January 2016

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Notices

WE ARE MOVING!

After 10 years in the historic Lamborn Library Building, we have decided to move one-mile up the road to the ***Hockessin Office Park***. This will occur on or around February 1st. More details will follow.

Our current 2nd floor space does not have an elevator, while our new space does. Ironically, I started my career in the very same building 18 years ago!

Bill will be out of the office January 18th—20th at the AICPA's Advanced Personal Financial Planning Conference in Las Vegas, NV.

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MALLARD ADVISORS

Comprehensive Financial Planning & Wealth Management Solutions

THE QUARTERLY MALLARD CALL

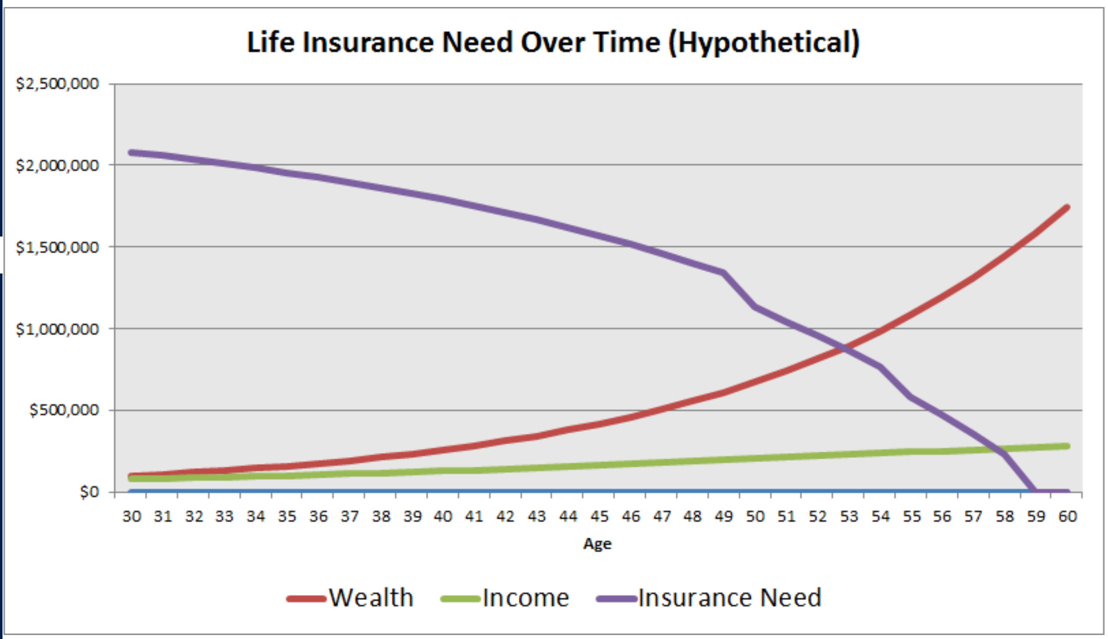
Layering Life Insurance — William D. Starnes

There are two basic categories of life insurance: term and various forms of cash value life insurance. Today, I am going to talk about term life insurance and ways to use it more creatively to not only obtain a more appropriate amount of long-term protection, but also to save money.

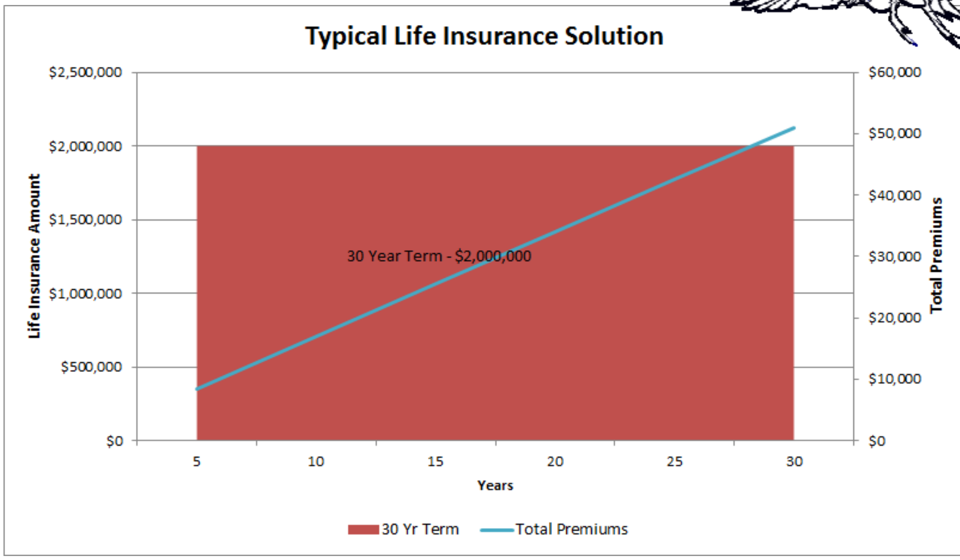
Term life insurance is simple. You pay a fixed annual premium in return for a promised amount of protection from the life insurance company during the term of the policy. The face value of the policy is paid to the named beneficiaries only if the insured person dies during the specified period. So, term life insurance is similar to homeowners insurance in that if nothing happens (during the term), you continue to pay the premium, and if something happens, the insurance company pays the claim. Term life insurance policies are generally quite affordable because most people buy and hold them during periods of youth (say under age 60). Therefore, since the risks are lower, the costs are lower.

