investing. Any investment that has an expected return above the prevailing "risk-free rate" (think T-Bills for U.S investors) involves trading off certainty for a potentially increased return. For example, stocks have higher expected returns than bonds largely because there is more uncertainty about the future for equity investors than bond investors. Bonds, for the most part, have fixed coupon payments and a maturity date at which principal is expected to be repaid. Stocks have neither. Bonds also sit higher in a company's capital structure. In the event a firm goes bust, bondholders get paid before stockholders. So, do investors avoid stocks in favor of bonds as a result of this increased uncertainty? Quite the contrary, many investors end up allocating capital to stocks due to their higher expected return. In the end, many investors are willing to make the tradeoff of bearing some increased uncertainty for potentially higher returns.

The statement, "The market hates uncertainty," attempts to personify the market by ascribing the very real nervousness and fear felt by some investors when volatility increases. When markets go up and down, many investors struggle to separate their emotions from their investments. For many investors, regardless of whether markets are reaching new highs or declining, changes in market prices can be a source of anxiety. During these periods, it may not feel like a good time to invest. Only with the benefit of hindsight do we feel as if we know whether any time period was a good one to be invested. Unfortunately, while the past may provide insights, the future will forever remain uncertain.

Part of being able to stay unemotional during periods when it feels like uncertainty has increased is having an appropriate asset allocation that is in line with an investor's willingness and ability to bear risk. It also helps to remember that, during what feels like good times and bad, one wouldn't expect to earn a higher return without taking on some form of risk. While a decline in markets may not feel good, having a portfolio you are comfortable with, understanding that uncertainty is part of investing, and sticking to a plan that is agreed upon in advance and reviewed on a regular basis can help keep investors from reacting emotionally. This may ultimately lead to a better investment experience.

Daniel J. Bloom, CFP®,
Vice President and Chief Administrative Officer

Finding Professionals the Super-Rich Way

The super-rich, those with a net worth of $500 million or more, seek the very best professionals to help them achieve their many and often-complex goals. The super-rich want to work with the best of the best, and they take smart steps to identify those professionals. You can take a page from their playbook to locate professionals who are the best fit for you based on your goals, needs, and level of complexity.

Some people with truly serious wealth turn to family offices, which are entities designed to address the financial and personal needs of extremely affluent families. They may provide in-house expertise and work with outside professionals too. Even if you don't have the level of wealth needed to utilize a family office, you can still benefit by adopting an approach to sourcing professionals that is similar to what the super-rich take.

Perhaps the biggest takeaway is that you might seek a referral from professionals you're currently working with when you need help from additional experts. This approach tends to be effective in helping people find top-quality professionals and ensuring that those professionals give them the expertise, time, and energy they need to accomplish their goals.

Of course, you can also do your own research. That said, those efforts are likely to be most effective if you are connected in some way to the people you need, through mastermind groups or the like. By putting yourself in the line of expertise, you may boost your chances of identifying professionals who are right for you.

Finally, be cautious about getting referrals from peers, just as the executives at family offices are. Your peers may understand your situation only in the big-picture sense and may make broad recommendations that may not be a great fit. Depending on the complexity of your needs, you might be better off using a professional you already trust to look for additional professionals. Talk to your financial, legal, and accounting professionals to discuss your needs and if they can connect you with a high-quality professional to address your needs.

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Our Commitment to What Matters

Jentner Wealth Management operates with a clear mission: We are dedicated to advancing our clients' values, goals, and dreams by protecting and enhancing their resources. That means providing a successful investment experience for each client. That means more than just returns. It means offering peace of mind and confidence by protecting and growing portfolios throughout the daily fluctuations of the world investment markets.

The global stock and bond markets have rewarded long-term investors. Unfortunately, the track record of professional investment managers who attempt to predict the best investments is poor. Recognizing this, more than 20 years ago, Jentner Wealth Management began using a factor-based approach built on historical evidence. Rather than attempting to predict the future, we draw information about expected long-term returns from the market itself.

Trusting markets to do what they do best—drive information into prices—frees us to spend time where we believe we have an advantage: how we design and manage client investment portfolios and how we serve our clients with comprehensive financial planning. Employing an evidence-based approach to planning and investing, an approach we systematically implement, enables clients to understand and stick with their financial and investment plans even in challenging market environments.

We focus on developing financial plans that address the opportunities and risks of life. We structure risk-appropriate, broadly diversified portfolios that address the tradeoffs that arise when making financial decisions. Jentner's clients know that a transparent planning approach backed by decades of investment research is powering our decisions. Here at Jentner Wealth Management, we strive to help people understand their choices and be prepared so they can stick with their plan and achieve their goals and dreams.

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