The Papyrus

Fourth Quarter 2018

Seasonality Cycles and Fourth Quarter Returns

With September – historically the worst month for the financial market – now behind us, it's time to look forward to the fourth quarter.

While retailers anticipate strong fourth quarter sales to put their earnings solidly in the black, investors also cross their fingers and hope that the fourth quarter's traditionally strong performance holds true for yet another year.

Since 1896, the Dow Jones Industrials have gained an average 2.7% in the fourth quarter of the year, compared to an average 1.6% for the first three quarters. The fourth quarter has also been the S&P 500's strongest

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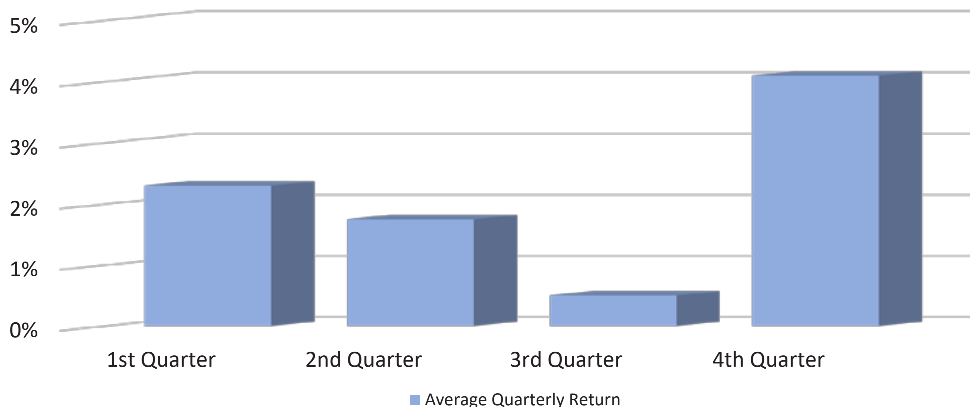

Source: LPL Research, FactSet 09/27/17. The modern design of the S&P 500 Index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Complacency and the Investor

There's a curious tendency among individuals to be relatively complacent about their ability to retire financially secure right up until they top age 60. Then the worries take over. Do they have enough saved up? Is there enough in cash to weather a down market? Why haven't their assets grown more over the last 20 years? Should they have saved more?

At 60, time is running out to accumulate the assets you might need for retirement. The problem is that 60 always seems a long time away, right up until it's on the doorstep.

Overcoming complacency and building net worth needs more short-term goals. When you are 35, it seems that there's lots of time for a bull market to propel your portfolio

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Time for a Review of Your Financial Situation?

At least annually, make time to sit down with your financial adviser, whether by phone or in person, and review your financial situation, changes in your life, issues that are worrying you, and where you are in achieving your goals. If you have a particular concern, reach out to us at any time.

Take some time to review your designated beneficiaries and update as need be. Establish "transfer on death" beneficiaries if appropriate for your accounts (see article on page 2). Make certain legal documents are in place and up to date and that emergency information is current should a disaster strike and your home files not be available.

Your financial adviser is a valuable resource in your pursuit of financial security. But to be of value to you, your input and feedback is essential.

The year-end, as you look at any final deductions or ways to minimize your taxes and prepare for the year ahead, is an ideal time to look at where you are financially and where you want to be. Call today and make an appointment to go over your portfolio, your goals and changes in your life.

We wish you the best of the upcoming holiday season and look forward to hearing from you!

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quarter, gaining an average 3.9% as this graph from LPL Research shows. Over the 66-year period, the S&P 500 gained value in the fourth quarter 79% of the time.

Just as the fourth quarter has typically outperformed, December tends to be one of the two best months of the year for the stock market, with up years outnumbering down years three to one. The twelfth month typically ties July for the best average monthly gain.

What might be the reason for the seasonal strength of the fourth quarter? Some analysts maintain mutual funds give the quarter a boost by selling off poor performers in the third quarter to provide window dressing for their yearend reports. Selling losers could be the reason for September's historically poor performance, setting the stage for the market's rise in the fourth quarter.

There's also the "Santa Claus" rally as strong holiday hiring and sales contribute to the economy. Year-end bonuses tend to make their way into the financial markets, providing buying pressure.

