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# TACONIC VIEWS

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Financial Insights for Secure Retirements and Life's Transitions

May 2019

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## Every Investor Owes a Debt of Gratitude to the Late John C. Bogle

By Tim Sullivan, CFP®, EA  
Columbia, MO

John C. Bogle passed away on January 16 at the age of 89. He was known as “Jack” to those around him, but better known as the founder of The Vanguard Group to the rest of the world. Today, The Vanguard Group or just “Vanguard” as it is widely known, is the largest mutual fund company on the planet with over \$5 trillion dollars in assets under management.

There was nothing commonplace about Mr. Bogle’s achievements in the world of finance. In 1999, *Fortune* magazine named him one of the investment industry’s four “Giants of the 20th Century.” That same year, he received the Woodrow Wilson Award from Princeton, his alma mater, for “distinguished achievement in the nation’s service.” Arthur Levitt Jr., former chairman of the Securities and Exchange Commission, once said, “Jack Bogle has given investors throughout the world more wisdom and good financial judgement than any person in the history of the markets.”

Regardless of his elite accomplishments, Mr. Bogle was a steadfast champion of the ordinary investor. In 1975, after getting fired from his role as President and CEO of a mutual fund management company when a merger with another company went terribly wrong, he started The Vanguard Group. There, he was able to start the first mutual fund company where the funds themselves were the owners of the company, and the fund managers oversaw the investments as opposed to being handed off to a management company that worked for its own shareholders.

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## What Would You Do If You Missed Two Paychecks?

By Zach Teutsch  
Washington, DC

The government shutdown went on for 35 days which meant that nearly 800,000 government employees and about a million contractors missed two paychecks. Furloughed workers took out high-interest loans and visited food pantries to get meals on the table. Though workers are still digging out, the worst of the nightmare is over.

For the rest of the country looking on, the question of what we would do if we missed two paychecks was on many people’s minds. For many, it was no mystery—they wouldn’t be able to afford it.

There is near-universal agreement among financial advisors: Always have an emergency fund—money set aside for unexpected costs such as medical bills, a broken-down car, or when the government is locked in a legislative battle that leaves you furloughed for a month.

In my 15 years of doing this job, I find people are rarely kept up at night because they worry about the specifics of tax-efficient investment or an inability to calculate interest rates. It is much more likely that they worry about having enough resources to weather a storm. It’s why prioritizing an emergency fund is likely to make your nights more restful and your financial life more resilient for years to come.

Early in my career, when I suggested to working families that they put away three to six months of earnings in an untouched emergency fund, most would look at me in shock. Many people didn’t have adequate

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## Transitions...

# Financial Planning for Life's Transitions

### How to Get Ready for Your (Advisor's) Retirement.

By Charles "Chip" Simon CFP®  
Poughkeepsie, NY

It's a bit strange to be writing this piece. After all, I've been advising clients about their retirement preparation for sixteen years. Now I find that I have to let these same clients know that I won't be here forever as I confront my own retirement plans.

The advisor community has been talking about this issue of "succession planning" for years. If you are a fiduciary advisor, the thinking goes, how do you make sure that the interests of your clients are being served if something happens to you? What is the business continuity plan if you, the advisor, become disabled or incapacitated? It's much more than the potential retirement of the advisor. What if he or she is hit by a truck?

So succession planning issues have actually been on my mind for about seven years. One of the great strengths of Taconic Advisors' business model is that we are part of a community of like-minded fee-only financial planners called the Alliance of Comprehensive Planners, or ACP. We have a common financial planning language and use similar planning techniques. This common culture makes it very easy for one planner to step into the shoes of another.

In the past, my succession plan consisted of informal arrangements with ACP planners who live near my clients. If something happened to me, clients could be directed to other planners who could help.

