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THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

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Teach Your Children to Be Wise Stewards of Their Credit

Helping your children build credit is an important aspect of their financial education and future stability. While credit may not be at the forefront of their minds, here are some steps you can take now to help instill responsible credit habits early on to set the foundation for a healthy financial future.

Educate Them about Credit: Start by explaining the basics of credit to your children. Help them understand the concept of credit scores, how they are calculated, and their impact on their financial lives. Use real-life examples to make the information more relatable.

Open a Joint Credit Card: One practical way to help your kids build credit is by opening a joint credit card. As a joint account holder, your child can benefit from your credit history and learn responsible credit-card use. Emphasize the importance of making timely payments and keeping balances low.

Teach Responsible Spending: Instill good financial habits by teaching your children how to use credit responsibly. Emphasize the importance of budgeting, spending within their means, and paying off the credit-card balance in full each month. This will not only help build their credit but also prevent them from falling into debt.

Monitor Their Credit Report: Regularly check and monitor your child's credit report to ensure accuracy and promptly address any discrepancies. This practice will also help them understand the importance of monitoring their credit as they become more independent.

Encourage Savings and Emergency Funds: Teach your kids the value of saving money and having an emergency fund. Savings can serve as a financial safety net, reducing the likelihood of relying heavily on credit during unexpected expenses.

Co-Sign for Loans: As your child becomes more financially independent, consider co-signing for a small loan, such as a car or student loan. This can help them establish a diverse credit history and demonstrate their ability to responsibly manage different types of credit.

Emphasize the Long-Term Perspective: Remind your children that building good credit is a long-term process. Encourage them to be patient and persistent in establishing and maintaining a positive credit history.

Helping your kids build credit is a valuable investment in their financial future. By providing education, setting a good example, and offering practical opportunities to build credit, you empower them to navigate the economic landscape responsibly.

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JENTNER WEALTH MANAGEMENT

THE PRESIDENT'S WORD

Are Hedge Funds Worth the Risk? It's a Coin Toss.

Bruce Jentner, CFP®, Chairman

Despite their reputation for sophisticated investment strategies, hedge funds face numerous challenges that can lead to failure. A 2023 article by Stephen Van de Wetering "Why Do Hedge Funds Fail" points out that 50% of hedge funds collapse because of operational failures. Understanding these factors is crucial for investors when considering these products. Here are five key reasons why hedge funds may fail.

1. Inadequate Management

One of the primary reasons for hedge-fund failures is inadequate management. Hedge funds often employ complex and leveraged investment strategies to try to generate high returns. However, when these strategies are not carefully managed, they can expose the fund to significant risks. Without a robust risk-management framework, funds may find themselves ill-prepared to navigate volatile market conditions. In some cases, excessive leverage amplifies losses, eroding the fund's capital and making it difficult to recover.

Furthermore, failure to diversify properly can be considered a subset of poor risk management. If a hedge fund becomes overly concentrated in a particular asset class, sector, or strategy, it becomes highly vulnerable to adverse market movements. Diversification is a fundamental principle that helps mitigate risks, and neglecting it can leave the fund exposed to systemic shocks.

2. Lack of Due Diligence

A lack of thorough due diligence is another critical factor contributing to hedge-fund failures. Successful fund management requires a deep understanding of the financial instruments and markets in which the fund operates. When fund managers fail to conduct comprehensive research or rely on inaccurate or incomplete information, their investment decisions can be flawed.

Due diligence is not only about understanding the potential returns of an investment but also about assessing the risks involved. Without proper due diligence, hedge funds may make ill-informed decisions that lead to significant losses. This lack of diligence can be particularly problematic in rapidly changing market environments where staying ahead of the curve is essential.

3. Market Conditions and Economic Shocks

Hedge funds are not immune to broader economic and market conditions. External factors, such as economic downturns, financial crises, or unexpected geopolitical events, can profoundly impact fund performance. The interconnected nature of global financial markets means that shocks in one part of the world can quickly spread, affecting diverse asset classes.

The 2008 financial crisis exemplifies how market conditions can lead to widespread hedge-fund failures. Funds that were overly exposed to subprime mortgage-backed securities or had insufficiently hedged against systemic risks faced substantial losses. Economic uncertainty and rapid market fluctuations can challenge even the most well-managed hedge funds.

4. Regulatory Challenges

Regulatory scrutiny and compliance issues represent another significant risk for hedge funds. The regulatory landscape is dynamic, and funds must stay abreast of changes to ensure compliance. Failure to adhere to regulatory requirements can result in legal challenges, fines, and reputational damage.

Increased regulatory scrutiny can also lead to higher operational costs as funds invest in compliance infrastructure and reporting mechanisms. For smaller funds with limited resources, navigating the regulatory landscape can be particularly challenging, potentially leading to regulatory non-compliance and subsequent failures.

