

October 2014

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MALLARD ADVISORS

Comprehensive Financial Planning
& Wealth Management Solutions

THE QUARTERLY MALLARD CALL

Good Will Hunting

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Notices

Bill will be out of the office November 5th through November 7th to attend a conference presented by the Alliance of Comprehensive Advisors. This is a group of fee-only advisors who are committed to practicing comprehensive financial planning.

The office will be closed for Thanksgiving on Thursday November 27th & Friday November 28th. It will also be closed during the last two weeks of December.

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](#).

Estate planning is not fun; it is not easy; and it is not cheap. Estate planning is also emotionally tough to address. Not only is thinking about our own death tough, but the needed discussions around estate planning are also filled with emotional triggers that generate more barriers to implementing an estate plan.

I know all of this first hand as my wife and I recently had our estate planning documents updated. It was amazing how quickly conversations would get derailed by low probability events and our own emotions.

Though somewhat painful, there is a very good reason to get through the estate planning process: it is the responsible thing to do - for our children and family. What is the alternative to estate planning? Generally, it means leaving your loved ones with the enormous and frustrating process of finding and gathering all of the information necessary to settle your affairs. Do you want them dealing with paperwork, complexities, and frustration at a time when they are going through a time of great emotional pain and adjustment?

And while having a will, advanced directives, and other legal documents is a must, most people think estate planning is done once they walk out of the attorney's office with signed documents in hand. There is a little more to do once the documents have been executed. Instead of leaving your family a mess, you can give them the gift of peace of mind by also getting organized. For example, what if your spouse died and you found yourself asking the following questions:

- Did he name beneficiaries for his IRA? Am I the beneficiary?
- What is the password to his email account?
- How do I contact his last employer to ask about life insurance benefits?
- Where can I find tax returns from last year?
- Where did he stash the keys to (fill in the blank)?

How do you do this? How can you know what is *critical* for your family to know in the weeks after your death? At Mallard, we have made this easy by creating a small "Estate Binder" for each client that contains the needed documents, checklists, and summaries. While there are excellent commercially available books, checklists, and spreadsheets for this task, they generally are so thick and comprehensive

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Announcements

Happy Anniversary

A hearty congratulations to Sherry & Bill who have worked together since 1998—now sixteen years!



Good Will Hunting...Continued

that they quickly become overwhelming—and therefore don't get used.

Our binder only contains the critical things your survivors need during the weeks after your death. Survivors do not need reams of information to document everything for years to come!

The binder itself is broken into the following sections:

1. Estate Checklist
2. Funeral Checklist
3. Estate & Beneficiary Financial Summary
4. Retirement Plan Beneficiary Forms
5. Life Insurance Beneficiary Forms
6. Estate Planning Legal Documents

The **Estate Checklist** prompts you to provide information that would be helpful to those persons responsible for settling your estate. Generally, these people include your executor and other close family members. This checklist includes information about your employment benefits, location of important documents, contact information for close friends and advisors, and things you want your survivors to know.

The **Funeral Checklist** is an easy method of communicating your funeral wishes (or lack thereof) to your family. They will know what is important to you, and also what you don't care about. More family disputes arise following a death than almost any other time. Emotions are at a peak and some of this can be diffused by making your wishes about your funeral clear. For example, do you want:

- A particular funeral home?
- Donations in lieu of flowers?
- Cremation rather than burial?
- Specific hymns or readings?

Financial assets and their disposition are summarized on the **Estate & Beneficiary Financial Summary**. This summary allows you, your attorney, and family members to see how each and every asset/insurance policy passes at your death. On one page, everyone can see what (will, trust, title, beneficiary designation, etc.) controls the passing of each of your assets, and to whom it passes. Not only does this provide much peace of mind, the act of completing this summary also identifies and allows for the correction of errors.

For example, I have seen life insurance policies where the beneficiaries are ex-spouses, deceased parents, or *none at all*.