Naturally, if you are 30 years old and buy a $1million 5-year term life insurance policy, the annual premium will be lower than if you were to buy a $1 million 10-year term life insurance policy since younger ages are covered during the period.

Another important aspect about life insurance ***need*** is that it declines as you age. This makes intuitive sense because insurance is designed to provide instant wealth needed to replace the lost future income, or to cover future expenses that the insured's income won't be able to cover. The younger you are, the more in-



surance you would need to replace future lost income. However, as you age and begin to build wealth, the less need there is for life insurance.



Like the example on the first page, a hypothetical client is 30 years old and is married with two children. He is concerned about his mortgage, retirement funding, and his kids college costs. Therefore, we determine that he needs $2 million of coverage. The typical solution would be to purchase a $2 million 30-year term life insurance policy. This would cost $1,700/year and these premiums would amount to a total of $51,000 over this 30-year time period as shown in the graph above.

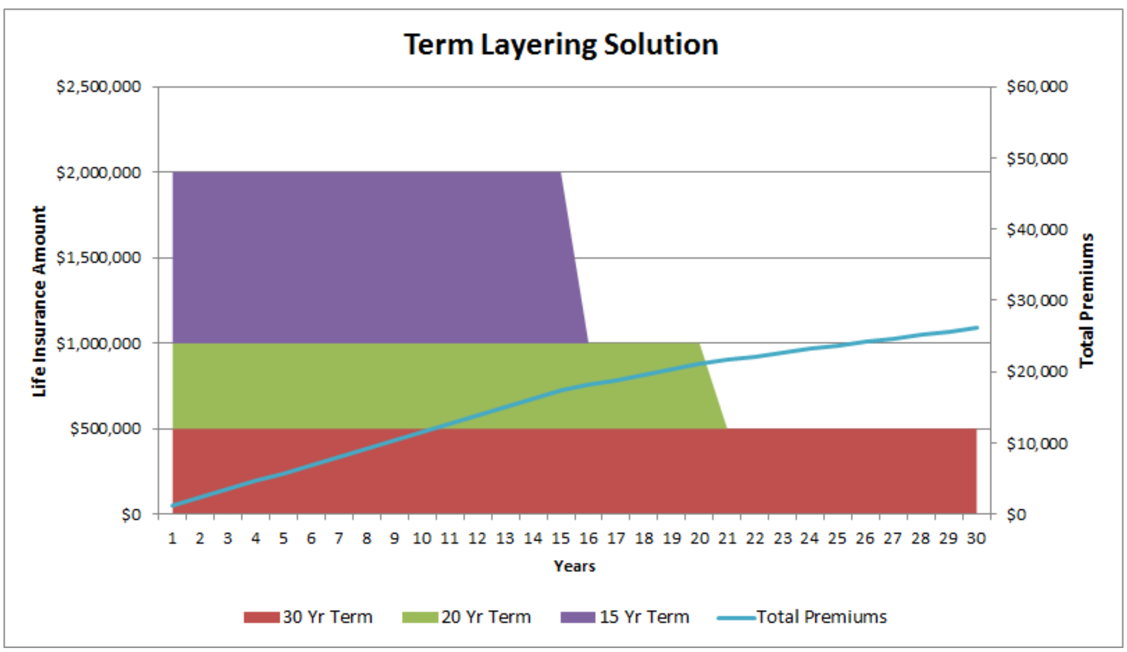
However, if instead the advisor matches this client's long-term need (which declines) with a layering of different length policies over the next 30 years, the client can obtain more appropriate protection at a lower costs.

