TACONIC VIEWS

Financial Insights for Secure Retirements and Life's Transitions

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What Are the Benefits of Having a Financial Planner?

By Mike Ryan, MBA, CFP® and Chris Curren, CFP®
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Employing a financial planner is not an inexpensive proposition, so the obvious question is, "Are they worth it?" Morningstar and Vanguard have each undertaken studies to quantify the impact good investment advice can have on your experience as an investor. Their methods differed, but both studies concluded that a good fiduciary advisor can enhance the annual returns on an investor's portfolio by 1.5% or more. These added returns could easily amount to as much as $200,000 during a 25-year period for a retirement portfolio.

In addition, a big part of the enhancement comes from behavioral coaching or, as Bert Whitehead puts it, "…helping you avoid terrible mistakes." This is especially critical at times of major disturbances in the markets, such as the Great Recession of 2008. If your advisor talked you out of selling your diversified portfolio at the bottom of the market (March of 2009), then you captured a 52% increase in value by 2015, instead of locking in your 28% losses by selling everything in a panic and going to cash at the bottom. The Vanguard study of "Advisor Alpha" estimates the average annual value of behavioral coaching at 1.5%, but when you need it most, it is clearly worth much, much more.

The Vanguard study also estimates the value of other aspects of investment advice. These include setting an appropriate asset allocation, cost effective implementation with low-cost funds, disciplined rebalancing, tax-efficient asset location and withdrawal techniques, and avoidance of "income investing" in favor of a total-return approach. Vanguard pegs the combined enhancements from these other aspects of best-practices advice to be worth another

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Four Ways to Add Happiness to Your Charitable Giving

By Bridget Sullivan Mermel, CPA
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My clients know that, when I'm stumped by a question, I often post it on the Alliance of Comprehensive Advisors discussion forum. Recently a colleague asked about charitable giving while another reported findings from a popular book, "Happy Money..". With this information my brain started working overtime trying to tie these two threads together. I ended up updating the advice I give clients.

Turns out, there are four steps to giving away money. Even better, they're pretty easy.

First, develop a donation strategy.

That's right, a donation strategy. That might sound cold-hearted, but we all have a donation strategy, whether it's conscious or not. Some people give money to their college. For some, the more desperate an emotional appeal, the more likely they'll give. For most of us, our giving is more hodgepodge than strategy.

Develop your donation strategy by asking yourself: "What problem am I trying to solve?" and "What do I value?" Next, consider the balance between what's near to you (your church, your alma mater) versus what's far (ending extreme poverty, disaster relief.) You might have different donation ideas for each.

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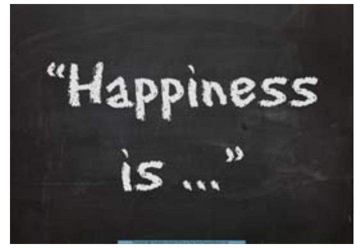

The Pursuit of Happiness

by Tedd Oyler, JD
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Pursuit of happiness...that's such a nice phrase, isn't it? It is even a powerful phrase, representing one of the several causes for which we decided to fight the British.

But what does it mean? Or better put, what does it mean to you?

And what is up with this being the topic of a financial column?

Well, I believe that financial health and "happiness" are inextricably inter-related.

What is "happiness"? I am certain that each of us thinks we have a pretty good understanding of what happiness means. Is happiness something we can purchase? Is it a thing we can acquire? Do we obtain it and hold on to it? Or must we constantly do things to make happiness more likely?

My thesis is that happiness can never be obtained by a specific act or undertaking. Instead, in my belief, happiness is nothing more than the result of living well--spiritually, financially, and in proper relationship to the world around us.

Are wealthy people automatically happy? The answer is an obvious NO --otherwise so many wealthy people would not divorce, have affairs, steal from the mutual funds they manage, or drink excessively.

Many of us think that true happiness is available to us only if we get our hands on something we do not currently have--like a mate, a "cool" car, or a winning lottery ticket. I suggest that this kind of thinking is faulty and misguided.

In fact, I believe that such thinking makes happiness LESS likely, that those of us pinning our hopes on some future event are missing the point entirely and making current happiness impossible. And what's the good in that?

What, then, is the proper path to travel in our pursuit of happiness? I have some suggestions:

* We must be doing work that makes sense to us. By this I mean that we cannot be very happy if we go off to a job we hate or work for someone we cannot tolerate. Staying in a job we do not like just for the benefits may make certain financial sense, but it is a pretty good way to ensure unhappiness. Is the trade-off worth it? If we make this calculation intelligently and thoughtfully, it is possible to overcome the job unhappiness--but probably only for a limited time.

