FALL 2022

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

INSIDE THIS ISSUE

Can't Lose Investments? Think Again 1

President's Word . . . 2-3
Six Ways a Recession Resembles a Bad Mood

Beware of Cyber Scams Targeting Disaster Victims and Charitable Donors 3

Have You Designated the Wrong Beneficiary for Your Life-Insurance Policy? 4

Can't Lose Investments? Think Again.

A fellow advisor recently shared he had a client who wanted to invest around $150,000 in a medical marijuana dispensary. The client heard it was going to revolutionize the industry: "It was the wave of the future and the right side of the industry." What could go wrong? While an investment like this can reward investors handsomely, a loss of your entire principal can also happen. Marijuana dispensaries were too risky for this person's financial circumstances. The advisor suggested they hold off for now and keep an eye on it. Within a month, the stock lost 75% of its value.

In *The Arrogance Cycle*, Michael Farr lays out how investors' confidence levels rise proportionately to recent growth in the opportunity. "Everyone wants in on the action." We want to believe we can get in on the possibility. Take the recent craze of cryptocurrency investing. As Bitcoin continued to soar in "value," investors began pouring in money, and a positive feedback loop began to take shape. The only problem was that it was all artificial. As Farr puts it, our emotions kick in, and the inevitable happens. As of this writing, Bitcoin is down 70% from its high last November.

The investing landscape is littered with these examples. It's not uncommon for investors to come across opportunities that "can't lose," such as an undiscovered stock they read about on a website or heard about from a friend. When analyzing any new investment opportunity, it is helpful to refer to your financial plan and review the dangers of deviating from it.

One way to inoculate yourself from these siren songs is to draft an Investment Policy Statement (IPS). This written document helps you determine your risk tolerance, acceptable investment assets to hold, and time horizons. An IPS helps protect against what's really preventing you from a good investment return—your own behavior.

Finally, when in doubt, seek the advice of a fiduciary investment advisor. Ideally, this person would be fee-only. Spending time crafting a well-written IPS and overall financial plan can save you much heartache when a "too good to be true" opportunity turns out to be just that.

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JENTNER WEALTH MANAGEMENT

Bruce Jentner, CFP®, Chairman

THE PRESIDENT'S WORD

Six Ways a Recession Resembles a Bad Mood

You can't control whether the economy is in a recession, but you can control your behavior and response.

There's been a lot of talk about recessions lately: whether one is near, far, or perhaps already here and whether we can or should try to avoid it. Some even question what it means to be in a recession and how it's related to current market turmoil.

To put market and recessionary concerns in perspective, it might help to describe six ways a recession resembles a bad mood. There are some intriguing similarities!

1. There is no precise definition.

We all know what a bad mood feels like. But there is no clear definition for a nebulous mix of real and perceived setbacks and how they're going to affect us.

Generally, a recession includes a declining Gross Domestic Product (GDP) along with rising unemployment, sinking consumer confidence, gloomy retail forecasts, disappointing corporate balance sheets, a bond-yield curve inversion, stock-market declines, and similar combinations of objective and subjective events. The National Bureau of Economic Research (NBER) defines a recession as follows (emphasis ours): "A recession is a significant decline in economic activity that is spread across the economy and that lasts for more than a few months." Rather vague, isn't it?

2. You usually can't spot one except in hindsight.

How do you know when you're in a bad mood? Often, you don't, until you're looking back at it.

Recessions are similar. Since a widespread downturn must linger for a while before it even qualifies as a recession, the NBER only declares one after it's underway. For example, in July 2020, the NBER announced we'd been in a recession for two months between February and April 2020. This was triggered, of course, by the abrupt arrival of the global pandemic. It was the shortest U.S. recession to date and already over by the time we officially acknowledged it.

3. Sometimes, we get stuck for a while.

Hopefully, your bad moods come and go, resulting in more good times than bad. But sometimes, one misfortune feeds another until you feel gridlocked. It may take a while before improved conditions, a more upbeat attitude, or a blend of both help you move forward.

In similar fashion, recessions can become a self-fulfilling prophecy. As Nobel Laureate and Yale economist Robert Shiller describes, "The fear can lead to the actuality," in which economic conditions might feed inflation, which inverts the bond-yield curve, which signals a recession, which shakes corporate and consumer confidence, which leads to unfortunate reactions that further aggravate the challenges, and so on. When this occurs, a recession and its related financial fallout may last longer than the underlying economics alone might suggest.

4. They're inevitable.

It's never fun to be in a bad mood, but we can all agree they're part of life. It would be unhealthy, exhausting even, if we were endlessly giddy every minute of every day.