This summary captures the following easy to obtain information about every investment and insurance assets:

- Asset name
- Financial institution where the asset is held
- Account number
- Contact information (phone number)
- The controlling document (will, trust, beneficiary, etc.)
- Name of the beneficiaries
- Location of the documentation that controls the passing of the account

Copies of all Beneficiary Designation Forms are located in the next two sections of the binder: **Retirement Plan Beneficiary Forms**, and **Life Insurance Beneficiary Forms**. Unlike 50 years ago, now the bulk of a client's

estate passes via beneficiary designation and NOT via will. This is because with the demise of defined benefit pension plans, 401(k)'s / IRA's have become the largest single piece of any estate plan. These assets pass according to one piece of (easily lost) paper: a beneficiary

designation form. This form governs the disposition of your largest assets, but does not get the attention it deserves. In the *Estate Binder*, a copy of every beneficiary form will be available to the survivors.

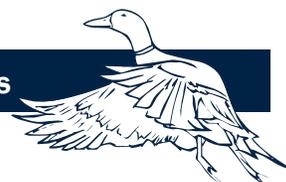
Finally, copies of the **Estate Planning Legal Documents** are included in the binder. Without these documents, state law will determine who receives the assets that would have otherwise passed according to your will. Worse, if you have minor children, a court will appoint guardians for them.

Your family can have the critical things they need (in the short-term) in the event of your death or incapacity. Yes, it is a morbid chore. However, if instead you think about estate planning as a gift you can give to your family (as a final act of responsibility), it may be a little easier. Deciding how you want your affairs to unfold and getting them organized does mean you must come to grips with both emotional baggage and the finality of life, but it is worth doing—for those you love.

Get your estate documents done now. An imperfect plan (which can easily be updated) is far superior to no plan at all.

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





The markets experienced a difficult month of September, giving up some of the gains from the prior eight months and causing investors to worry that we're about to experience more of the same. The end of the month was especially difficult (which has continued into the early days of October), with a general market slide starting September 22, and some indices dropping more than 1% on the final day and the first day of October as well.

The Vanguard 500 Index Fund--a measure of large U.S. stocks --rose a meager 1.1% for the third quarter even as it lost -1.4% in September. But the index is hanging on to an 8.2% gain for the year.

The news was less happy for smaller stocks. The Vanguard Small Cap Index Fund lost -5.5% in the third quarter of the year, and is clinging to a 0.5% gain so far into 2014.

The rest of the world put a drag on diversified investment portfolios. The broad-based Vanguard Total International Stock Market Index of companies in developed economies fell -5.6% during the third quarter of the year, and is now down -0.1% so far in 2014. Ironically, the emerging markets stocks of less developed countries, represented a bright spot, losing "only" -2.4% over the last three months, and is still up 4.3% so far this year.

I always encourage clients to focus on at least 12 month returns as the shorter time period focus too much on the "noise" of the market participants.

Nobody seems to have a convincing explanation for the recent stock market slump. The economy still seems to be pushing along in a long slow, steady growth process, and corporate earnings are well-above historical averages.

But pullbacks don't always reflect reality. They are also affected by the sentiment of investors--in other words,

human emotions and a crowd (or herd) mentality.

Investors seem to be worried that stocks are overdue for a correction, and if these things operated on a schedule, they would be right. We are in the fourth-longest bull market since 1928, without having experienced even a small 10% correction since 2011. U.S. Consumer Confidence slipped dramatically, and unexpectedly, in September, lending some credibility to the guess that the investing herd has been startled--and their expectations appear to be creating market reality.

You can't know in which direction the markets will experience their next 10%, 20% or 30% move. But unless you believe the world is about to end, you do know, with some degree of certainty, in which direction it will make its next 100% move.

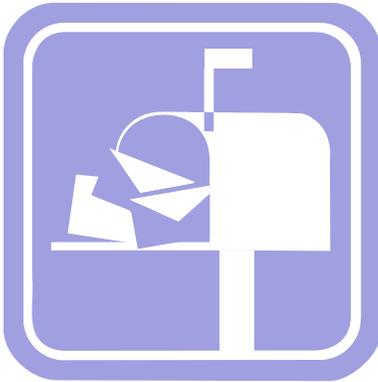
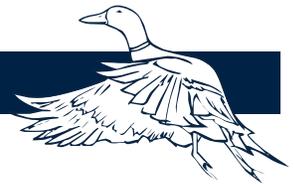
At Mallard, we've never believed that we could add value using an investment strategy that relied on accuracy forecasting the direction of the economy over the near term.