* We must be in relationships that are right for us. If we live with somebody who mistreats us, then we are guaranteed to be unhappy part of EVERY day. If we socialize with so-called friends who are always taking but never giving, we are going to be unhappy whenever we are with them. We have to be willing to be alone for a time so that we can be sure that we are in the right relationship.

* We must be good stewards of the money we earn or are given. Money, for almost all of us, is in limited supply. It is quite likely that, once we waste a portion of our money, we may never have a chance to fully recoup our losses. Essentially, then, it is imperative that we save something out of each dollar we earn, invest those savings wisely, and spend the remainder properly.

Our work is cut out for us. The pursuit of happiness is best accomplished by paying attention to the details--but only to those details over which we have some control.

Four Ways to Add Happiness… *from page one*

Here’s what Bill and Melinda Gates did. First they thought (and I’m paraphrasing here) what problem(s) is capitalism crappy at solving? The thing that bothered them the most was inequity. Identifying that problem was their Step A. For Step B, globally they asked, what’s the biggest inequity? For them, it was children dying and/or not getting enough nutrition. They took a different approach locally saying, “Okay, our educations really helped us; we want to help alleviate inequities in the US education system.”

For help identifying global issues http://www.myphilanthropedia.org/ has 36 different causes. You can weigh the causes against one another and figure out what is most important to you.

Looking for ideas close to home? Your local community foundation helps budding philanthropists figure out their donation strategy. (For mid-Hudson Valley residents you can check out: http://www.communityfoundationshv.org). In addition, perusing the local United Way website can broaden your local possibilities.

Second, figure out which charities will fulfill your strategy.
Explore charities that have an impact in the areas you value. When you give money locally, it’s easier to discern how effective the organization is since you can learn about them directly. When you donate globally, it helps to have third parties measure and report which charities fulfill their missions in the most efficient way.

Three websites that summarize data and report on the effectiveness of specific charities are: charitynavigator.org, givewell.org, and guidestar.org.

It’s a good idea at this stage to use your intuition as well. Melinda Gates said, “We come at things from different angles, and I actually think that's really good. So Bill can look at the big data and say, ‘I want to act based on these global statistics.’ For me, I come at it from intuition. I meet with lots of people on the ground and Bill's taught me to take that and read up to the global data and see if they match.”

Third, use your strategy to donate and feel good.
Did you ever notice that giving money away makes you feel good? There’s a technical term for it: the warm glow of giving.

In their book, Happy Money: The Science of Smarter Spending, Dunn and Norton report: “The amount of money individuals devoted to themselves was unrelated to their overall happiness. What did predict happiness? The amount of money they gave away. The relationship between prosocial spending and happiness held up even after taking into account individuals’ income. Amazingly, the effect of this single spending category was as large as the effect of income in predicting happiness.“

Think about the mechanics of how you donate to maximize the warm glow. For instance, you don’t get ten times the glow for a ten times bigger gift. In one study, a five-dollar donation created as much happiness as a twenty-dollar donation. That argues for giving more frequent, smaller donations. And the closer you are to a person experiencing your gift, the warmer the glow. That argues for writing checks according to a periodic plan, rather than signing up for automatic monthly contributions.

Fourth, pay attention to results.
Notice the communication you get from the charities. Is it always a pitch for more money? Do they communicate their results? Are they fulfilling the mission that you supported when you donated?

Keep in mind that not every donation is going to succeed. For instance, Bill Gates says that his involvement in the attempt to develop a better condom didn’t get the results he was hoping for. He doesn’t detail exactly what went wrong, except mentioning with a vague smile, “We got a lot of ideas.”

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1.5% per year.

But what do financial planners actually do for their clients? Well, here are some of the things that Certified Financial Planners™ (CFP®) do for their clients:

1) They help you evaluate how well you are preparing for retirement, estimate your retirement income needs, and help you develop a plan to reach your retirement goals.

2) They help you assess the risk of your current portfolio and determine an acceptable level of risk for your particular situation. Given your acceptable risk, they determine an appropriate allocation for your portfolio. In other words, how much should be invested in stocks, bonds, or other asset classes and what return you can expect in the years ahead.

3) They can answer your questions about which investments may be appropriate for your portfolio. Fee-only planners who act as a fiduciary for their clients will also guide them to the least expensive investments that will meet their goals.

