INSIGHTful DISCUSSIONS

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MANAGING WEALTH AMID UNCERTAINTY AND BEYOND

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This year began with a stunning stock market drop and continues with uncertainty around the presidential election and numerous other world events. Given this backdrop, five financial professionals take a look at a number of short-term and long-term topics related to how to manage money, how to pass wealth along to the next generation and common mistakes to avoid.

The stock market had a very rocky start to 2016. How are you advising clients given the current uncertainty around the stock market, oil prices, terrorism and other world events?

SUSAN WILLETT: Unfortunately, this roller coaster ride that we are on seems to be our "new normal" and we've all had to get used to an elevated level of volatility.

That's where knowing your clients' needs and understanding their tolerances really comes into play. Most everyone understands the need for a diversified portfolio, but understanding how to use that portfolio as a means to an end is something else.

After the Great Recession, everyone's perspective has changed and these fluctuations now have a greater impact on a client's psyche than ever before. You have to reassure them that their plan is in place and well executed and that you are looking after their best interests.

MARK NABELL: The other major factors are China and the emerging markets. Clients right now need to check their risk temperament. It's important to know the risks they face in their portfolios, but also to remember that downturns often have opportunities.

Even with the decline in oil prices, which was the top job producing industry in the last decade, we are not recessionary to date. We believe, however, there are many credible investment strategies to take advantage of in the current economic cycle.

NICK BECTON: Know and understand your risk

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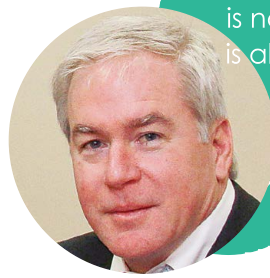

MARK NABELL
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tolerance. What is the proper balance of equities, bonds and alternatives and time horizon. Make sure that your portfolio is diverse.

VINTON FOUNTAIN: The volatility of stocks and asset prices is expected, consistent and a natural aspect of generating higher returns. In fact, volatility provides higher levels of opportunity to the disciplined investor. Warren Buffett illustrates this perspective when he says "he is always a buyer of stocks…he just likes to buy more when prices are low".

TRAVIS HORRELL: Stay the course and make silent investments and investment choices. Don't try to chase the market or have a panic attack when world events cause changes in the marketplace.

What role do you see the presidential election playing in how people should weigh financial decisions this year?

FOUNTAIN: Our firm recently had a national expert speak to our clients about the current election cycle. It was encouraging to see how much engagement exists in the election process.

I am not a fan of connecting campaigning rhetoric to investment strategies. In other words, do not act on the election headlines. Be more discipline and goal oriented. Elections come and go while the values of the best businesses in the world continue to appreciate and increase dividends.

HORRELL: I think there is a lot of uncertainty and once again, we advise pursuing a path of caution.

WILLETT: In general, the markets don't like uncertainty. So, until the election is over the volatility we've been seeing will continue. Statistics have shown that the market really doesn't have a preference over Democrats or Republicans, it just wants a known outcome. Which is something politics never guarantees us!

NABELL: The election adds to the increased market volatility. Most people will be glad when the election cycle ends.

Most people are concerned they'll outlive their savings. What is the best way for people to address this issue?

BECTON: PLAN. Planning means thinking about the future rather than just living for the moment. There are many ways to make saving more of a priority.

Working with a financial planner or using online tools can help people de vise strategies that work for them and prioritize. Taking steps toward change will help make those changes more lasting.

For example, a first step may be to get a handle on current spending. There are many tools to help with this including tracking tools from your online banking.

NABELL: This is a very real concern we address every day. We construct durable, sustainable income portfolios and address tax issues at the same time. Often, we work with attorneys and CPAs to identify major risks and mitigate possible damage.

This is very important as married clients age and one partner could have significant health or mental health issues. In this case, we believe all tools should be deployed, including use of trusts, long-term care insurance and shifting risk to different parties.

WILLETT: Good planning. Good execution. People need to have a realistic expectation of what their needs and goals will be for retirement and what resources are available to them to meet those goals. They have to factor in the unexpected, but should be able to establish a reasonable plan that can survive the test of time.

HORRELL: Start saving for retirement early and be consistent in their investing approach. If they are already retired, look for investment strategies that provide lifetime incomes.

FOUNTAIN: The fundamental challenge for most people is answering four strategic questions. First, how much money do I need to fund a lifetime of income that keeps up with my life expectancy, inflation and taxes? Second, how much income will my assets produce? Thirdly, will my money last? And finally, what is the appropriate portfolio risk necessary to accomplish my goals for income and longevity.

