TACONIC VIEWS

Financial Insights for Secure Retirements and Life's Transitions

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Why Timing is NOT Everything

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The old phrase "timing is everything" seems to capture the way random, chance events affect us throughout life. Of course these sometimes life-changing events can be either negative or positive. There are numerous examples:

- You have to stop for gas on your drive to work and find out you miss a 10-car accident by two minutes.
- You run into an old friend, get invited to a cookout the next weekend and end up meeting a future business partner.
- Your son is studying in Italy and runs into a girl from grade school who ends up being your daughter-in-law.

We could all rattle off an odd set of circumstances which ended up profoundly impacting us and can be perceived in any number of different ways. One person might think their situation was a result of divine providence; another, mathematical chance; still another, a mystic power in the universe; or another, just dumb luck. Regardless of how events are perceived, it's almost universally accepted that "timing is everything".

While the way we see random events in life may lead us to believe that "timing is everything," we believe that applying this mindset to investing is at best unprofitable and at worst, downright hazardous to your financial health. Why? Because the financial markets are so unpredictable; it's almost impossible to accurately time the market in a consistently profitable way. One has to make two accurate calls for "market timing" to work; when to get out, and when to get back into the markets. History has proven this

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Hurray!! The Bond Market is Crashing…

By Bert Whitehead, JD, MBA ©2016
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The surprising election results have been followed by recent unexpected shifts in the financial markets. Stocks have soared, and bond prices have dropped substantially. Most of our clients have 15-year bond ladders in place if they are retired, or if they are still working the accumulation stages, they are building a bond ladder.

Looking at your brokerage statement now can be scary if you focus on how much bonds have dropped in value. If you have never experienced a rout in the bond market like this, don't be unnerved. This is actually a very good development for the long-term growth of your portfolio because usually the stock market sky-rockets when bond values drop. And in fact, the stock market has been hitting market highs almost every day since the election so your total portfolio is likely increasing in value significantly if it is properly balanced between stocks and bonds.

Why does this happen? It doesn't prove that the "right" person won or that it was caused by disfavor of the losing political party. Surprise events sometimes trigger market reaction, but the pressure for this kind of correction has been building over the past few years. Indeed, we might have experienced the same market phenomenon (stocks going up and bonds dropping) if the other side won politically. What sparked the change

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Transitions…

Financial Planning for Life's Transitions

Home (from college) for the Holidays

by Pamela Khinda, MBA/ Washington, DC
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They are home from college and taking a well-deserved holiday break. Now’s the chance to make sure that you can continue to look after them after they return to school. If your child is over the age of 18, privacy laws in the US will deny you, the parent, access to your now-adult child’s medical records without their written permission.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) established national standards to protect individuals’ medical records and other personal health information and applies to most health plans and healthcare providers. Interestingly, university health facilities are not covered by HIPAA. Instead, college students’ health records fall under the Family Educational Rights and Privacy Act, which gives parents the right to inspect their children’s records at an educational institution.

So, which is it? Can you access your student’s health/medical records, or not? It may depend on where your child gets treated. Some schools just have a nursing/urgent care area for minor illnesses, but someone injured playing sports may have to go to a local emergency room. In that case, HIPAA would apply at the off-campus hospital and you would need your student’s authorization to access their records and/or to talk with their doctors, nurses, or other healthcare providers about their care.

The bottom line here – you may want to fill out a HIPAA privacy authorization form for medical providers and have your student-adult complete and sign it to authorize you as parent(s) to be able to obtain medical information. At the least, discuss with your child the need for them to fill out an authorization form at each clinic or healthcare facility in order for you to have access to information about their healthcare.

The HIPAA authorization probably makes sense to you because of your attention to the health of your child while they have been growing up. But have you considered this fact? Once your child turns 18, legally speaking, they become a stranger to you. You no longer have any right to “do” legal matters for them. Given that, it is wise to have your student-adult appoint one of you to take care of “business” on their behalf. This is called a durable power of attorney (POA) and can be used to sign tax returns, access bank accounts, and pay bills. *(cs-I can personally attest to the fact that our attorney recommended a POA for our daughter when she studied overseas. Had that not been in place, I would have not been able to arrange her “direct deposit” banking form when she returned and landed a campus job.)*

The fact is, you do not want your student-adult to be at a distance (or across the ocean) and be unable to act on their behalf if, God forbid, he or she becomes incapacitated. And, to continue this line of thinking should the unthinkable occur to your child, an advance healthcare directive (also known as a medical power of attorney or healthcare proxy) allows an adult to appoint a person they trust as their healthcare agent/surrogate to make medical decisions on their behalf if they lose the ability to do so.

Now that we have covered medical records and incapacity, guess what? You aren’t allowed access to your college student’s education records either due to the FERPA (Family Educational Rights and Privacy Act) without written permission. So, don’t forget to get a grade/education record access waiver signed by your college student for their institution. You’ll want to see the results of your student’s hard work at college!

Hurray!!… *Continued from page one*

in the market is probably the reduction in fiscal uncertainty which has been a drag on the global economy for several years. Financial markets abhor uncertainty.