Then, in 2013, I began formally organizing the business to allow for a transition, although I was not sure what that transition would be. Clients signed new contracts that replaced the original contract that automatically terminated upon my death. That is to say, the new contract is with Taconic Advisors, the ongoing entity vs. Chip Simon, the Advisor who is subject to the perils of life. The old contract risked leaving clients out in the cold. The new contract keeps them within the folds of the ongoing entity that could be managed by a new, capable advisor. Next problem, how

do you identify the new capable advisor who will be the answer to the succession planning problem?

Answer: go out to breakfast. Following a June, 2014 Community Foundation Professional Advisors breakfast I sent the following email, "Hi Meredith: Nice meeting you yesterday. Shall we get together for a sandwich sometime when you are in town?" After more than a year of getting to know each other, Meredith Briggs joined Taconic in December 2015. In August of the following year, she became a co-owner of the firm.

Since that time, building an organization of care required two elements, team and technology. The practice had to grow to accommodate a team-based approach to client care. Technology had to be put into place to share client information and help the team communicate. New office space was obtained, technology upgrades continue, and staff keeps building their knowledge of client planning issues. Believe me, 2018 was a busy year and our business coach was very impressed at all of the accomplishments!

The last eighteen years have been, without question, the most satisfying time of my life. It's been a thrill to see the ACP model of financial advice gain acceptance in the mid-Hudson Valley. Client relationships have been long-term, highly personal, and very rewarding. And although I hear some clients say to me, "You can't retire," I am honored to know that they are really saying how much they trust me and the work I do. But I also know now that the trusted advice that they have received in the past will continue into the future.

After seven years of succession planning I know that all of our clients are in a much better position to have their financial planning advice continue without the disruption of advisor health risks, death, disability, or retirement. This strengthens their financial plans and adds to their peace of mind. I can reduce some of my time in the practice and think about when I want to fully retire. (not sure yet, folks!)

How do you get ready for your advisor's retirement? It's easy. If you have the right advisors, it's being taken care of for you.

## **Missed Paychecks...** *Continued from page one*

savings, and they weren't alone—most Americans have very little set aside. According to the **Federal Reserve**, 41 percent of Americans could not cover an unplanned \$400 expense without incurring credit card debt they wouldn't be able to pay off that month. Only **about half** of Americans have an emergency fund at all.

### **Saving for an emergency fund is hard. Here's how to start:**

**1) Take baby steps:** When just starting out, ignore the advice of three to six months savings for now. Instead, just try to save \$500. If the goal feels achievable, you'll be much more motivated to get started. The momentum and feeling of success from achieving your goal will help you take the next step. Focus on getting started. Once you have saved \$500, keep going!

**2) Think of it as giving future you a loan:** Imagine sitting at a table with a future version of you. Consider what emergency future you might be facing. Get specific: Have you wrecked your car? Is it a medical issue? Do you need to travel for a family emergency? Say yes to future you; drop it in your emergency fund.

**3) Automate saving so you don't forget:** It's very hard to remember to do something every week or every month. It's harder yet to take action consistently. Don't try to remember—set up an automated solution to do it for you.

**4) If you are a spender, make it annoying to access your emergency fund:** For those who are disciplined savers and careful spenders, it's just fine to keep the money in a checking account. For people who have a history of impulsive spending, credit card debt, or trouble setting limits, having the money visible and readily accessible may be too tempting. Consider putting the money into an account at a different institution. That way, if you log in to your checking account, you won't see the emergency fund.

**5) Have an accountability partner:** If you don't have an emergency fund or you have one and it isn't adequate, you are not alone. Choose a friend or family member and set goals together. Every so often, check back in about how you're doing with your savings. Knowing you'll need to report back might offer the extra accountability you need.

**6) If you take out money, put it back:** I had a friend who was hired as a high-paid corporate lawyer and asked what tips I had for him. Among the things we discussed was the importance of emergency savings. A few years later, during the 2008 crisis, he was laid off. When we talked about it, I told him, "This is why you set up a rainy-day fund—it's raining." He got an embarrassed look and said there was nothing significant left, since a year earlier he'd had car troubles. He clarified that I hadn't said anything about putting money back in if you take it out. If you take money out, put it back! Bad news often comes in bunches. It's important to rebuild your stability by replenishing your emergency fund quickly.