Many times individuals will avoid strategic thinking for the easier tactical decisions such as what to buy, when to sell or worse … making investments based upon media headlines. It is the combination of strategic thinking and tactical implementation that allows for improved outcomes.

What strategies should people consider to cover health care costs? What do you think about long-term care insurance?

HORRELL: If they are still working, they should maximize the health savings account and in general pursue a healthy lifestyle. Also, review their current health care plan. Perhaps they could change their policies or benefits they currently have.

Long-Term Care — I think it needs to be looked at on an individual basis. It is a good idea to have long-term care or some type of home health care because no one knows what your future health will be. In addition to these two, critical illness policies have become very attractive for individuals trying to cover the high cost of health care.

WILLETT: As our population ages, health care costs will continue to rise. There are a few options available to help with these costs. Health Savings Accounts and Flexible Spending Accounts are available from most employers.

Expenses paid directly to a health care provider are not considered a gift for the annual gift tax exclusion, so that is a great way to pass additional assets from one generation to another without gift tax consequences.

Long-term care insurance can be very helpful, if purchased at the right age (before it becomes too expensive). I have several clients that are utilizing these benefits now and it has been priceless.

NABELL: Long-term care is one of the most important challenges people face. Long-term care insurance is always worth looking into and has changed in major ways.

Traditional policies still exist, but rising premiums can adversely affect policy owners over the years when the coverage is needed most. Asset based long-term care is useful to add leverage to more idle funds, and newer life insurance policies provide more flexibility for LTC. The important thing to remember is to use all tools available. Also, a certified Elder Law attorney can be an invaluable partner, as their insight to common problems clients face keeps them busy creating proper solutions.

BECTON: In planning for retirement people need to factor in health care costs. Health care costs are increasing at rates higher than the rates of inflation for most other goods and services. This includes health insurance and expenses for non-covered health costs.

For retirees, Medicare does not cover all medical expenses. In addition, many people may involuntarily leave the workforce earlier than they intended and before they are eligible for Medicare. Retirement projections should include these cost.

Long-term care insurance may be appropriate and should at least be considered. In addition to traditional policies, there are newer policies which include hybrid long-term care policies and life insurance policies with long-term riders. This provides consumers with more choices but also adds complexity. Get help in evaluating these options.

How do you advise the sandwich generation, people who are caring for both children and parents, to make wise financial decisions?

NABELL: This is one of the toughest challenges people face. Get involved with your investment advisor and team of advisors early and determine your biggest risks. I have lived through this so I know how tough it can be. You feel like you are bleeding time and money on both ends. Many feel overwhelmed by the complexities when dealing with the problem, which will create disastrous consequences.

FOUNTAIN: Be strategic and get help. Decision making should be supported by experts. There are many excellent resources available to the public around these challenges. It is not easy but it is important.

BECTON: It all starts with having a solid financial plan in place to make informed and wise decisions based on your individual needs. Do NOT sacrifice your own retirement savings to help parents or children.

There are a surprising number of people facing this challenge and it is certainly a difficult one. How do you say "no" to your family? But you have a limited number of years to save.

Once those earning years are gone, they are gone. It is important to explore other options for helping family. College education can be in-state versus out-of-state, public versus private, children working part-time to help pay their costs. There are options to explore for parents too.

What services in the community are available which may allow you, if caring for an aging parent, to do that without giving up your job? Dropping out of the workforce has costs beyond loss of a paycheck, including potential loss of benefits, contributions to pensions or 401(k) plans.

HORRELL: Save as much as possible early. Make purchases based on need versus want and try to become debt-free as soon as they can. This will give them the ability to help parents and children without such a financial burden.

WILLETT: Again, it all comes back to having a good plan in place. A plan for retirement, college, health care expenses and whatever else life may throw your way. Nothing can take the place of a good financial plan.

Of course, that plan is only as good as the execution of it. For those that find themselves taking care of parents and children, it can be an overwhelming task, so it helps to have good advisors in place to lift that burden and ensure that nothing falls through the cracks.

What tips do you give to the members of Generation X and to millennials about financial planning?

WILLETT: It's never too early to start planning or saving, especially in a company matching retirement plan. Retirement may seem like a long way off, but it's never too early to begin saving and letting your money work for you. The earlier you start, the earlier you can potentially retire!

HORRELL: Start now and save or invest as much as they can. Work with a professional advisor. Seek the advice and direction of successful people. Develop a relationship with an advisor or mentor.

FOUNTAIN: Don't make it complicated. Consider the power of time and compounding. Get started now with consistent funding of inexpensive and transparent mutual funds or a similar investment vehicle. And, be diversified.