Similarly, nobody celebrates a recession. But it helps to recognize they aren't aberrations; they are part of natural economic cycles. And while they may not be anyone's favorite tool for the job, they can sometimes help rein in runaway spending, earning, and pricing for companies, consumers, and creditors alike.

continued on page 3

Six Ways a Recession Resembles a Bad Mood

continued from page 2

5. Experience helps.
When we're youngsters, we have little perspective to help us realize we won't be miserable forever just because we're unhappy in the moment. No wonder we give it our all, every time. As we mature, we learn to temper our moods or seek support if we do get stuck in a rut.

The same can be said about recessions and similar challenges. It may help to acknowledge we've been here before. Every recession has eventually ended, with economies and markets thriving thereafter. As Dimensional Fund Advisors shows us, one-, three- and five-year average cumulative returns after significant U.S. stock-market declines, dating back to July 1926, have all been positive.

Consider these words of wisdom from one of the most experienced investors of all, Warren Buffett, in his 2012 Berkshire Hathaway shareholders letter: "Periodic setbacks will occur, yes, but investors and [business] managers are in a game that is heavily stacked in their favor. […] Since the basic game is so favorable, Charlie [Munger] and I believe it's a terrible mistake to try to dance in and out of it based upon the turn of tarot cards, the predictions of 'experts,' or the ebb and flow of business activity. The risks of being out of the game are huge compared to the risks of being in it."

6. You can't change others, but you can change yourself.
When you're in a funk, it doesn't matter whether it's due to one or many unfortunate events or just because. There's ultimately only one person who can change your mood: yourself.

The same is true for your response to recessions, bear markets, and other external events standing between you and your financial wellbeing. Life is filled with causes and effects over which we have no control, especially with respect to our investments. And yet, there are many small but mighty acts we can take to contribute to the positive outcomes we wish to see in our homes, our nation, and the world. We can manage our household budgets. We can show up for work (or perhaps volunteer in retirement). We can be loving family members, engaged citizens, and generous donors to the causes we hold dear.

And, we can invest wisely. This means taking charge of your personal wealth by focusing on the drivers you can control and ignoring the greater forces you can't. For example:

- *We can't avoid recessions. But we can channel our inner Warren Buffett to look past today's risks and retain an appropriate amount of market exposure in pursuit of our long-term financial goals.*
- *We can't avoid bear markets. But we can avoid generating unnecessary losses caused by panicking and selling low in the middle of one.*
- *We can't avoid inflation. But we can establish a thoughtful budget to track our income and spending, with a plan in place for making adjustments as warranted.*

Beware of Cyber Scams Targeting Disaster Victims and Charitable Donors

Hurricane Ian caused severe damage across Florida and the Carolinas. The latest estimates put damages in the billions of dollars. The Federal government has declared a state of emergency that allows victims to apply for aid. Unfortunately, cyber thieves are out looking to siphon those dollars away.

The Cybersecurity and Infrastructure Security Agency warns users to remain alert for malicious activity targeting victims and charitable donors. Fraudulent emails are common after major natural disasters. These emails often contain links or attachments that steal victims' identities or misdirect donor funds.

In addition to unsolicited emails, CISA advises being wary of social-media pleas, texts, or door-to-door solicitations relating to severe weather events.

The AARP offers the following advice:
1. If you choose to give a donation, choose wisely.
2. Be skeptical of anyone promising immediate clean up and debris removal.
3. Never pay contractors by wire transfer, gift card, or cash.
4. Guard your personal information.
5. Don't pay anyone to help you qualify for FEMA relief.
6. If you suspect that you've been targeted by a disaster-related scam, report it.

To learn more about how to protect yourself and loved ones in harm's way, visit the Federal Communications Commission's website.

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Have You Designated the Wrong Beneficiary for Your Life-Insurance Policy?

We once received a call from a client who said her ex-husband left her money through life insurance. While it was a windfall for her, we suspect that was not his intention. He had remarried and failed to update his beneficiary information for over a decade.

A recent article, written by Leslie Gibbens with Union Bank and Trust, outlined three pitfalls to avoid when naming beneficiaries.

Naming your former spouse as beneficiary: It's unlikely that you would do this intentionally, but if you get divorced and neglect to designate a new beneficiary, this could be the result even if you've updated your will or trust.

Naming minor children as beneficiaries: Insurance companies won't pay life-insurance proceeds directly to minors, which means a court-appointed guardian (who, if you're divorced, could be your former spouse) will manage the funds until your minor-age children reach the age of majority.

Naming your estate as a beneficiary: Doing so subjects life-insurance proceeds to unnecessary state inheritance taxes in many states, exposes proceed to your estate's creditors, and ensures proceeds will go through probate, which may delay payments for loved ones.

We recommend revisiting your life-insurance beneficiary designations regularly if your life situation changes. Much like changing the batteries in your smoke detectors, a policy review could prevent a significant financial disaster for your loved ones.

Perhaps naming a trust as your beneficiary would be a better approach. This allows you to determine who will manage the funds and how they will be distributed. This is even more important when providing for minor children. We recommend consulting with your estate-planning attorney before changing ownership or renaming a beneficiary of your life-insurance policies.

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