# TACONIC VIEWS

Financial Insights for Secure Retirements and Life's Transitions

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## Your New Year's Resolutions Are in Reach: How the Right Mindset Can Set You Up for Financial Success

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

For many people, the new year means setting goals. I believe that if you are able to focus on what you can consistently control, develop a plan around those things, and stick to the plan over the long term, you will sleep better and have a better chance of reaching your financial goals. You and I cannot control the stock market, the economy, or major world events, but, by focusing on our mindset, we can have a level of control over our investments. My *Five-by-Five formula* for reaching your financial goals includes five behavioral and five technical principles. Today we'll look at the first five things you can control—the behavioral principles.

### Most People Focus on the Wrong Things

I have learned that many people focus on the wrong things when putting together their savings and investing plan. Some common mistakes are:

- Having a plan that does not fit their unique financial situation and goals. Often, they simply do what the crowd is doing.
- Not having SMART goals, which are **S**pecific, **M**easurable, **A**chievable, **R**ealistic, and **T**ime-bound. No need to overanalyze, but thinking through goals, writing them down, and having some parameters attached to them increases the odds of success.
- Setting an unrealistic target rate of return as their primary focus. A financial plan should start by identifying goals, not rates of return.
- Trying to time the markets based on things such as economic forecasts, earnings reports, and political events.
- Not understanding their risk capacity & risk tolerance.
- Making a high-risk bet by putting all their money into the stock of one company or a single business venture.

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## Estate Planning—Just DO IT!

*By Pamela Khinda, CFP, MBA*
*Washington, DC*

Estate planning can be complex and daunting for a lot of people, and many simply deal with it by putting it off. You don't have to be wealthy to need a will or a trust. If you die without a will, you die *intestate* and your local jurisdiction will determine how things are distributed. This means the fate of your assets, whether bank accounts, stocks, priceless heirlooms, or real estate, will be decided by strangers, which can make your estate more susceptible to fighting amongst relatives, friends, or even scam artists. Furthermore, dying without a will ensures that your estate will be tied up in a time-consuming and costly process; this can be mitigated with forethought and planning.

One of the most critical reasons for establishing a will is to name a guardian and trustee for your minor children. Although it is terrible to think of your children losing their parents, it is infinitely more difficult to think of your children losing their parents and requiring court proceedings to decide their fate. You might trust a family friend to raise your children over a distant relative, but unless you put that legally in writing, it is unlikely to happen. During an already tragic time, your children could find themselves stuck in the middle of a family conflict.

What is probate? Probate is the legal process whereby a deceased's debts and assets are settled. Unfortunately, probate is very time consuming. It also has the potential to be expensive, with as much as 5% of the value of the assets going to court fees. Even with a will, you must go through probate. However, having a will greatly facilitates the probate process.

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## Transitions…

## Financial Planning for Life's Transitions

# When Kids Grow Up and Move Back Home: A Guide

*By Mike Skolnick CPA/PFS*
*San Diego, CA*

It's been called the new retirement wild card, but it's not inflation, health care costs, or taxes. What is the trend that's causing uncertainty about retirement prospects for so many people? It's boomerang kids, and the money their parents spend on them. In 2014, the number of young adults (ages 18 to 34) living with their parents surpassed those in other living arrangements for the first time in more than 130 years, per the Pew Research Center.

Whatever the reason for moving back home, boomerang children can be a mixed blessing for their parents, both emotionally and financially. Just when parents look forward to being on their own in their final push toward retirement, their children are back in the nest. How do you help your adult children without sacrificing your own emotional and financial health? Here are some sound practices to follow:

**Set Ground Rules**
Establish ground rules for moving back home, including general house rules, how long they plan to (or can) stay, and how they will contribute to the household, both financially and/or by helping with household tasks. If they're employed, determine a reasonable amount your child can contribute toward rent, food, utilities, and car expenses. You can use this money to either pay household expenses or set it aside to gift to your child later. If you do set the payments aside, the lump sum can be used for a security deposit on an apartment, a down payment on a car, or other necessary expenses when your child moves out.

