October 2018

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Notices

Travel Schedule
Bill and Mike will be attending the National Association of Personal Financial Advisors conference in Philadelphia. They will be out of the office on October 16th and 17th.

Mallard E-Mail Update
Are you receiving our e-mail newsletters (which are different from this quarterly newsletter)? If not, let us know by sending an e-mail requesting to be added to our e-mail newsletter list, or visit our website at www.Mallardadvisors.com to sign up for this newsletter.

Use ShareFile
When sending confidential information to us, please remember to use the **secure *ShareFile* link** contained at the bottom of each of our email signatures rather than using the attachment function of your email software.

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MALLARD ADVISORS LLC

Comprehensive Financial Planning & Wealth Management Solutions

THE QUARTERLY MALLARD CALL

The $268,000 Value of Synergistic Retirement Planning — Bill Starnes

Integrated tax and financial planning allows synergies to occur that can magnify financial results. Many people ask only one question at a time. For example, we may hear, "When should I begin collecting Social Security?" or "Are Roth IRA conversions for me?" However, if these questions were to be answered by an advisor or online calculator **in isolation**, the potential synergies would be lost.

In this article, I will focus on one retirement synergy strategy that combines particular Social Security collection start dates with targeted Roth IRA conversions. We will look at the results of each strategy independently and an integrated approach that leverages the synergies. What you will see is the total value of the combined strategies is far greater than the sum of the parts. ***This is synergy***.

The basis for the results used in this article are derived from the facts set out in the box below.

For our Baseline illustration, we will assume the clients want to minimize taxes (a common goal for most people). Therefore, we will assume that no Roth IRA conversions occur. Another goal for many retirees is to generate income, and this is most easily done by beginning Social Security as soon as possible (age 62).