4) Many planners help you assess the impact that taxes may have on your portfolio and your overall financial plan, and some will even prepare your tax return. Your tax liability is probably the biggest bill you pay every year. They help lower your tax bill by simply organizing your life in ways that take advantage of key provisions in the tax code. They adjust your plans as tax laws change.

5) They also help with many other aspects of managing your personal finances, from setting goals to creating an estate plan, from buying insurance to making charitable donations. They can offer budgeting tips and guidelines for your financial life stage.

6) Planners can help you determine appropriate moves for your retirement accounts like 401ks and IRAs. For example, would you be well served by rolling your 401k into an IRA at some point, and what custodian should you use? These types of moves can easily go awry and cost many precious dollars if done incorrectly.

7) The best planners provide one additional benefit, whose value is, as they say, "priceless". They keep you on track and make sure that all those plans you made together get implemented and periodically reviewed.

Many folks want a trusted, objective advisor to look over their shoulders; someone knowledgeable with whom to have frank discussions; someone who will, when the situation warrants it, say, "Don't do that; not a good idea." Occasionally an advisor will find that he/she has to tell someone that their goal is unrealistic and needs to be reconsidered. But more often, we get to tell someone that yes, you can spend that money and check that item off your bucket list. Financial planners fill many roles for their clients because we talk with people about some of the most important aspects of their lives, their hopes and dreams.

We strive for objectivity in our advice, but we are not disinterested in the outcome. We want every client to become wildly successful. The fees we charge for independent, objective advice may pay our bills, but the psychic reward of seeing a client prosper stokes our passion for the work we do. We are always careful to remind clients that money is never the most important thing, but it is an inescapable fact of life. Money matters, and navigating your money life with the help of a fiduciary tax-oriented financial planner provides benefits worth well more than their fee.

Why Your Teenager Needs a Roth IRA

By Karin E. McKerahan, MBA, CFP®
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Your teenager may not get rich mowing lawns or babysitting the neighborhood children, but contributing some of those weekend earnings to a Roth IRA can pave the road to a more secure financial future. Anyone with "earned income", regardless of age, is eligible to contribute. Though Roth IRA contributions are not tax deductible, most teens pay little or no taxes anyway, and Roth IRAs will allow their money to grow tax-free for decades.

Even if your child does not receive a W-2, just keep a record of the dates and hours worked and the amounts earned. Your child can contribute as much as $5500 each year to a Roth IRA as long as they don't contribute more than their earned income for that year, and the source of the money does not matter. Often, parents or grandparents provide the cash for the contributions while the child's actual earnings are saved for college. A Roth IRA can be opened at almost any financial institution. A good place for a child's Roth is a discount brokerage or low-cost mutual fund company. Look for no or minimal annual fees, and consider a no-load, low-expense index fund as the investment vehicle. The deadline for contributing for the current calendar year is your tax filing date (around April 15th) of the following year.

Below is a detailed example which illustrates how Roth contributions for children work, and how contributions made early in life can provide a significant boost to future retirement savings:

Thirteen-year-old Megan babysits a couple of times each month during 2016 and earns $25 each time. With her mother's help, she records her earnings in a simple spreadsheet on her computer. By year's end, she has earned $550. Though this money is deposited to her college savings account, her parents agree to provide the cash for Megan to open a Roth IRA for 2016. Each year until Megan graduates from high school, she contributes $550 to her Roth IRA. With her parents' assistance, in early 2016 Megan opens a Roth IRA account online and chooses a diversified no-load equity index fund as the investment vehicle. Because she has no other earned income, Megan is not required to file a tax return and is therefore in the 0% tax bracket, so she does not need the deduction offered by a traditional IRA. Assuming her Roth IRA earns 7% per year between ages 13 and 18, and she makes six annual contributions of $550, Megan's account will grow to approximately $3,934 by the time she enters college at age 18. This is a small sum, but during the next 50 years of Megan's college and working years, that amount will grow to an astounding $115,884 assuming the same 7% average annual return. Even with a more modest 4% annual return, Megan's $3,300 in babysitting earnings would grow to $27,958 in 50 years. Had Megan waited until she completes graduate school at age 25 to begin contributing to a Roth IRA, she would need to contribute $468 every year for 43 years to end up with the same $115,884 at age 68. Besides the obvious benefit of Megan's long time horizon over which the compounding of interest works its magic, Megan also learns at a young age the discipline of regularly saving for retirement. And saving at least 10% of one's income for retirement is one of the fundamentals of fiscal fitness prescribed by all ACP planners.

Contact your advisor if you have questions regarding how to establish Roth IRA accounts for your children.