Wealth Matters Newsletter

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The Investment Risk No One's Ever Heard Of

Knowledgeable investors are aware that investing in the capital markets presents any number of risks – interest rate risk, company risk, and market risk. Risk is an inseparable companion to the potential for long-term growth. Though some risk can be mitigated through diversification, it does not eliminate the risk of loss if security prices decline. Chances are, this is a risk you were very willing to take when you started investing for your future.

Did you know? As an investor, you face another, less-known risk for which the market does not compensate you, nor can it be easily reduced through diversification. Yet, it may be the biggest challenge to the sustainability of your retirement income or other goal funding.

This risk is called the **sequence of returns risk.**

The sequence of returns risk refers to the uncertainty of the order of returns an investor will receive over an extended period of time. As Milton Friedman once observed, you should "Never try to walk across a river just because it has an average depth of four feet."

Sequence of Returns

Mr. Freidman's point was that averages may hide dangerous possibilities. This is especially true with the stock market. You may be comfortable that the market will deliver its historical average return over the long-term, but you can never know when you will be receiving the varying positive and negative returns that comprise the average. The order in which you receive these returns can make a big difference.

For instance, a hypothetical market decline of 30% is not to be unexpected. However, would you rather experience this decline when you have relatively small retirement savings or at the moment you are ready to retire or withdraw money to fund the goal you've been working toward – when your savings may never be more valuable? Without a doubt, the former scenario is preferable, but the timing of that large, potential decline is out of your control.

Timing, Timing, Timing

The sequence of returns risk is especially problematic while you are in retirement. Down years, in combination with portfolio withdrawals taken to provide retirement income, have the potential to seriously damage the ability of your savings to recover sufficiently, even as the markets fully rebound.

This is one reason we discuss with clients the option of reducing their risk posture over time, or as they get nearer to their goal and are planning to start withdrawing funds to support that goal. When we're talking about the goal of retirement, it's more of an age-based conversation, but this isn't always the case. Goals may revolve around funding education for your children or purchasing a home. These are more timing-based scenarios than age based scenarios so there's more to consider than just the timing of your retirement.

Our investment team implements rigorously researched investment strategies designed to help our clients acquire, grow and preserve their wealth. By understanding your preferences, appetite for risk, goals and your timeline, we select and manage an investment allocation specifically tailored to meet your needs.

If you are nearing retirement, already in retirement, or nearing the complete funding of one of your financial goals, it's time to give serious consideration to the "sequence of returns risk." If you aren't working with our team, it's also time to ask questions about how you can better manage your portfolio.

4 Things to Consider When Receiving an Inheritance

By John C. Fales

Although an inheritance typically comes from some form of loss, it could mean a significant monetary gain for the receiving party. If you have advance knowledge of the incoming inheritance, you may be better prepared for how to handle it, but there are always things you should consider in this situation. Let's take a look at several of those considerations:

1. **Understand Tax Consequences**

Depending on the type of inheritance, there may be tax consequences of which you aren't aware. This could depend on the type of asset inherited, such as annuities, Individual Retirement Accounts (IRAs) and 401k accounts. You should understand if you are, or could be, responsible for ordinary income taxes, capital gains tax, inheritance tax or an estate tax and how that can impact the value of your inheritance. Generally, estate taxes are paid by the decedent (person who died), but in some instances, the person inheriting the assets can be subject to estate taxes as well.

2. **Consult with Your Advisors**

Receiving prudent financial advice will help you assess your goals and allocate or invest the funds in a method designed to help you reach these goals in the timeframe of your wishes. You may choose to leave some of the funds in your bank account, but be careful not to store too much in a non-producing manner that may cause you to miss out on potential growth. In addition, be wary of sales pitches that could tie your money up in illiquid scenarios (ex. privately held businesses).

In a blended family situation, you may want to keep these assets separate in the event of a divorce or premature death. This could be a great time to do a check-up on your estate plan and ensure your assets are bequeathed to your intended heirs. You may also consider holding the assets in a protected form of ownership, such as a Trust.

Consulting with your Certified Public Accountant (CPA), your attorney and your financial advisor can help you determine the best direction to take.

3. **Give Yourself Time Before Making Large Purchases**

Have you heard of lottery winners that eventually file for bankruptcy? When you inherit a large sum, you might have the desire to spend, sometimes unwisely. Think, are these purchases prohibitive based on the value relative to my income? If an inheritance can pay for one (or more) expensive item you wouldn't normally buy, but your monthly income is insufficient to keep up with the ongoing expenses, you may actually find yourself going backwards. Even when you pay for a house, car, or boat in cash, there are expenses related to these items that will continue indefinitely, such as property taxes, insurance and maintenance.