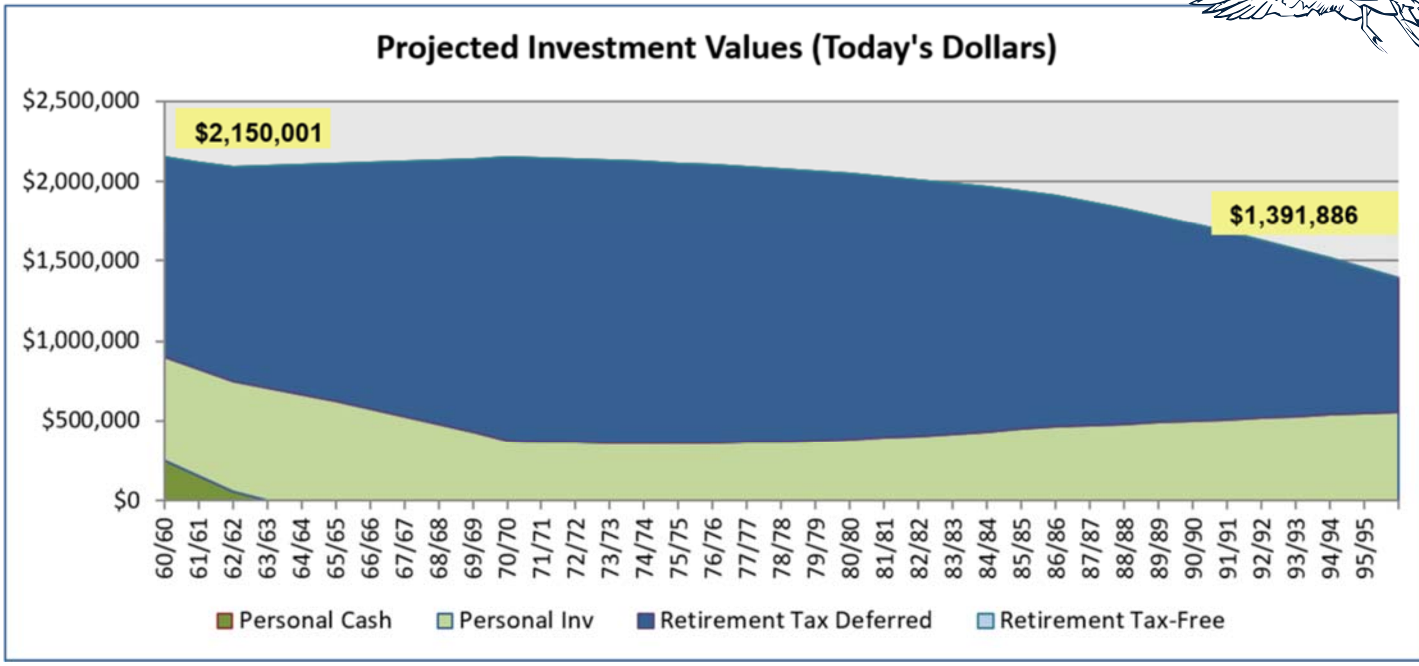
Example Client Facts

- Married couple - Both 60 years old
- Life expectancies - Age 85 & 95
- $2,150,000 of Investments
  - $1,250,000 in an IRA
  - $0 in a Roth IRA
  - $900,000 in a brokerage account
- Social Security benefits of $30k/yr & $12k/yr
- Lifestyle spending of $100,000/yr (plus taxes)
- 6.66% long-term expected return

The graph on page 2 shows us how the clients wealth changes over time with the end result of leaving $1.4 mm at the death of the second of them.

Now, let's take a look at how things change if the clients instead delay their Social Security collection ages to 70 instead of starting at age 60. They perform no Roth IRA conversions. As an aside, this is only

Continued on page 2



for illustrative purposes. Naturally, not everyone should delay Social Security to age 70. However, in their case delaying Social Security results in increasing the clients ending wealth to $1.6 mm, or an increase of $209,000 over the base case shown above! This has been illustrated visually (as represented by the blue bar) in the graph at the top of page 3.

Naturally, they are only able to do this because they have other sources to rely on, namely their brokerage account, to maintain their lifestyle.

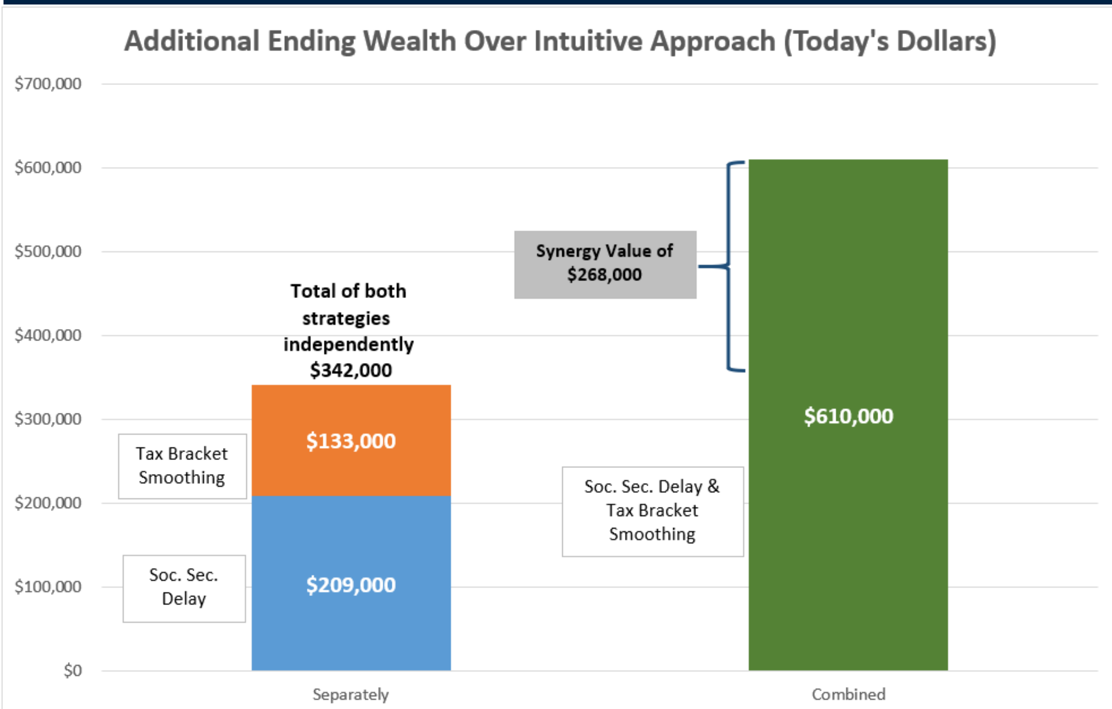
Now, let's consider another planning technique called tax bracket smoothing. This generally involves performing a series of targeted Roth IRA conversions during the early retirement years, but prior to age 70 (when taxable income increases as a result of the required IRA distributions). In my October 2015 article titled "Build Wealth by Paying Taxes", I discussed this strategy in detail. Let's just say, the value from tax bracket smoothing results from accelerating taxable income into the lower tax bracket years and away from the higher tax bracket years.