"Whole life has been around for years and is a great foundation plan. People are rediscovering the advantages of whole life because it offers guarantees."

TRAVIS HORRELL
WoodmenLife

BECTON: Get in the habit of saving. The earlier you start, the easier it will be. As an example, if your employer offers a 401(k) plan, defer enough to qualify for the match. As you get raises, steer some of that raise toward saving rather than consumption.

Also, as you save, consider an appropriate asset allocation based on your risk tolerance and time horizon. We often see people who are invested in a way they think is safe, but jeopardize their long term financial safety.

NABELL: Start saving early. We actually have a number of clients whose children are now clients and it appears that the more active the parents are with money and investments, the more inclined their children are to take action early. You have to review their student debt, if any, handle that carefully and take appropriate steps with work benefits. It's never too early to save. Money saved in your 20s and 30s has an extra decade to compound.

What are the advantages and disadvantages of whole and term life insurance as people look at saving for retirement?

HORRELL: I think they each have a position in a person's base financial plan.

Many people come in and want to discuss asset accumulation and preservation without having the life insurance foundation put in place. Many people work off of the "buy term and invest the difference theory" and this may work to an extent, but the majority will not invest the difference. They just spend it. Then they reach age 60 or 70 and still need the coverage and now the premiums are very high or perhaps they can no longer medically qualify for the policy.

Whole life has been around for years and is a great foundation plan. People are rediscovering the advantages of whole life because it offers guarantees. After the great recession, we experienced that people are searching for those guarantees. Now it's been put down by some celebrity advisors who will not disclose the full story.

After 25 years in this industry and watching people's 401(k)'s cut in half in 2008, many were happy they had their old whole life policy that they could withdraw money from as they needed without question or penalty. Whole life is a forced way of savings and it gives us

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the discipline that many of us lack but want in our financial plan. Term is a lot of insurance for a little bit of money. It needs to be used wisely and for a definite period of time.

NABELL: Permanent and term insurance have a place in your insurance portfolio.

Term insurance is temporary, but has low cost to insure large needs like income replacement or debt repayment. Permanent insurance has a higher initial cost as the main disadvantage, but if funded correctly can last a lifetime, completing capital transfer strategies in your business and estate planning.

Modern policies have beneficial accelerated death benefits and critical illness riders to provide money when most needed. We are big believers in providing the correct amount of coverage. In fact, we have a saying at our firm: "you should never have to apologize to a widow." We actually started a life insurance sales, distribution and consulting company named Partners Square (www.partnerssquare.com) to help other independent financial advisors, insurance agents and insurance firms easily provide life insurance coverage.

What do you think about people renting when they downsize their houses or using a reverse mortgage to stay in their current homes?

NABELL: These are both very viable options when downsizing. We have assisted clients in the process of selling homes and renting. We cover tax issues and a lot of the complications that exist.

Sometimes clients find they just have too much "stuff" and do not need everything. We have also recommended reverse mortgages to clients. We do not personally do these but they are very good options at times. Downsizing is a personal choice and can be complicated, but our goal is to explore all facets and opportunities for clients.

HORRELL: Renting seems to be a popular choice because it provides a certain amount of freedom from home repairs and upkeep. It can also provide financial capital for an everyday lifestyle.

What factors should people consider when passing wealth to the next generation?

BECTON: Consider how well-prepared the next generation is to manage wealth. And if you wish to make charitable bequests in addition to passing assets to the next generation, consider using IRAs for fulfilling your charitable goals due to income tax liabilities associated with inherited IRAs.

"Get started now with consistent funding of inexpensive and transparent mutual funds or a similar investment vehicle. And, be diversified."

VINTON FOUNTAIN
Fountain Financial Associates

FOUNTAIN: Generational planning is an excellent way to have impact on the people or organizations that are important to you. The first step is to know that it is meaningful and deserves an investment in time and resources.

There are many factors such as understanding your comprehensive financial situation and clarifying your goals. Sometimes this planning is supported by an effective communication strategy that allows the plan to be executed effectively. The first step is to make it important and try not to procrastinate. It is an area that people will postpone to their own detriment. It is your legacy.

WILLETT: There are many legal and tax ramifications to wealth transfers. There are also probate considerations as well. Many of these can be alleviated with proper trust and estate planning that will reduce the headaches for both the executor and family members. Proper planning can also reduce the time and expense associated with wealth transfers and can help avoid some unpleasant family situations that often arise at the passing of the head of the family.

