

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management



INSIDE THIS ISSUE

Strong Markets Can Lead to Complacency.....1

continued on page 4

President's Word2

Emerging Markets Opportunity and Risk

Advice for Recent Graduates3

Strong Markets Can Lead to Complacency

The strength of the markets in the past year after the financial crisis from the COVID-19 pandemic resulted in many investors seeing large gains in their portfolios. Low interest rates, government stimulus checks, and vaccine rollouts led to significant economic growth that is expected to continue. Stocks have been trading at record levels based on optimism over the perceived end of the pandemic and businesses reopening. Because of these strong returns, the tendency is for people to become complacent about their investing and underestimate investment risk.

There is a concept known as outcome bias that affects investor decision-making. Wikipedia defines it as, "An error made in evaluating the quality of a decision when the outcome of that decision is already known." Investors may judge their past investment decisions by their outcome rather than on the quality of the decision at the time it was made. The outcome is overemphasized, and the events that caused the outcome are underemphasized.

As long as markets continue to be strong, complacency may continue,

and investors will believe stock prices can only go up. It is tempting to look at recent strong returns and calculate how much your portfolio will be worth if returns continue for the next five or ten years. But being too complacent can lead to taking too much risk.

It is a natural response to leave things as they are when things are going well and we feel good about the outcome. We prefer to avoid stress, but it does keep us on our toes and helps us make decisions.

Complacency can cause investors to underestimate or forget about potential downside risks. Staying in this mindset too long can have long-term consequences. Markets may continue to be strong for a while, but there will surely be market corrections. Changes in interest rates, rising inflation, political tensions in the U.S. and abroad, and ongoing COVID-19 variants and vaccine issues can have an impact on markets. Being aware of market volatility, even if it is a small downward movement, and considering the effects of potential increases in volatility is necessary for optimal decision making.

continued on page 4

THE PRESIDENT'S WORD

Emerging Markets Opportunity and Risk

Emerging-market economies provide potential for faster growth than economies in developed countries. Along with the potential rewards, there are related risks.

What are the characteristics of emerging markets?

Emerging markets are known as developing markets because they tend to be in countries experiencing rapid economic development. They have lower per capita income and GDP than developed markets and U.S. markets. As they progress toward a more developed economy, they have programs and infrastructure projects underway. In addition, emerging-market countries tend to produce more than they buy, have lower labor costs, and have low levels of debt at the government, business, and consumer levels. Emerging markets hold vast natural resources and have younger working-age populations with rising household incomes. All of this to say that emerging markets are providing opportunities for global-minded investors.

Which countries are included?

Countries considered to be emerging include China, India, Brazil, Russia, Mexico, Indonesia, and Turkey, among many others. One of the industry standards for measuring foreign-market performance is the Morgan Stanley Capital International Emerging Market Index. Their guidelines for which countries are considered developing include economic development (income levels), size and liquidity of their local stock exchanges, and accessibility of their markets to foreign ownership and capital. Emerging-market countries comprise more than 50% of the world's population and more than 40% of global GDP, according to the International Monetary Fund (IMF).

What are the benefits of investing in emerging markets?

Emerging economies' real GDP is expected to grow 6.0% in 2021, compared with advanced economies at 3.9%, according to the IMF's October 2020 Latest World Economic Outlook Growth Projections. The highest-returning investments are potentially going to come out of the fastest-growing economies. Along with faster growth, emerging markets provide an opportunity for you to diversify your portfolio and to identify individual undiscovered developing companies with the potential for high future returns. In addition, many emerging-market companies pay dividends to attract investors. Recently, The COVID-19 pandemic has caused economies of both developed and emerging countries to slow down substantially, which provides potential for the long-term investor as global economies recover.

What are the risks?

Many of the characteristics that can lead to faster growth in emerging markets create higher risks. Investment timing is important because their governments may be less stable and their fiscal policies may not be as sound. The development process is not necessarily a straight line upward. Political unrest, inflation, and currency fluctuations can hurt companies' progress. Market exchanges in these countries can be more volatile, regulation can be less reliable, and corporate governance may not be as stringent. All of these issues can cause volatility, and significant short-



Bruce Jentner, CFP®, Chairman

term price fluctuations may occur. Because of these complexities, there tends to be higher fees and expense ratios for international emerging-market investments when compared to broad international or domestic funds and ETFs.

Careful consideration must be taken when investing in this often-overlooked asset class. Dimensional Fund Advisors' Emerging Market fund (DFCEX), one of our preferred funds for the emerging-markets space, concludes, "Emerging-market stocks historically deliver higher return than those of developed nations, though they're more volatile as well. Investors seeking to boost returns often include emerging markets as part of a broad diversification strategy." We agree, and our clients with higher risk appetite hold emerging-market stocks.