You may also find yourself in an emotionally vulnerable state when your inheritance comes, based on your degree of loss. If you are in the grieving process and have the ability to hold off on large purchases, do so. You may have more clarity about how you want to manage the inheritance when you've had time to consider your entire situation.

4. **Handling Requests of Favors or Loans**

Although it's an unfortunate topic to consider, friends and family may start to come out of the woodwork if they hear you've come into a financial windfall. What may start as a simple favor here or small loan there could become an endless cycle of requests for money. I have even seen instances where well-meaning people were taken advantage of by their friends, siblings, and even parents. Keep in mind that the value of a dollar is in the eye of the beholder. You may inherit $2 million and have money to spread around or you may inherit $20,000 and not have any to spare, but some people might feel entitled to a piece of your inheritance no matter the size.

No matter the size of your inheritance, taking time to understand its impact on your financial situation is important.

Last Wishes – Put Them in a Letter

Actor Lee Marvin once said, "As soon as people see my face on a movie screen, they [know] two things: first, I'm not going to get the girl, and second, I'll get a cheap funeral before the picture is over."

Most people don't spend too much time thinking about their own funeral, and yet, many of us have a vision about our memorial service or the handling of our remains. A letter of instruction can help you accomplish that goal.

A letter of instruction is not a legal document; it's a letter written by you that provides additional, more personal information regarding your estate. It can be addressed to whomever you choose, but typically, letters of instruction are directed to the executor, family members, or beneficiaries.

Identify Funeral Wishes. A letter of instruction is also a good place to leave burial or cremation wishes. You should consider giving the location of your cemetery plot deed, if you have one. You may even wish to specify which hymns or speakers you would like included in your memorial service. Although a letter of instruction is not legally binding, your heirs will probably be glad to know how you would like to be remembered. It also may be helpful to leave a list of contact information for people who should be notified in the event of your death. Here are some items to consider including in your funeral planning instructions:

- Instructions on body or organ donation
- Relatives, friends and advisors to inform
- Cemetery plot information (location, purchase date, deed number and location of deed, etc.)
- Fact sheet for the funeral director
- Armed services records
- Choice of funeral home
- Type of funeral preferred
- Cremation or other interment instructions
- Monument or marker wishes

Make a Cheat Sheet. Think of a letter of instruction as a "cheat sheet" to your estate. It often incorporates a lot of information, much more than just your funeral wishes. Here are a few additional ideas and concepts that may be included:

- The location of important legal documents, such as your will, insurance policies, titles to automobiles, deeds to property, etc.
- A list of financial assets, including savings and checking accounts, stocks, bonds, and retirement accounts. Be sure to include account numbers, PINs, and passwords where applicable.
- A list of pensions or profit-sharing plans, including the location of their explanatory booklets.
- The location of your latest tax return and Social Security statements.

- The location of any safe deposit boxes and their keys.
- Information on your social media accounts and how they can be accessed.

There is no “best way” to write a letter of instruction. It can be written in your style and reflect your personality, or it can be written to simply convey information. You can use your Will as a guide, but it’s your choice which type of letter best fits your estate strategy. Once you have made this decision, you can prepare your letter the way you intend for things to be handled, perhaps removing some of the decisions your loved ones would have to make during a difficult time.

Bowling for Kids' Sake

Thank you to everyone who donated to our bowling team for the Big Brothers Big Sisters Kansas City fundraiser. We reached our team fundraising goal, but BBBS could still use your help to reach theirs. You can still donate here: **https://bit.ly/2ITJ6kr** To learn more about the Kansas City program, visit **https://www.bbbskc.org/** or **https://www.bbbs.org/** to learn about the national program.

Art That Blows

Marc Shaffer was selected to be a member of the Band of Angels inaugural Rock Star class for Art That Blows 2019. This year, the event raised more than $35,000. The charity fundraiser's proceeds go toward the Band of Angels' summer music camp scholarship program. They also collect music instruments and provide them to children in need for free so they can join band and orchestra programs. If you have any instruments to donate (both working and non-working), contact Marc at **Marc@SearcyFinancial.com**. To learn more, visit **https://bandofangels.org/**

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