Discuss your child's long-term plan for independence. Does your child have a job or are they looking for work? Does your child need or want to go back to school? Is your employed child saving money for future needs (e.g., a house down payment or graduate school)? Are your child's plans realistic? What steps are they taking to meet their goals? It's a balancing act, and there's no right answer or set road map. It's common for parents to wonder if they're making a mistake by cushioning their child's transition to independence.

**Turn off the Free-Flowing Money Spigot**
It can be tempting for parents to pay all of their adult children's expenses, big and small, in an effort to help them get on their feet. Doing so is unlikely to teach them self-sufficiency and will foster further dependency on you.

Consider giving your child a lump sum to budget, and make it clear that is all the financial assistance you plan to provide. Or consider loaning your child money at a low interest rate. If you can't afford to hand over a sum of cash or prefer not to, perhaps help with a few critical expenses.

Critical expenses include: health insurance, reliable transportation to work, a basic cellphone, minimum student loan and credit card payments, and any other expenses necessary for your child to seek or keep employment. If your child is 26 years old or younger, look into adding them to your family health plan; otherwise, consider helping them pay for health insurance. Think twice about co-signing a new car loan or agreeing to expensive lease payments. Help your child buy a cheaper used car and raise the deductible on their car insurance policy to lower premiums. Have your child research the best repayment plan for student loans, but don't pay the bills unless it's absolutely necessary. Same goes for credit card balances. Your child can switch to a less expensive cell phone plan or consolidate phones under a family plan; have your child pay their share. Bottom line—it's important for your child to live within their financial means, not yours.

**Solidify Your Own Retirement Plan**
Even if your child contributes financially to the household, you may still find yourself paying for the items they can't afford: student loans or medical bills—or bigger ticket items like graduate school or a house down payment. Beware of jeopardizing your own retirement to help your boomerang kids. First, make sure your retirement savings are on track. A financial professional can help you see whether your current rate of savings will provide you with enough retirement income. Knowing that can also help you decide what you can afford to spend on your adult child.

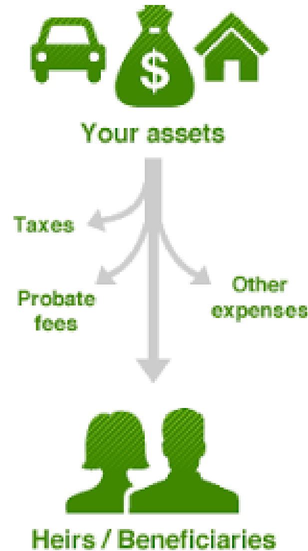
## *Estate Planning…* *Continued from page one*

So, if you have a will, why might you need a trust? Because it may address specific goals within your estate plan.

One key reason people prefer trusts is that it preserves the privacy of their estate and avoids probate. Where a will is filed with the court and available to the public, a trust remains private. The reasons to establish a trust can include: avoiding taxes on a high-net-worth estate, passing along a family business, protecting the interests of a minor who has inherited something, or avoiding multi-state probates. You will have to name a trustee to manage the assets. A trustee is usually a person you know well and trust, both ethically and fiscally. In some cases, a trustee may also be a beneficiary of the trust. Carefully consider the responsibilities of the role of a trustee or executor (for a will) and ensure that the person you choose is willing to take on that role. You should name successor trustees or executors as a backup.
There are many types of trusts:

- **Complex** or **simple trusts** determine how the income is required to be distributed.
- **Irrevocable trusts** effectively remove all rights of ownership for assets placed in trust, usually for tax reasons.
- **Testamentary trusts** are usually for minor beneficiaries and/or to avoid probate.
- **Credit shelter trusts (CSTs)/bypass trusts** provide income to the surviving spouse, while preserving the deceased spouse's control over the remainder beneficiaries.
- **Revocable trust** is a comprehensive set of instructions for the management and ultimate distribution of the property, accounts, and other assets you own. It is the most common type. A revocable trust **becomes irrevocable**—its terms no longer changeable—**upon the death of its grantor, or creator**. *Until that time, the grantor can change the terms of the trust and add or sell assets*.