5. Poor Performance and Investor Redemptions

Ultimately, hedge funds depend on attracting and retaining investors. Poor performance relative to expectations or benchmarks can lead to a loss of investor confidence. When investors start redeeming their investments, it can trigger a downward spiral for the fund. Forced selling of assets to meet redemption requests may lead to further losses, and a shrinking asset base makes it challenging for the fund to recover.

In conclusion, hedge-fund failures are often the result of a combination of factors. Investors must thoroughly vet their prospectus as funds are often complex and opaque regarding fees and getting your money back. As it says in Latin, *caveat emptor* or let the buyer beware.

Unveiling the Vanguard Advisor Alpha Study: A Paradigm Shift in Wealth Management

This study quantifies the value an advisor brings to clients.

In the ever-evolving landscape of financial advisory services, the Vanguard Advisor Alpha Study stands out as a beacon of insight, offering an analysis of the value added by comprehensive financial planners. Published by Vanguard, a stalwart in the investment industry, this groundbreaking study has garnered attention for its in-depth exploration of the tangible benefits advisors bring to their clients. Here are several key findings and implications of the study, highlighting its potential to reshape the way we perceive and measure the value of financial advice.

At the heart of the Vanguard Advisor Alpha Study is the concept of Advisor Alpha, a term coined to quantify the value advisors provide beyond basic indexed investment returns. The study identifies key components of Advisor Alpha, each contributing to the overall financial well-being of clients. These components include:

- Behavioral coaching
- Cost-effective implementation
- Asset location and tax efficiency
- Withdrawal order coupled with total return

Behavioral Coaching

One of the standout findings of the study is the significant impact of behavioral coaching on investor outcomes. By guiding clients through the emotional roller coaster of market fluctuations, advisors help prevent irrational decisions driven by fear or greed. The study emphasizes that maintaining a disciplined, long-term perspective can lead to better investment outcomes and improved financial success.

Cost-Effective Implementation

The study advocates for the use of low-cost investment vehicles and emphasizes the impact of minimizing investment costs on long-term returns. Vanguard's long-standing commitment to low-cost index funds aligns with the findings, supporting the notion that cost-effective implementation is a crucial factor in delivering superior value to clients.

Asset Location and Tax Efficiency

The Vanguard Advisor Alpha Study underscores the importance of tax-efficient strategies in enhancing overall returns. Asset location, the strategic placement of investments across taxable and tax-advantaged accounts, can optimize after-tax returns. Advisors who actively manage tax consequences and implement tax-efficient investment strategies can potentially add substantial value to their clients' portfolios.

Withdrawal Order and Total Return

Versus Income Investing

The sequencing of withdrawals in retirement coupled with the debate between total return and income investing is explored in detail. The study suggests that a strategic withdrawal order combined with a focus on total return rather than an exclusive reliance on income can potentially enhance portfolio sustainability and longevity.

In conclusion, by identifying and quantifying the various components of the client-advisor relationship, the study empowers both advisors and clients to recognize the multifaceted benefits of professional financial guidance. We suggest that relationship be fee-only! By removing conflicts of interest that can come with commissions, the financial industry can continue to evolve and encourage advisors to enhance their practice and deliver a more comprehensive and impactful service to their clients. The Vanguard Advisor Alpha Study is not merely a study; it is a paradigm shift in the way we perceive and measure the value of financial advice.

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How Do You Want to Be Remembered?

Being intentional about the legacy you leave can make lasting impacts on your family and the community around you. A recent article by Katherine Ham titled "How Will You Be Remembered? Here's How to Adopt a Legacy Mindset" emphasizes the need to think deeper and longer term when considering a legacy. As experts suggest, legacy building involves actions that benefit others and extend beyond one's lifetime.

Examples of legacy-building activities include creating scrapbooks and photo albums and recording written accounts so memories won't be forgotten. You might consider building a collection of family recipes and giving them to kids and grandkids. Writing life lessons in story form helps capture your culture and values. Or you might create a family heirloom like a sculpture or painting. Lastly, supporting vital community and religious organizations or mentoring local youth can extend your legacy outside of your immediate family.

Some wait until they retire or later in their golden years to start capturing their life's work and memories. Katherine Ham highlights the importance of not waiting to pass down a legacy. She references Nancy Sharp, an author and story coach, who suggests sharing a life letter during one's lifetime. Sharp, who lost her first husband to brain cancer, advocates for starting now to create enduring documents that capture one's essence, family history, values, and hopes for future generations.

Maybe now is the time to begin journaling thoughts on your purpose, values, spiritual journey, and encouragement for your loved ones. As Katherine Ham concludes, we must remember: "Our existence is really a pretty small blip that's going to occur between our ancestors and those who come after us." Consider how your legacy can inspire others to look around at the world and within themselves.

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