Money manager Ken Fisher points to a stock market anomaly he terms the Midterm Election Year Fourth-Quarter Effect as another reason to anticipate positive returns every four years. Since 1925, the market has risen in 20 of 23 midterm-election-year fourth quarters. Only once was it down significantly –1930 in the midst of the stock market crash. During the last Midterm Election Year Fourth Quarter – 2014, the index was up nearly 5%.

With that said, there's no guarantee that history will repeat or that fourth quarter 2018 will be a profitable one. A number of negative events could happen before year end. But it's nice to know there's a significant chance the quarter will be a good one for portfolios.

Using *Transfer on Death* Designations for Estate Planning

An older client, when asked why she did not have a will, replied that if she wrote one, she would die. And as it turns out, she isn't the only one reluctant to deal with the idea. It's amazing how many people leave considerable estates to the whim of the courts.

The good news is you don't need a will to make certain major assets go to the individuals you would like to see have them. Financial accounts, and even homes and motor vehicles (depending upon where you live) can be passed on through an ownership form known as "Transfer on Death" should you encounter a very unfortunate event.

Transfer on Death (or its alternative for bank accounts, *Payable on Death*) is a means of designating beneficiaries to inherit your bank accounts, retirement accounts, securities, vehicles, and real estate (caution…not all states allow real estate TOD deeds) automatically, without probate.

Advantages of Transfer-on-Death designations

- At your death, ownership passes immediately—and automatically—to the beneficiary you named.
- No will is required (in fact, transfer on death takes precedence over any terms of the will), there is no probate, and no public disclosure.
- You can typically name an alternate beneficiary if your first choice isn't alive at your death. (If you don't name an alternate, and your first choice doesn't survive you, state law determines who will inherit the property.)
- As owner(s), you retain full title and absolute control over the account or property, its use, and its distribution until death.
- Beneficiaries have no rights to or interest in the property during your lifetime.
- The transfer-on-death designation is revocable. Beneficiaries can be changed at any time at the owner's directive. There is no obligation

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Complacency and the Investor *continued from page 1*

higher. If the market has been relatively flat, expectations for better days are always there. Even a bear market doesn't seem that bad. After all, the media assures us that with buy-and-hold, we will be back in the positive in another 3-5 years.

At 50, portfolio growth may take on a bit more priority, but with the kids out of college you are going to be saving a lot more. And then comes 60…

To overcome complacency -

1. Set shorter time frames for your financial goals. Look at cumulative five-year goals. If you are not meeting those goals, you are not likely to meet your long-term goals.
2. Find the right help. As Warren Buffett said, "Investing is simple, but not easy." Not everyone is a good investor, much less a great investor. If investing is not your forte, find a qualified adviser to professionally manage your assets.
3. Don't accept big losses. Over the long run, the financial markets have lost around 30% every five years. Recovering that loss takes a 43% gain and that's just to get back to breakeven. If your adviser doesn't have a plan to minimize losses in major downturns, find a new one.
4. Monitor your investments. If your investments are not meeting performance expectations, consider replacing them or your investment manager. There is no room for loyalty to underperformers when it comes to building net worth.

Teaching Money Smarts Needs to Start Early

For many parents, one of the greatest gifts they believe they can give their children is financial security. Unfortunately, without also giving their children money smarts, there's no such thing as financial security. Even among America's wealthiest families, by the second generation 70% have lost their wealth and by the third generation, only 10% of the families are still among the wealthy.[1]

Teaching money smarts in the classroom has been tried and failed. Stock market games do a poor job of teaching the need for savings. The debate over the value of allowances versus earning money is yet to be resolved. A new generation of digital games is now available to teach financial literacy, but in the end, it seems experience (including learning from real mistakes) is what counts. And the earlier that experience begins, the more effective it is.

1. Give money a real, physical presence.

Use a clear jar for a savings bank and make a big deal out of seeing money accumulate inside. Consider paying allowances or chore compensation in coins rather than bills. Later, the jar may transition to a personal lock box but there is still a reality to money.

2. Let them know that stuff costs money.

When a child opts to spend money on a desired object, help them count it out of the jar, take it to the store and hand it over to the cashier. If you purchase an item that the child is to pay for, return home and count the money out of their money jar. Children are some of the best hoarders in the world. Take advantage of their desire for "MINE!" to encourage saving.

3. Set a good example.

Impulse buying, overspending, failing to save money yourself, arguing about finances, spending on luxuries to keep up with the neighbors, are all lessons that children learn very readily. You can't teach a value that you don't practice yourself.