One other consideration to keep in mind is that directly named beneficiaries on certain accounts—specifically life insurance or retirement accounts—**may take precedence over the will or trust.** So,




let's say you got divorced after 15 years but you forgot to change the beneficiary of your 401k from your former spouse to your kids (or new spouse!). Although many states have laws that revoke a former spouse upon finalizing a divorce decree, employer retirement accounts are regulated by ERISA (federal law). Therefore, state law does not apply, and the former spouse is likely to inherit the 401k. The point is, you must keep your beneficiaries up to date and review everything in your estate plan after any life changes (marriage, divorce, kids, death, or out-of-state move).

No matter how complex your life is, there are many considerations for estate planning. You should make it a priority to discuss your desires with your family, and you should retain an estate attorney to legalize everything. A full estate plan will include powers of attorney, medical directives, wills, and trusts as applicable. You can expect to pay anywhere from one thousand to several thousand dollars depending on individual needs.

One of the biggest gifts you can leave your family is a well thought out, transparent, organized estate. Be as forthcoming as you can with your family, as secrecy does a disservice to everyone. Plan for the worst but hope for the best.

## Keeping up with Taconic Advisors...

Hello Megan! Clients will see another friendly face now that Megan Hildebrand has joined us as an Administrative Assistant in our Saugerties office. You can read more about Megan and the rest of our team here: http://taconicadvisors.com/about-us/our-mission

Listen to her! Meredith is being quoted more and more by industry publications. When asked about the growth of fee-only advice she was quoted "I just hope that consumers become more aware and that more people can gain access to quality advice. That's really a win-win for everybody." You can find the full article here: https://www.financial-planning.com/news/independent-broker-dealer-rias-add-fee-only-advisors

## *Your New Year's Resolutions Are in Reach* *Continued from page one*

- Wanting to get rich quick without understanding that most people can build enough wealth over a lifetime by investing and saving.
- Focusing too much on the 24-hour news cycle and making emotional decisions based on it.
- Getting lost in the weeds while forgetting to focus on the big picture.

**The Five Behavioral Principles**

**Control Emotions** - Bailing on a financial plan and selling investments when markets go down is a sure-fire way to fail at reaching financial goals. The same can be said when markets are rising—many people become afraid they will miss out on huge returns. They increase their exposure to equities (buying high) without regard to their risk capacity and risk tolerance.

**Have Patience** - Understanding that reaching financial goals takes time and is not achieved overnight is crucial to succeeding. People who want success quickly tend to take on too much risk. Then when something goes wrong, they bail on their financial plan.

**Have Faith Grounded in Knowledge -** One must have faith in the future to successfully invest and save. When an investor purchases shares in an asset such as a mutual fund or ETF, they must believe in capitalism, believe companies will grow and earn more money in the future, and believe our country will thrive and prosper. This faith must be grounded in knowledge about how the markets and economies work. You do not need to get a college degree in finance or economics, but understanding the basics will help you stick to a plan.

**Have Discipline to Stick to a Plan -** A financial plan is a road map for reaching financial goals. For a plan to work, you must stick to it in market ups and downs, year in and year out. This is not to say a plan is never adjusted. However, adjustments should be made deliberately and based on reason and thought, not emotions.

**Pay Yourself First -** This might be the most important behavioral principle and one of the hardest to implement. In order to build wealth, you must live on less than you earn. It is as simple as that. To live on less than you earn, you must set aside a portion of your earnings every time you are paid. The trick is that you have to treat it like your most important bill and make the payment to your savings as soon as you are paid. A mistake that many people make is to wait until the end of the month and plan to save whatever is left over. The problem with this approach is that for most people, there will never be any money left over at the end of the month because they always find a reason to spend it all.