Significant increases in the value of your stocks over time creates the long-term favorable impact on your investment portfolio. A diversified stock portfolio is the growth machine for your finances. And your bonds, which provide safety, aren't actually losing money. Here's why.

If you buy a $10,000 bond when rates are 5%, you are guaranteed to receive $500 per year in interest until the bond matures and you get your $10,000 back.

But if you get scared (or greedy) when rates increase to 6% and want to sell your bond a year after you bought it you will realize a loss. This is because the investor who buys your bond will get only $500/year in interest whereas a newly issued bond would pay $600/year. So you have to drop the price of your bond to a "discounted value" of about $8333. That way, the $500/year in promised interest payments will provide a yield of 6% to be competitive in the current market.

The opposite is also true: over the past 10 years' interest rates have been dropping so you may have seen the value of your bonds increase. It didn't make sense to sell them however because you would pay taxes and transaction costs, and then you would have to invest at a lower rate.

So bond prices move up and down all the time, but holding your bond ladder to maturity assures you will be repaid your investment in full including interest. For long term investors who use bonds to provide their safety net and hold to maturity, the market fluctuations in value are just "noise."

Buying and holding bond ladders provide another important benefit-- the security they provide keeps clients from panicking when the stock market crashes. The worst investment decision an investor can make is to sell low when holding a long-term investment.

The take-away from this discussion is: "Don't let your political convictions dictate your investment strategy." Political convictions are an exogenous issue over which you have no control, whereas with our Functional Asset Allocation* model your investment returns are endogenous and tailor- made for your situation without regard to market shifts.

*Ed note - *Functional Asset Allocation is the approach for building wealth that is used by members of the Alliance of Comprehensive Planners (ACP), the community of tax-focused financial planners operating under the retainer model. Taconic Advisors Inc. has been a member of ACP since 2002.*

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to be very difficult, if not impossible, to do consistently and profitably.

With the stock market touching new record highs the last few weeks, we seem to be getting more and more questions about whether or not it makes sense to continue investing "at these levels". Our immediate question is: "When will you need to use this money?" We certainly can't provide appropriate advice without knowing the answer to that question as we always consider each family's individual circumstances.

But taking it a step further, history suggests missing just a few days of market moves can have dramatic effects on a family's portfolio. In fact, a recent study by JP Morgan Bank shows just how volatile markets can be. It points out that missing just 10 of the best trading DAYS out of 20 YEARS of investing would have nearly cut your returns in half! Even more importantly, the study points out that "six of the 10 best days occurred within two weeks of the 10 worst days", which means when things looked their darkest, those that remained invested usually recovered and made healthy profits. Keep in mind, the typical year has about 252 trading days so 20 years of trading days is over 5,000 days!

Successful investors determine an allocation between stocks, bonds, and cash with which they are comfortable and determine to live with it through the various market moves. With that mindset, they never miss the 10 best trading days out of twenty years and reap the benefits that the equity markets have historically always provided. Thus, as those much smarter than I have observed, "It is time in the market that ultimately matters, not market timing!"

Maintain Your Spending Relationship During the Holidays

Source: Pathways Newsletter, December 2016
Greenpath Financial Wellness
www.greenpath.com

With the holiday season under way, you'll likely shop more for gifts and step up your entertaining. Those with spouses or significant others likely will need (or want) to get buy-in from the other when it comes to determining a budget for the holidays. So, to not to get hit with a credit hangover in January, here are a few tips GreenPath has put together to keep a couple's holiday budget merry and bright.

1. *Open communication is key.* Most couples have a routine time in the month when bills are paid and the budget is reviewed. This is a good time to have a discussion about differences in holiday spending habits and financial goals. It is important to come with an open mind, not blaming or finger-pointing but, rather, focusing on shared goals.

2. Even if you are on different ends of the saving/spending spectrum, look for common ground when it comes to buying gifts. It will be necessary to look at your bigger budget picture: A vacation in 2017, more savings, or a neglected home repair are all examples of shared concerns and goals to consider. Identifying those goals and making them a priority might help get you and your spouse on the same page.

3. Some couples find it helpful to maintain separate checking accounts and have one shared checking/savings for shared bills and expenses, and one for shared goals. If a shared account is considered, it is important to consider what is "fair" when it comes to purchasing gifts.

4. It could be a good thing if you and your spouse are on different ends of the savings/spending spectrum! If there is open communication in a healthy relationship, this could offer checks and balances. The saver will make sure that there is savings, while the spender will make sure there is a quality of life.
So make that list and check it twice! Remember to involve your spouse or significant other, and get buy-in on what you'll purchase this holiday season. A bit of discussion and list-building will go a long way to make this a great holiday season!

4. Research big ticket items. Keep track of prices so you can find the best deals. Look online and review the store ads. And don't forget those apps that are designed to compare prices at different stores. Nothing hurts more than to buy an expensive gift, only to find it for less at another store.

5. Set a limit and stick to it. Remember, spending more on one person means spending less on another. It is difficult to find a gift that costs the exact amount you want to spend. One strategy is to give gift cards. That way you can spend exactly what you intend. Plus, many stores offer perks, like extra gas points, or a discount, the next time you shop.

One last thing to remember during the holiday season is that, over time, we look back fondly on the experiences, not necessarily the gifts! Happy holidays!

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