As shown in the chart below, this client is able to buy three term policies. The first (in red) is a $500,000 30-year term policy costing $500/year. The second (in green) is a $500,000 20-year term policy costing $265/year. The last (in purple) is a $1,000,000 15-year policy costing $390/year.

As you can see, the total premiums for the client who layers his term life insurance would only total $26,150 versus the first client who did not layer his term and paid total insurance premiums of $51,000.

Also, you can see how his insurance benefits begin at $2 million and drop to $500,000 over time, more closely mimicking his need (as illustrated on the chart on the first page).

Since the first client became over-insured over time, his beneficiaries are actually better off (economically speaking of course) with him dead. When that happens, you have too much life insurance!



Consider layering your term life insurance in order to protect your loved ones more appropriately and inexpensively!

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

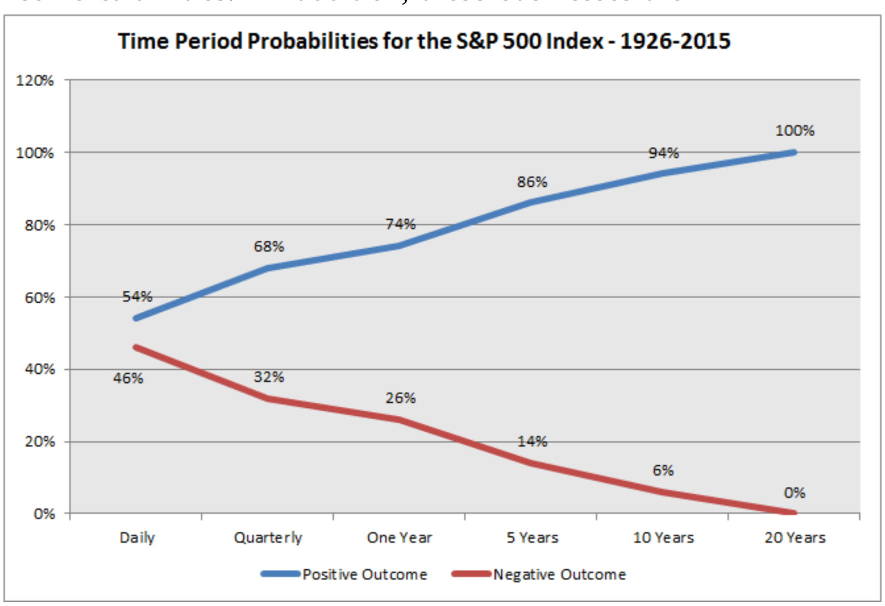
Time is a Volatility Killer

Take a look at the table to the right and the corresponding chart below and you will most vividly see how time is a volatility killer. Nothing more reliably wipes out the temporary declines of the stock market than time. Time drives the expected returns of stocks back to their long-term positive trendline. This data illustrates the healing power of the economy, of capital markets, and of the businesses that comprise the “stock market”.

However, it also shows that risk of loss in the short-term is very real, and I don’t have to remind you - painful to experience. These losses are caused by the uncertainty of the world we live in. The “unexpected” jolts of the markets can result in receiving poor returns over what feels like a long time period. This is why investing involves risk and you should not invest money (in stocks) that you will need within the next five years.

While the risk is real, no one has figured out a better way of building wealth than by owning businesses (like stocks or direct business ownership) over long periods of time.

However, while the world often seems to be ending, it never quite does. Thankfully, people own and work in business, and these people want a better life, want to build something that solves a problem, or they simply want the satisfaction that comes with having a purpose. These motivations overcome calamities. In addition, these businesses are building (or using) technology that improves our lives, productivity, and thankfully lifts thousands of people every week into the middle class.



S&P 500: 1926-2015

Time Frame	Positive Outcome	Negative Outcome
Daily	54%	46%
Quarterly	68%	32%
One Year	74%	26%
5 Years	86%	14%
10 Years	94%	6%
20 Years	100%	0%

Another perspective in looking at the evidence that time kills volatility is for clients to say, “I can’t wait 20 years for positive returns”. Therefore, you may conclude that due to the probabilities of having a negative outcome, you will invest in bonds rather than stocks.