So, how does our base case (in the picture above) change when the clients perform a series of Roth IRA conversions? Keep in mind they are NOT delaying Social Security collection. Instead, they begin Social Security at age 62. We are trying to see the value of tax bracket smoothing in isolation. The bottom line is that tax bracket smoothing results in increasing the clients' ending wealth to $1.5 mm, or an increase of $133,000 over the base case shown above! This can also be seen (as represented by the orange bar) in the graph at the top of page 3.

Looking at each of these strategies in isolation no doubt adds value. However, what happens when we perform both of these strategies together? Together, the clients' total wealth ends up at over $2mm. This is an increase of over $600,000 over the base case. This can also be seen in the graphic at the bottom of page 3.

Notice that the <u>total value of the combined strategies is far greater than the sum of the parts</u>. ***This is synergy***. Each strategy independently executed adds up to a total value of $342,000, but when the strategies are combined it provides a total value of $610,000.

Planning Synergy...continued



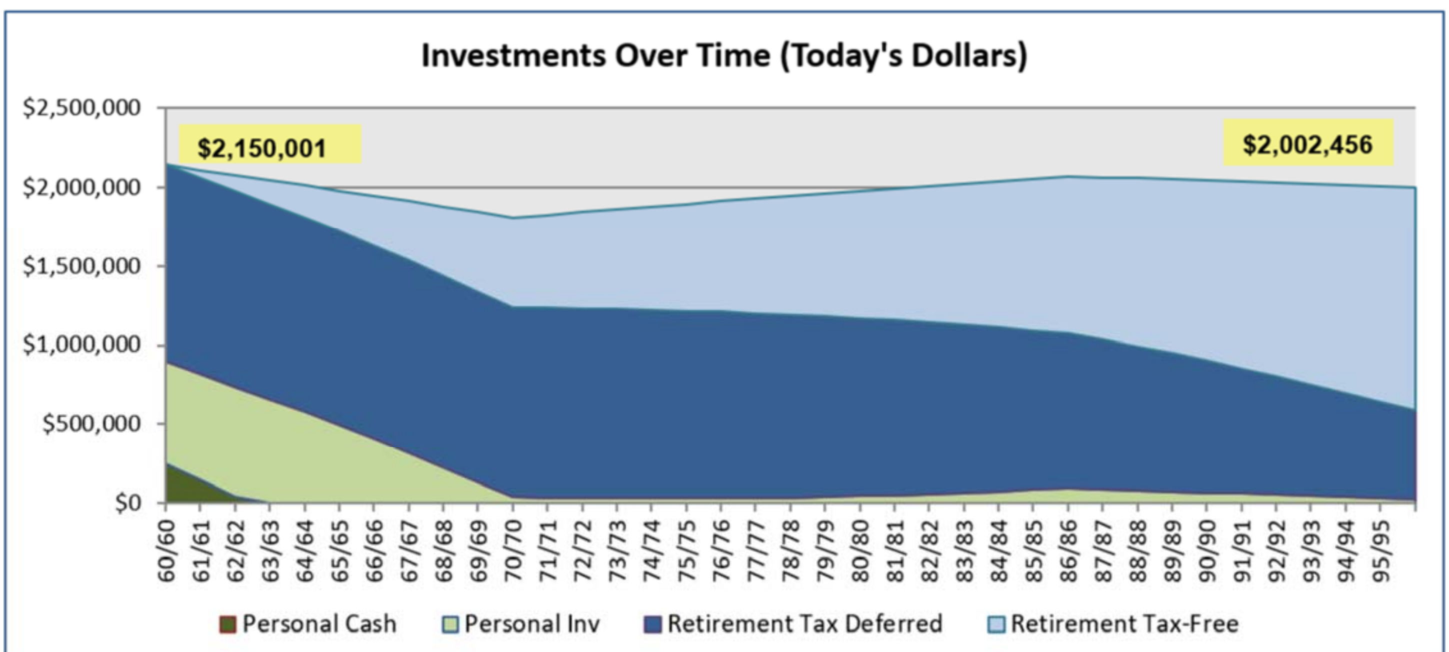
If this is not enough to convince you of the value of integrated tax and financial planning, take a closer look at the graph below. Notice the light blue area….this is the value of the Roth IRA.

