Summer 2017 Edition

The Ultimate Guide for the Successful Steward

Welcome to the Summer Edition of *The Ultimate Guide For the Successful Steward*, Fourth Dimension Financial Group's newsletter.

The Ideal Retirement?

As you can imagine, retirement is discussed a lot around our office. Most of the conversations are centered around helping people retire on their terms and ensuring (and insuring) retirement lasts a lifetime without worry of running out of money before passing away. Since most people's careers are setup for a one-and-done retirement – as in, once you retire that's it – very few people have the opportunity to think about retirement much differently than the standard arrangement.

Imagine a different kind of retirement with me. It's one where you're not striving and waiting until 62 or 65 to finally be done working, ready to pack all of those fun things you've dreamt about into your 'golden years', but with one eye on the obituaries, seeing friends and neighbors passing away too soon, before having had the chance to tackle that retirement bucket list. We've all heard the stories, and some of our loved ones have known this possibility all too well. What if we could sprinkle more retirement into our younger years, enjoying the benefits of being active while still being physically able to do all of those things you enjoy. What if a saner work schedule opened up the possibility for a 'retire as you go' kind of life, rather than a 'when I retire, I'm going to…' scenario? What if retirement wasn't just for later, but could be experienced now, in smaller doses?

Naturally, this type of ideal retirement isn't in the cards for the current generation of retirees, and that's okay. You're either past or near the finish line anyway, so it's not an awful thing to have run the race this far under the current retirement model. I do think, however, that my generation and those to follow will carry out 'retirement' differently than their parents and grandparents did. It's a function of technology, experience, and good old youthful yearning that pushes the boundaries of such things.

I share all of this with you because some of the families we work with are considering some non-traditional entrances into retirement. Some are opting for continuing their career jobs as part-time consultants, often to the same company. Others are working in more fun jobs like golf course maintenance or marina work. It's a choice of opening one's mind to the possibilities of remaining active and keeping a smaller, but meaningful paycheck coming to serve as 'walking around' or 'paying for healthcare' money.

Speaking of meaningful, were fortunate to have Richard Chamberlain and Stephen Hanley once again share their insights with us. Richard presents a thought-provoking look at the many facets of planning one's estate properly, while Steve looks at the practice and impact of investing in dividend-paying companies. I hope you'll agree that having them on our planning team brings valuable perspective to the retirement planning process.

I hope you're enjoying the summer and spending quality time with friends and family. Also, be a little crazy and find a large grassy area on a clear day, lie down in the grass and look up. Every time I do this, I remember that I should do it more often. Sure people will probably think you're crazy, but that's okay, we're all a little crazy.

All the best,

Adam B. Cufr, RICP®

... be a little crazy and find a large grassy area on a clear day, lie down in the grass and look up.

When Planning Can Be Used To Protect A Loved One

by Richard Chamberlain

Over the years of serving as an estate planning attorney, I've noticed that many people view the concept of estate planning in a very straight-forward, transactional manner, simply as a way to transfer assets to other people after they pass away. This can be a very limited view, however, of the opportunity we have in our estate planning to impact the lives of the people to whom we are leaving property. In our office, we describe our estate planning work as ***'Protecting Those You Love and Preserving What You Have.'*** When we work with our clients, we help them create estate plans that will provide protections for their loved ones and preserve their assets from unnecessary costs, fees, and taxes.

Let's break this down a bit further and look more closely at the 'protecting' aspect of estate planning.

There are essentially two different options when it comes to how to leave assets to beneficiaries. We can leave assets **'outright,'** or we can leave them in a **'protective trust share.'**

An **outright distribution** is just what it sounds like – the inheritance is given directly to the beneficiary, and they can then do whatever they like with the assets. There are no protections associated with an outright distribution.

Richard Chamberlain,
Founder and principal attorney
of Chamberlain Law Group, Ltd

A **protective trust share** is a trust share that continues for the beneficiary with the assets remaining in the trust. The Trustee of the trust share distributes the assets to the beneficiary as directed in the trust agreement. This arrangement can protect the beneficiary and the assets.

So why might we consider leaving a financial legacy with the enhanced protections of a protective trust share? It doesn't have to be a matter of not believing that the beneficiaries can "handle" the assets on their own, although that can certainly be a reason. Many people use the protective share approach to planning even if their beneficiaries are perfectly capable of managing the inheritance well on their own. Depending on the reasons for the ongoing protections, we can have someone else serve as Trustee and manage the trust assets for the beneficiary (if the beneficiary cannot handle the inheritance on their own), or we can design the plan so that the beneficiary serves as their own Trustee (so they manage their own inherited assets).