**7) If you could use professional help, make sure you get it:** Many industry lobbyists **work hard** to keep the US system difficult to navigate. There's a dizzying range of financial decisions. If you want professional advice, you might find it at no cost through an employee assistance program at work. If you'd like to hire a financial advisor, consider avoiding conflicts by choosing a fiduciary adviser. I recommend making sure they don't accept commissions.

**8) Support candidates who want to improve our safety net:** Rather than individuals struggling to set aside money to cover health care costs or job loss, it'd be better if the US had an adequate safety net. Americans live in a country where it is usually financially prudent to leave money tied up in low-return emergency funds. That's a policy failure. Of course, we should do the prudent thing for our households—but we should work toward a future where each family doesn't have to allocate funds in this wasteful and inefficient way.

Many people read about the government shutdown and got the uneasy feeling that if something like that happened to them, they'd be in trouble. Almost everyone will have an unexpected drop in income or a significant unforeseen expense. Emergency funds can be the difference between a sinkhole of debt that's hard to escape and financial stability. You can start right now.

## KEEPING UP WITH TACONIC ADVISORS...

NEWS!



Meredith was able to spend 4 weeks out of the country in Costa Rica this winter (striving to be like her role model, Chip) and our new technology helped her work seamlessly while she was away. Her kids made great progress developing their Spanish Language skills and they made some wonderful family memories. Pura vida!



Recently, clients have been noting this cryptic email sign-off from Chip... “Please note: I am in the office Tuesdays, Wednesdays and Thursdays. If you need assistance on a Monday or Friday, please call 845-486-5039 and another member of our team will be happy to assist you.” He failed to mention that HE needs assistance after limping home from yoga classes on his new days off.



John Kelly, our nimble planning associate, has started his Certified Financial Planner™ coursework through Boston University. Go John!

### *The Late John C. Bogle* Continued from page one

A year later, Bogle established the First Index Investment Trust, the world’s first index fund. This fund tracked the return of the S&P 500 and did so while greatly reducing investment expenses for investors by lowering operating costs and eliminating commissions to brokers who sold the fund. This entire concept of trying to match the return of the market was largely derided at the time. Nevertheless, despite a slow start, Mr. Bogle pushed forward. Now known as the Vanguard 500 Index Fund, it has grown to be one of the largest funds in the industry with \$441 billion in assets.

Mr. Bogle fought to give everyday investors a “fair shake” when much of the financial industry was working against them. His favorite topic of scorn was the high fees associated with many mutual funds over the years. The rock bottom costs at Vanguard have forced competitors to lower their fees across the board. So much so that William Baldwin, a senior investing contributor to *Forbes*, estimated the savings to investors at a collective \$100 billion annually.

Just over four years ago, I had the good fortune to meet Mr. Bogle in person. I had sent him a handwritten letter in a longshot effort to get him to participate in an Alliance of Comprehensive Planners conference—which happened to be in his adopted home town of Philadelphia. To my astonishment, he happily agreed.

He joined a small group of colleagues and me for lunch, and then I had the pleasure of leading an hour-long Q&A session with him. He answered the questions in typical Jack Bogle fashion, directly and comprehensively. Despite his age and frail physical condition, he was still quick-witted and sharp as a tack.

To a room full of fee-only advisors—many of whom would consider themselves “Bogleheads,” the lighthearted name given to those who are devout followers of Bogle’s investment preaching—it was a once in a lifetime experience, and I will always remember him fondly. There is no doubt that his voice in the investment community will be sorely missed, but his legacy will last for generations.