HORRELL: Will it be taxed or not, and at what rate? Also, they should consider the spending or investment habits of the generation who will receive this wealth. Do they want to place some parameters on the plan while they are still living?

NABELL: There are a lot of possible answers here. We consult with clients to determine their goals and intentions. We work with their other advisors and determine how the assets will pass, either by beneficiary arrangement, ownership or by will.

Also, the capability of those inheriting assets needs to be examined. At times, specialized trusts will need to be set up and a trustee selected. This is an area in which we can be quite creative in helping clients plan correctly. One of the big issues we see is a lack of coordination among other advisors.

Mistakes we commonly see are unfunded revocable living trusts, poorly crafted beneficiary designations, trusts set up without adequate cash flow, and having plans that focus solely on taxation without considering family needs and dynamics.

How should the next generation be involved when their parents are making significant financial decisions?

HORRELL: I think that it is a good decision to involve the children or at least the child who will be overseeing the estate of the parents. This protects the children, the parents and the advisor during this process. It also provides a time for the children to develop trust in the advisor and their organization. They also know firsthand the investment strategies and choices that their parents made.

NABELL: It depends on the level of involvement the parents desire. Some families are close and share all of their information while others do not. So a lot depends on the family dynamics and intentions. We believe that aging retirees should have every financial tool available to deal with the many factors affecting them and plan according to their desires.

WILLETT: Knowledge is power. Involving the younger generation in the planning process can not only help them to understand the "hows" of the plan, but also the "whys". It's a great way to convey the family legacy and history to the younger generation and instill in them a sense of purpose for the planning.

What are the most common mistakes people make in financial planning?

FOUNTAIN: I have two answers. The first is that people will skip the process because it takes time and effort. Our culture does not promote strategic problem solving, but rather the high paced multi-tasking and more entertaining actions such as buying a product (stocks, mutual funds, etc.).

The second answer is most people do not know what they are paying for with investment services. Every investor should have an open and honest conversation with their advisor that answers two questions.

First, what am I paying for or buying? And second, what does it cost? It seems pretty straightforward, but surprisingly it is still overlooked by most individuals. And it is not their fault. The industry has made it difficult to understand costs due to lack of transparency. That is changing dramatically, which will be good for investors.

WILLETT: Not executing the plan. Oftentimes, people establish a great plan, execute documents and then put them into a safe deposit box and leave them there. They never retitle assets or move funds, for example, to execute the plan that they established. All that work, for nothing. A plan is only as good as the execution. Otherwise, it is all for naught.

NABELL: The first common mistake is not planning at all. The next is allowing emotion to dictate decision-making. The problems that follow compound over time, leading to a lack of financial independence in the golden years.

Other common problems are taking too much or too little risk in the wrong areas of investments, not having adequate insurance coverage, a general lack of understanding of the financial markets, and buying high and selling low!

BECTON: Once the plan is completed, not frequently updating and adjusting for changes.

HORRELL: They wait too long to start investing. They chase the market. They move from product to product or from advisor to advisor. They follow bad advice or do what their friends did. Many people spend more time planning their family vacation than they do planning for their financial security and retirement. Many people have adopted the philosophy of "I'll never be able to retire". They have accepted defeat before they get started. They think social security is all they will need.

What is one important thing currently happening in the world of wealth management that most people likely don't know about?

NABELL: The intention of the Department of Labor to provide considerable change in qualified plans and IRAs. These changes may or may not come about, but if they do, many firms will have to change the way they conduct business.

BECTON: Uniform Fiduciary Standard—a single fiduciary standard to be created for brokers and Investment Advisors (IAs). The rule would require all brokers and IAs to provide financial advice in the best interest of the client.

"Do NOT sacrifice your own retirement savings to help parents or children."

NICK BECTON
PNC Wealth Management

FOUNTAIN: The business models that most people have experienced in the past are changing dramatically. Historically, individuals would access large institutions for financial services. These large institutions had massive marketing budgets with armies of sales people that were compensated through commission transactions such as buying and selling stocks, bonds or a mutual fund.

Many times these products were manufactured by the brokerage institution (proprietary). The financial sales force might promote proprietary products and enjoy higher commissions, and the institution would increase its own profitability. Sometimes, this activity may have created conflicts with the investor goals. The financial crisis, new technology and the evolution of new business models have changed how investors can access improved and more effective resources.

Today, the delivery of investment advice is available through small locally owned companies that can structure relationships where compensation and investor goals are aligned. In addition, the cost of investment services is much more transparent so that the investor is more knowledgeable and educated. This transition has been underway for a while but individuals can still be accustomed to older models and therefore slower to migrate to improved resources.

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