In addition, one of DFA's key tenets is that value stocks and small-cap stocks outperform the growth and large-cap categories. This holds true for emerging markets as well. For that reason, this fund tilts toward small and value. Recognizing this tilt may experience periods of underperformance with benchmarks, patience is recommended and often rewarded with robust returns over time.

Advice for Recent Graduates

The lesson on how to increase your wealth seems clear: get a college education and start a business.

As we wrap up graduation season, obtaining a college degree and/or starting a business are proving more valuable for graduates to obtain long-term financial success. It can be tempting to think that wealthy individuals inherited their money; however, quite the opposite is true. A study by Fidelity found that 88% of millionaires are first generation, meaning they accrued their wealth themselves. 84% obtained a college degree. 66% own their own business.

It is no surprise that having a college degree dramatically increases income potential. According to the U.S. Bureau of Labor Statistics, the median income for a household headed by someone with a college degree was \$67,860 versus \$45,604 for a household headed by someone who had attended college but did not earn a degree. College-educated individuals are less likely to be unemployed.

Of course, not all degrees are the same. Engineering, biochemistry, law, finance, and computer science round out the top education backgrounds for millionaires. With the cost of college exponentially expanding, it's imperative prospective students view their cost-reward ratio when choosing majors. Making money is not always the driving motivation for choosing a college discipline; however, if you are going to spend six figures on a degree, make sure it sets the student up for significant earning potential.

In his groundbreaking book *The Millionaire Next Door*, Thomas Stanley points out that 80% of affluent households are still working. Of that number, more than two thirds are headed by self-employed business owners. It seems everyone should just go out and start a business. Yet we know that most businesses fail in five years, and nearly two thirds of businesses go out of business in ten years. These statistics seem to hold across differing types of businesses and even countries. If the odds are so bad, why do people take the proverbial plunge? It's simple; the rewards of owning a business are significant, and often entrepreneurs view working for someone else as risky too. For many business owners, the prospect of controlling their own destiny becomes appealing. They desire autonomy.

The Illusions of Entrepreneurship by Scott Andrew Shane found that people are more satisfied when they are working for themselves. They showed that the average person would need to earn two-and-half times as much money to equate with the level of satisfaction enjoyed by business owners. Owning a successful business can lead to a very rewarding lifestyle.

Often, people think they need to start the next big tech company, but that is not the case. Stanley points out in his book, "Many of the types of business could be classified as dull-normal. We are welding contractors, auctioneers, farmers, owners of mobile-home parks, pest controllers, coin and stamp dealers, and paving contractors." It just takes tenacity and a strong will to succeed.

Regardless of the path, staying focused is key. Charles Duhigg's book *The Power of Habit: Why We Do What We Do In Life and Business* shows that self-discipline is the single most important keystone habit for individual success. Staying disciplined to earn a college diploma or building a successful long-term business venture requires self-mastery. Perhaps this trait alone is the foundation on which the cornerstones of life successes are laid. Leonardo da Vinci once said, "One can have no smaller or greater mastery than the mastery of oneself." As a college graduate and business owner myself, I whole heartedly agree.

EDUCATION PAYS!

DEGREE / DIPLOMA:

DOCTORAL	2.5%	\$98,020
PROFESSIONAL	3.1%	\$98,436
MASTER'S	4.1%	\$80,340
BACHELOR'S	5.5%	\$67,860
ASSOCIATE'S	7.1%	\$48,776
SOME COLLEGE	8.3%	\$45,604
HIGHSCHOOL	9.0%	\$40,612
NONE	11.7%	\$32,188

UNEMPLOYMENT RATE
MEDIAN ANNUAL EARNINGS

Current Population Survey, U.S. Department of Labor, U.S. Bureau of Labor Statistics. Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.



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Vice President and CFO

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Strong Markets Can Lead to Complacency

continued from page 1

Timing the market is hard. In response to the uncertainties in the market and the world health situation, many investors sold their investments in March of 2020 and kept the cash in their portfolios while they watched and waited. Unfortunately, this strategy resulted in them missing out on opportunities in what some say was the best market recovery ever.

A number of large financial firms have estimated that investors who sold and are still holding cash may have done damage to their portfolios they will never recover and that will require them to change their financial plans and goals. The future return needed to recover from a loss is significantly greater than the percentage lost, and for retired investors, there may not be enough time to recoup losses in their lifetimes.

To avoid being caught, here are ways to snap out of complacency:

- Recognize it. Think about your investment decisions during the past two years.
- Review your investment plan, your portfolio's diversification, and the history of the markets with your financial advisor.
- Review your overall financial plan or create one. Consider spending levels, debt, and taxes.
- Consider what your course of action would be if markets go down significantly. We call this having a written Investment Policy Statement.
- Contemplate this now rather than when times are not as good to avoid an emotional response.

We will see rough markets again at some point. Being prepared is the best way to handle the emotional stress and avoid decision making that can sabotage your long-term success.



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