However, according to Jeremy Siegel (*Stocks for the Long Run*) as your holding period increases, the probability that stocks will *outperform* bonds increases dramatically. For 10-year periods, stocks beat bonds about 80% of the time. With interest rates at all time lows, it is likely that stocks have a much better than 80% chance of beating bonds over future 10-year time periods.

Stocks are certainly riskier than bonds in the short-run, but history has shown that stocks are actually safer for long-term investors whose goal is the preservation of their wealth.

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Investment Commentary

In 2015 we experienced many things—a prelude to a Presidential election, a renewal of terrorist concerns, a trip to Pluto—but in the investment markets, we will look back and yawn at the end result. After more than tripling in six years since the lows of 2009, the U.S. stock market rested. Despite some scary ups and downs, particularly in the third quarter of the year, a diversified portfolio ended down for the calendar year.

Large cap stocks were up slightly for the year. The S&P 500 large cap stock index gained 7% in the fourth quarter, and managed to finish the year with a total positive return of 1.3%. This was a year to forget for investors in small company stocks. As measured by the Vanguard Small-Cap index, investors posted a small 3.1% gain over the last three months of the year, but in the end the index had lost 3.8% over the entire 12 months, dragging many diversified portfolios into negative territory.

International investments contributed a decline to overall portfolio returns. The broad-based Vanguard Total International Stock Index of companies in developed foreign economies gained 2.7% in the fourth quarter of the year, but finished the year down 4.4% in dollar terms. Emerging market stocks of less developed countries, as represented by the Vanguard Emerging Markets Stock index, lost 15.5% for the year.

Looking over the other investment categories, real estate investments, as measured by the Vanguard REIT index, gained 7% during the year's final quarter, wiping out previous losses to finish up 2.2% for calendar 2015.

Inflation hedges, particularly energy stocks, were by far the biggest loser of 2015. In fact they have been the worst performing asset class for four straight years now. Our clients moved a small part of their portfolios into energy/natural resources in mid-2015 thereby experiencing some of these losses—especially painfully in December. Inflation hedges are considered an excellent diversifier, unfortunately this diversification works both ways. The Morningstar Natural Resources category lost 8% in the fourth quarter and 22.1% for the year. Some have speculated that the largest contributor to the fall in oil prices was a Saudi Arabian failed attempt to put American frackers out of business by flooding the oil markets. Oil production from post-sanctions Iran will soon hit the market, adding to what economists are already describing as an oil and gas glut. While this hurts the inflation hedge asset class, it has certainly been considered one of the greatest middle class tax cuts in American history due to the savings at the gas pump.

Meanwhile, bond investors started the year, as in years past, expecting that 2015 would finally see interest rates rise across the board. Of course, the Fed did raise its target short-term interest rate a quarter of a point from effectively zero, to something a little more than zero. Bond returns were flat for the year.

We have no idea what returns will be in the coming year. We do, however, have confidence that any future bear market will be followed by a subsequent recovery, and eventually (who knows when?) the U.S. and European markets will again be testing and surpassing their previous record highs. We simply need to be patient.

Total Return as of 12/31/2015

	Dec	4th Qtr	Last 12 Months	*Annualized* 3 Years	*Annualized* 5 Years
GLOBALLY DIVERSIFIED BALANCED PORTFOLIO**					
60% Equity / 40% Bond	-1.8%	2.3%	-1.7%	5.7%	5.5%
STOCKS					
Larger-Cap	-1.6%	7.0%	1.3%	15.0%	12.4%
Smaller-Cap	-4.2%	3.1%	-3.8%	12.4%	10.3%
International - Developed Mkts	-2.1%	2.7%	-4.4%	1.8%	1.2%
International - Emerging Mkts	-2.5%	-0.4%	-15.5%	-7.0%	-5.0%
Real Estate	1.8%	7.0%	2.2%	10.8%	11.7%
Inflation Hedges*	-8.0%	-1.1%	-22.1%	-8.6%	-6.8%
BONDS					
U.S. Investment Grade Bonds	-0.4%	-0.6%	0.3%	1.2%	3.0%
Global Bonds	-0.3%	0.5%	1.1%		

** 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)*