And in fact an *investment strategy* should never be based upon a *market outlook* anyway. Financial security is not obtained by forecasting markets, timing markets, or stock picking. It is secured by always living beneath your means and saving the necessary percentage of income in a low-cost, globally diversified portfolio of the best companies of the world.

Portfolio values change daily, sometime for the better (as we have seen over the last several years) and sometime for the worse. As in life,

sometimes you must take a step backwards in order to take two steps forward. We have taken five steps forward. I don't know if we will take the sixth step forward, or one step back. It doesn't matter what stocks will do this year, or next. It does, however, matter what they will *ultimately do*. That is why we invest, to obtain the returns that stocks will ultimately provide in the long-run.

Total Return as of 9/30/2014				
	September	3rd Qtr	YTD	Last 12 Months
PORTFOLIOS**				
60% Equity	-2.0%	-0.8%	4.7%	9.9%
40% Equity	-1.6%	-0.4%	4.7%	8.1%
STOCKS				
Larger-Cap	-1.4%	1.1%	8.2%	19.5%
Smaller-Cap	-5.3%	-5.5%	0.5%	9.4%
International - Developed Mkts	-5.0%	-5.6%	-0.1%	4.8%
International - Emerging Mkts	-7.2%	-2.4%	4.3%	6.0%
Real Estate	-6.0%	-3.2%	13.9%	13.0%
Inflation Hedges*	-7.9%	-9.4%	0.9%	5.0%
BONDS				
Investment Grade Bonds	-0.7%	0.1%	4.0%	3.8%
Emerging Local Market Bonds*	-5.1%	-5.4%	0.7%	-1.2%
TOTAL CASH				
* 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, and for Emerging Local Market Bonds where PIMCO Emerging Local Bond is used.				
** Each portfolio is represented by a Vanguard Lifestrategy Index fund.				



In order to protect consumers from potential fraud, the NASD now requires all brokerage firms to put certain controls into place to assist clients in monitoring their accounts for certain distributions.

In particular, distribution notification letters will be sent to all clients whenever a distribution is NOT sent directly via check to the address that TD Ameritrade has on record. So, this would include distributions such as an ACH transfer to your local checking account.

Since many clients have automated monthly transfers from TD Ameritrade to their local checking accounts, this new law will result in receipt of these letters. For example:

1. If you currently have on-going ACH transfers set up, you will have only received one letter regarding these transfers. You will not receive one letter each month.
2. If you set up an on-going transfer, you will receive only one letter.
3. If you request one-time transfers, each time this is requested, a letter will be generated.

While we know correspondence can be irritating, the purpose of these letters is to help ensure that fraud is identified and stopped.

PIMCO's Gross Goodbye?

Last week, Bill Gross surprised the investment industry by announcing his departure from PIMCO (Pacific Investment Management Company), the firm he founded in 1971 and built. His bond fund, PIMCO Total Return, was so successful that it became the single largest (\$222 billion) mutual fund in existence until last year when the Vanguard Total Stock Market Index Fund moved to first place. Success came primarily from his track record where the fund earned 7.9% annually since 1987 versus 6.8% for the benchmark. How did he do this? For years Gross would make correct calls on interest rates, and the bond markets. These good (i.e., lucky?) calls, market insights, and good returns kept the money rolling into his fund from individual investors, pension funds, 401(k)'s, and institutional investors.

Things have been shaky over at PIMCO for over a year with the biggest news occurring last February when Bill's expected successor, Mohamed El-Erian, quit the firm over acrimony with Bill. This was apparently due to Bill's abrasive management style. With Bill in his 70's, a successor was very important to the long-term viability of the company. The other problem for PIMCO has been recent poor performance, and now massive fund outflows.

Bill Gross will be joining the Janus mutual fund family, running the Janus Unconstrained Bond Fund.



You may be wondering if you should continue to hold PIMCO Total Return or buy the Janus Unconstrained Bond Fund. Most likely, you don't own it anymore (at TD Ameritrade). Mallard began reducing exposure to PIMCO Total Return a few years ago, primarily due to concerns with asset growth. More recently, we have almost completely eliminated PIMCO Total Return from client portfolios beginning in March and ending late this summer.