In other words, not only is there $610,000 of additional wealth created by using the integrated approach (over the base case), but now well over half of that wealth is tax-free...forever!

This means that by considering tax planning and Social Security collection strategies together, the synergy value is about $268,000!

Again, it is the combination of these two strategies that results in value that is far greater than the sum of each strategy independently. This is an amazing example of retirement strategy synergy!

Bill Starnes is the founder and senior advisor at Mallard Advisors, LLC



Market Commentary

Considering how the stock markets have begun the fourth quarter of 2018, I will skip the third quarter commentary and move right into October. However, the table below contains data only through the end of September.

The U.S. stock market as measured by the Vanguard 500 Index of large U.S. companies dropped 4.35% this 4th quarter, and 5% since Septembers record high. What is the culprit? The media states things like Federal Reserve tightening, bond yields rising (and thus competing with stocks), an overvalued stock market, tariffs, etc.

These losses remain far short of a to-be-expected common correction of 10%. As a reminder, this poor start to October occurred after earning 7.7% during the third quarter of this year.

The prices we are seeing today we saw in July. In other words, <u>stocks have not been this low since July 2018!!</u>

For some reason, we were quite happy in July with our portfolio, yet many investors are less happy now. This is likely due to a combination of the swiftness of the drawdown, and the fact that we must feel as if this is the beginning of the end! Is it the beginning of the end? Maybe, but it may be helpful to recognize that **since the bear market ended in 2009, this is the 20th time the U.S. stock market has dropped 3% or more in one day.** However, the stock market marched on.

Now, this may be the end of this bull run, and if it is, don't fool yourself into thinking you called it. Everyone is calling it after the first hint of volatility. If the losses continue, it will become obvious with hindsight that you should have "gotten out". However, remember more money is lost by investors trying to time these things than if they just rode it out. This is because for those that sell, they will need to buy back in at lower prices, so you need to be right both times—over and over again.

Large fast drops in stock prices are no fun to watch, but not only has the market dropped to the highs of July 2018, it remains up over 5.5% this year to date.

Total Returns as of 9/30/2018

					Annualized	
	Sept	QTR	YTD	12 Mos	3 Years	5 Years
GLOBALLY DIVERSIFIED BALANCED PORTFOLIO**						
60% Equity / 40% Bond	(0.3%)	2.6%	2.7%	6.8%	9.4%	6.4%
STOCKS						
Larger-Cap	0.6%	7.7%	10.4%	17.7%	17.2%	13.8%
Smaller-Cap	(1.5%)	4.7%	10.9%	16.6%	16.2%	11.3%
International - Developed Mkts	0.3%	0.5%	(3.1%)	1.5%	9.9%	4.4%
International - Emerging Mkts	(1.3%)	(1.8%)	(9.0%)	(3.3%)	9.9%	2.8%
Real Estate	(2.6%)	0.5%	0.4%	1.8%	6.9%	8.5%
Inflation Hedges*	0.9%	(0.3%)	(1.1%)	6.1%	13.5%	1.6%
BONDS						
U.S. Investment Grade Bonds	(0.5%)	0.0%	(1.7%)	(1.3%)	1.2%	2.0%
Global Bonds	(0.2%)	(0.2%)	1.1%	2.3%	2.9%	3.7%

** Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for **"Natural Resources"** is used.*

*** The portfolio is represented by the DFA Global Allocation Fund (60% Equity / 40% Bond)*