4. Help your children set aside money for important goals.

If there is something your child really wants, help determine what it will cost and how much and how long they will need to save to purchase the desired object. And then give them ways to supplement their earnings if appropriate to achieve their goal through work. The catch is that it needs to be the child's goal, not yours. Saving for college is a pretty vague goal for an elementary school child but takes on a lot more reality in high school.

5. Encourage charitable giving.

There is a very important lesson in charitable giving. It tells the child that they are more fortunate than others and that they have the power to make someone else's life better. In a society that often seems to place value more on what you have than who you are, teaching charity can create greater satisfaction with one's life.

6. By the time children are in high school they should have their own checking account.

Learning to be financially responsible requires giving children responsibility for their money and helping them learn how banks and other financial institutions work.

7. When they are old enough, teach them the cost of debt, particularly credit card debt.

Credit cards are great for instant gratification. But if balances are not paid off each month, instant gratification is a fast track to poverty. A $1,500 purchase on which a borrower pays 18% interest and a 3% monthly minimum payment will take 7.2 years and $997 in interest to pay off. The real cost of that $1,500 purchase becomes $2,497. As long as the credit card holder has an outstanding balance, all new purchases are also incurring that 18% annual interest expense from the day of purchase, compounding the cost of using a credit card.

8. Pass on the power of the BUDGET.

The hardest lesson to teach is also the most important and that is to live within their means. Help your child put together budgets for special ventures, for getting a pet, going to college, etc. Budgets balance anticipated income and expenses and set boundaries. And boundaries can be both a way of mastering self-discipline and a source of innovation.

1 "70% of Rich Families Lose Their Wealth by the Second Generation," by Chris Taylor / Reuters, Money Magazine, June 17, 2015.

Using *Transfer on Death* Designations for Estate Planning

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for you to even provide notice to an individual that they are the designated beneficiary (although that can save confusion later).

- The account or property is transferred with all restrictions, easements, and debts in place, including mortgages.

To establish a payable-on-death bank account, all you need to do is complete a form provided by the financial institution, naming the person you want to inherit the money. Typically, if you have a joint account and the first account holder dies, the account becomes the property of the survivor. The POD or TOD designation takes effect only when the second account holder dies (check with your financial institution to make certain this is the way their TOD designation is structured).

Retirement accounts generally require you to designate a beneficiary when you first open the account. If you are married, your spouse has to sign off on beneficiaries other than themselves.

Brokerage accounts are governed by the Uniform Transfer-on-Death Securities Registration Act that lets you name someone to inherit your stocks, bonds or brokerage accounts without probate. You register your account ownership in what is called "beneficiary form," and the name of your beneficiary is part of your ownership registration.

In Arizona, Arkansas, California, Connecticut, Delaware, Illinois, Indiana, Kansas, Missouri, Nebraska, Nevada, Ohio, Vermont, and Virginia, car owners can name a beneficiary to inherit a vehicle. The state's motor vehicle department typically issues the forms to record beneficiary ownership right on the certificate of registration.

To designate a transfer-on-death (TOD) beneficiary for real estate, a TOD deed or beneficiary deed is recorded that doesn't take effect until your death. If you own real estate in any of the states listed below, you can use a TOD deed for the property. States have different requirements, so make certain your TOD deed complies with state law.

AK	IL	NM	VA
AR	IN	NV	WA
AZ	KS	OH	WS
CA	MN	OK	WV
CO	MO	OR	WY
DC	NDt	SD	
HA	NE	TX	

Much like wills, executing transfer-on-death instructions requires that the individual be mentally competent and not under duress. The individual must also have the power to revoke the designation.

Collecting property transferred at death generally requires the beneficiary to provide an official copy of the owner's death certificate and proof of identification. Some states include a specific affidavit form for real estate transactions.

While the original account owner is under no obligation to let anyone know that they are a designated beneficiary, it is helpful to leave a list of accounts and beneficiaries behind to make the process of claiming an inheritance a bit easier. Make certain to keep your beneficiaries up to date.

Transfer-on-death designations DO NOT eliminate estate taxes on the assets. The assets' value will still be counted among the overall estate assets to determine whether or not estate taxes apply. Beneficiaries may be required to pay estate taxes on their portion of the estate.

This is a very limited overview of transfer-on-death applications. Transfer-on-death designations are not necessarily appropriate for everyone. Make certain you understand how the transfer will work and consult an attorney for answers to specific questions or complex situations.

RETURN SERVICE REQUESTED

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