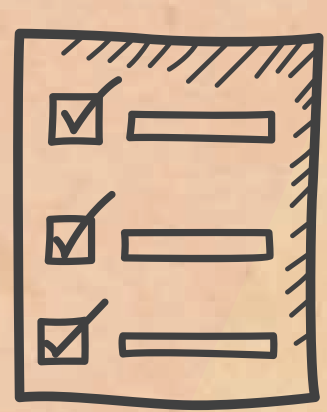
Instances Where We Would Appoint Someone Else as Trustee for the Beneficiary:

- Beneficiary is disabled or has Special Needs;
- Beneficiary has creditor problems;
- Beneficiary has poor spending and saving judgment;
- Beneficiary has an addiction problem;
- Beneficiary is young and inexperienced in handling money.

Instances Where We Would Allow the Beneficiary to be their own Trustee:

To protect a beneficiary and the assets from any and all of the following:

- The possibility of a divorcing spouse;
- A spouse who is controlling, or a spendthrift, or has creditor issues;
- Creditors from their own potential financial mishaps, accidents, or frivolous lawsuits;
- Losing needs-based government benefits if they should become incapacitated;
- Being subjected to a guardianship if they become incapacitated;
- Being subject to Probate when the beneficiary passes away;
- Being lost to non-bloodline individuals (your in-law, or worse yet, your in-law's next spouse) when the beneficiary passes away.



When you do your estate planning, or when you are sitting down and reviewing your estate plan for updates, think about whether using ongoing protections would make sense for you and your loved ones. Having options is great, but knowing how to navigate those options is key to building an effective plan. If you'd like to discuss your planning options, please feel free to give me a call at 419-872-7670, or you can email me at *richard@chamberlain-law.net*.

Harvesting Consistent Income from Dividend Stocks

by Stephen L. Hanley

Over the last 50 years, dividends have provided nearly half of the stock market's returns on investment (ROI). The performance of the S&P 500 over the past half-century, when you include dividends, is almost twice the total return of the performance of the S&P 500 if you leave out the dividends.
-Investopedia

Stephen L. Hanley,
Investment Strategist
Evergreen Wealth Management

Sustainable dividend stocks historically have provided a nice combination of long-term growth, income growth, consistent income and some risk reduction. For long-term income clients, sustainable dividend stocks should be at the heart of investing.

The key for harvesting the power of dividend stocks long-term, and improving the odds that the crops will always produce a harvest, is identifying 'sustainability.'

We define sustainability as the ability for a company, bond, or any investment to actually pay us an income stream, not a return of principle. Many investments exist that claim 'income' but are actually designed to pay you back a combination of your own money and some portion of real income (interest or dividend). This is not innately bad as long as you have a good understanding of the real income you are receiving and apply it in the portfolio appropriately. But for the majority of dividend investing, we greatly prefer real income to be generated.

Within the stock market, we see many companies claiming a 6% or more dividend to investors. Naturally, you may assume this means the company is paying a solid 6% income stream. Upon deeper research we often find the income is fueled by debt or borrowing of some sort. The company itself may earn enough to pay 3% income but is paying the remainder through borrowing money in some way. We do not view this as a sustainable income stream. This is not always bad, and many of these companies may be able to grow fast enough to support the extra 3% payout, but it certainly adds an element of risk that should not be viewed as 'sustainable' at the 6% level.

So how do we validate whether a dividend or income stream is sustainable?

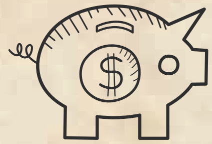
We look for 3 key elements to test sustainability.

1. Cash Flow Excess

True sustainability happens when we measure what an investment actually earns in profit, net of all expenses such as earnings or free cash flow for an investment. Then we look at what it is paying out to shareholders in the form of dividend or interest. If the investment is consistently covering the payout and maintains excess cash flow, then we know it might be sustainable. We then analyze the many aspects of the business model to determine other risk elements. For dividend stocks, we generally like to see 30% or more in excess cash flow with a preference for 50% or more; meaning the dividends they pay out are significantly less than they make in profit or the cash flow they are generating from normal business operations. This leaves a cushion of cash flow for times of trouble. It also leaves a cushion of money the company can utilize for expanding the company and/or dividend payments over the long-term.

2. Long-Term Track Record

Ideally, we want to see a minimum of 5-7 years consistent dividend payouts with a solid cash flow cushion. We like to also review how management handled the 2008 decline to glean financial prudence during extreme market declines. Companies that have managed through multiple market cycles with success at maintaining appropriate financials under duress, and show ability to return shareholder value during the good times, tend to move to the top of our list.



3. Cash / Dividend Cushion

The final hint for sustainability is observing healthy cash cushions. We like to see companies with low debt relative to industry norms, and cash cushions that can sustain the dividend for a period of time if things get bad. Companies that exhibit lower debt, higher cash, and available credit lines will be able to survive larger downturns without slashing dividends and often thrive during recoveries with larger payout raises. Similar to personal financial management, those with low debt and larger savings accounts will tend to survive and thrive over the long haul with much less stress.