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**Note from Chip: What a fond memory! I actually helped Tim lead that Q&A session at the 2014 conference after meeting Mr. Bogle in his offices at Vanguard the day before. I still carry in my wallet a copy of the following handwritten note that I received thereafter:**

*Dear Chip: My meeting with the wonderful folks at the ACP Conference – especially Tim and you – was one of the highlights of my long career! I believe that ACP has got it right in values, in philosophy, in organization (small!), and in pricing. You’ll help an awful lot of investors, and ACP will continue to grow.  
Thanks for the advance briefing, too. Great!  
Best always, Jack*

## Staying on Track: The Five Technical Principles of Financial Success

By Steven Clark, CFP®, EA  
Coconut Creek, FL



When it comes to your financial future, there are things you cannot control such as the stock market, the economy, or major world events. To increase your odds of financial success, I believe it is more important to focus on the things you can control. My *Five-by-Five formula* for reaching your financial goals includes five behavioral and five technical principles you can control. Today we'll look at the five technical principles.

### Have the Proper Asset Allocation

Asset allocation pertains to how your portfolio is divided among asset classes, i.e. equities (stocks) and interest earning (cash and bonds). I believe having an appropriate asset allocation can help people control their emotions during the ups and downs of the markets. For example, assume someone has 80% of their portfolio invested in equities but is unable to sleep at night, constantly worries about their investments, and then sells when the market goes down 20%. This person has likely exceeded their risk tolerance. By selling every time the market goes down 20%, this person is sabotaging their financial plan. Having plenty of cash available to see you through downturns in the markets and for emergencies is also key to long-term success.

### Be Properly Diversified Within Asset Classes

Within each of the asset classes, it is important to diversify among different types of investments. For example, I believe the equity portion of the portfolio should be divided among US-based small capitalization, mid capitalization, and large capitalization stocks, as well as international stocks from developed countries and international stocks from emerging market countries. I believe the interest-earning portion of the portfolio should be divided among cash (and cash equivalents), treasury bonds, and corporate bonds. At any one time, nobody knows which investments are going to do well or struggle economically. Instead of guessing which type will do well, I believe it is better to diversify across many different types of investments. This spreads the risk around. At different times, different investments in the diversified portfolio will be doing better or worse than other investments.

### Rebalance Periodically

Over time, a portfolio will drift from its original asset allocation. When this happens, adjustments need to be made to get it back in alignment. For example, assume an investor starts out with an asset allocation of 60% equities and 40% interest-earning assets.

Also, assume that the equity markets do well over time and this investor's asset allocation drifts to 80% equities and 20% interest-earning because stock prices increased in value while bonds went down in value. To get back to the original asset allocation, some equities could be sold and the proceeds added to the interest-earning part of the portfolio. Why is it important to rebalance? Asset allocation drift changes the risk and as a result, the portfolio may no longer align with the investor's risk tolerance or risk capacity.

### Be Tax Aware and Tax Efficient

When I meet with prospective clients the first time, I ask them to bring their last three years' tax returns to the meeting. I do this for several reasons. Not only do I learn more about them both personally and financially, but sometimes I find an opportunity to help them correct an error in their tax return that will save them money.

Often, when I meet a new prospect I learn that they experienced an unexpected tax surprise in a recent year and paid a large tax bill to the IRS. This happens when someone is not aware of their tax situation until it is time to file a return. I believe it is important to proactively manage the tax bill and avoid unexpected surprises.

I tell my clients that almost every financial decision they make has an impact on their taxes. When drawing money out of an IRA, selling investments in a brokerage account, buying or selling a house or other asset, it is important to know the effect on taxes. Proper planning can help identify opportunities to legally reduce or eliminate taxes.

### Keep Expenses Low

In general, I believe in investing in low-cost passive index mutual funds and ETFs. Historical data shows that over long periods of time, actively managed funds do not consistently outperform the benchmarks they are trying to beat. Index mutual funds and ETFs generally cost less than actively managed funds. As an example of the cost savings that can be achieved, if \$500,000 were invested in a portfolio of actively managed mutual funds with an average expense ratio of 1%, the annual expenses on the portfolio would be \$5,000. If \$500,000 were invested in index mutual funds with an average expense ratio of .10%, the average annual expenses would only be \$500. Over time, these savings add up.

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