A person's behavior is the most important factor that will determine whether they succeed or fail at reaching their financial goals. Understanding and managing these five behavioral principles are crucial. Can you change your mindset by setting savings and investing goals that will lead to financial success?

## The Richest Man in Town

*By Michael Ryan, CFP, MBA*
*Hendersonville, TN*

Mr. Stokes Brown was the richest man in town. At least that was what many folks said. He lived in a small town in Tennessee, and if he was not the richest, he was very close. Mr. Stokes had a shock of silver hair and was always impeccably dressed. He was unassuming and unfailingly kind to me. He was urbane and sophisticated, patrician in his manners. He arose every morning, put on a suit and tie, and went to his office, where he and his secretary managed his investments. He married my wife's Aunt Sadie when they were both in their early 70's. Sadie was likewise a wonderful and elegant lady. Sadie maintained her beauty well into her eighties, and I loved to spend time and talk with both of them. We would see Stokes and Sadie two or three times a year at family gatherings, and I would always seek out Stokes's opinion about investments, the economy, politics, or whatever he cared to discuss. He was well-read and knowledgeable about any number of topics.

I was reminded of Stokes recently as I was reading about the challenges—both economic and otherwise—that we face in America today. We are awash in news of the Eurozone crisis, the ongoing housing meltdown, our own huge federal deficit, political scandal and bickering, a shaky stock market, the fluctuating price of fuel, various wars, etc. I was just about ready to yield to the "perma-bears" (who have been predicting that the end is near for decades) and head for the hills, hunker down, and look for a way to survive the coming Armageddon. Then I remembered an encounter I had with Stokes several years ago. It was not long after the tragic events of 9/11. The "tech wreck" was in full steam and taking the rest of the stock market with it; the country was slipping into a recession, and the world was still sorting out the Asian currency crisis. I was pretty low, having watched my meager little nest-egg erode over the past few months as the market declined. When I encountered Stokes on this occasion, I could not wait to get his take on the situation we were facing. I began by asking him if he still had any of his money in the stock market. He replied "Why of course. Why do you ask?" I explained that I thought the country was in real trouble and that I had lost a sizable portion of my retirement fund that was in stocks. I said that I was getting cold feet when it came to my investments. I will always remember his reply. He said that I should stay the course with my equities, maintain reasonable diversification, and wait for the markets to recover as they always had in the past. Then, he pointed an index finger, crooked by age, at me and said "Don't you ever forget this! No one has ever made any real money betting against this country, not ever in its history! We will survive this period just as we have survived all the rest of our challenges." Then he proceeded to tell me that he had always had a considerable portion of his money in American equities. As I left Stokes that day I was not totally convinced of the soundness of his advice. Thus far however, it seems he knew better than I.

I saw Stokes for the last time a few years ago in a small room in a hospice beside his beloved Sadie's bed, where her life slowly ebbed away. We did not talk about investing that day; we talked about Sadie and the twelve wonderful years they shared together. Stokes passed away within a year of Sadie. We should all hope to grow old with the class and dignity he and Sadie displayed. I miss both of them very much.

I do not pretend that our country does not face some significant problems and some of them should be confronted quickly. However, I find Stokes Brown's advice still worthy of our consideration. He was a successful investor in part because he was able to think beyond the next news cycle or next quarter's profit report. He did not allow today's headlines to dictate his investment philosophy; he had a sense of history and was always encouraged by America's innovation and resilience. Since he was able to tune out the short-term chatter, he was still focusing on the long term well into his 80's. So, I think I will continue to follow Stokes Brown's advice; I will not be betting against America! You would be well advised not to either.

Remember, money is certainly not the most important thing; but still, money matters.

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(845) 486-5039 csimon@taconicadvisors.com mbriggs@taconicadvisors.com **www.taconicadvisors.com**