As investors and owners of a company we should expect prudent financial management over long periods of time. Analyzing the financial statements of companies we own on a regular basis to validate cash flow levels, ongoing payouts, and cash cushions is something we can control. While the market is well out of our control, we believe that by focusing on applying some common sense analysis, we can improve the sustainability of our dividend income streams over the long-term. We also believe if the cash flow and dividend are sustainable long-term, then the price will often reflect this success. This strategy may not capture all the gains of higher growth stocks that need debt to fuel continued growth (different strategy for a different article), but for income-takers or more moderate risk-takers, we might sleep a little better at night knowing the companies we own operate in a long-term prudent manner with our hard-earned money.

Back To The Basics: A Surprising Truth About Money

When investors look at their account statements during the accumulation (savings) phase of their life, they will generally process what they see as a single, lump sum amount. "I have $106,000 in the account", or "we have $1,200,000 in our accounts." This makes perfect sense, so why even mention it?

When planning for a lengthy retirement, it's no longer as simple as identifying the amount of money in your accounts. Because when retiring, the fundamental meaning of the money changes quite dramatically. Instead of seeing $635,000 in the accounts, it's more necessary to see $47,400 per year from the same accounts (the example assumes a 4% withdrawal rate). In other words, a pile of money means little when you're determining how to live off of that pile of money for the rest of a decades-long life. Instead, the money must be converted into an income stream for it to have any real meaning for a retiree.

With that in mind, here's a big bummer when it comes to money, at least if you hope to retire. You have much less liquidity than you thought. If your $300,000 nest egg needs to be used for income, you don't have access to it. If you worry that a nursing home may be in your future, you don't get to touch your money for anything other than the nursing home. The very process of matching money to its need that I wrote about in a recent Fourth Dimension Weekly article requires that you lose access to the money in some way when you earmark it for something specific. Yes, it's good planning, but it's not all that fun to do.

The flipside of all this is that once you've matched the money you have to the needs you're likely to experience, any extra can be fully liquid for the fun stuff. If there's not enough money left over for the fun stuff after you've built your plan, work longer or get a part-time job. In other words, be as deliberate as possible and you get to sleep well having planned well, but you also get to have plenty of fun, too! The challenge is to shift your thought process from thinking you have a pile of money that's completely accessible to determine what the money does for you instead. It's not a simple mental shift but a very useful one if you'd like to have both financial security and good old-fashioned fun.

Briefcase Study: Those Pesky Remaining Debts

Before retirement, most people would like to pay off any remaining debts, so they can feel good going into that next phase of life all tidied-up. That makes a lot of sense, both financially and psychologically. In a recent meeting, we not only discussed this but put a plan together that was well received by the family, so we thought we'd share it with you here.

In this instance, there was a lingering debt that had funded a very fun and useful item, but the debt itself was just dragging them down emotionally and they wanted it gone. In this particular case, the couple had a number of different investment accounts, some IRAs ('tax-qualified') and a joint non-qualified account. The joint account was invested in half stocks and half bonds, and the purpose of the account was for rainy days, just-in-case money. The retirement accounts (IRAs) were intended for future retirement income, and had never been taxed before.

Looking closer at the joint, non-IRA account, we could see that there were bonds in the mix, some of which were fairly low-yielding bonds. They were the safest part of that account's investments. Interestingly, those safe bonds were yielding a lower rate of return than the rate of interest being paid on that lingering debt the couple wanted to rid themselves of before retirement. In other words, they were earning less on that portion of their investment account than they were paying to service the debt. Bingo!

As a result, they chose to withdraw a portion of their joint, non-IRA account to pay off the debt, which allowed them to keep more of that investment account in slighter higher risk – and potentially higher growth - investments while freeing themselves from the debt they had grown to hate. This is just one example of finding money that may be falling through the cracks.

If this scenario makes you giddy at the thought of tidying-up your financial affairs, shoot us an email or give us a call. It's quite possible that there's a solution for whatever it is that's nagging at you; it may just take a magnifying glass and another set of eyes to find it.

Fourth Dimension Financial Group, LLC
27121 Oakmead Dr. Suite B
Perrysburg, OH 43551

Fourth Dimension
Financial Group, LLC

Fourth Dimension Financial Group exists to help people seeking financial retirement achieve enough, live fully, and help others do the same. Appearing regularly in national industry publications and local media for retirement planning insights, Adam and his team of highly-focused and passionate advisors help clients achieve greater clarity in their planning.

Fourth Dimension's clients benefit from the use of world-class income planning, tax reduction, and risk management strategies, resulting in a retirement plan that works in any economic conditions rather than one built on hope and luck.

To your success,

Founder, Principal, and Retirement Income Certified Professional®

Adam Cufr, RICP®
Fourth Dimension Financial Group
Call (419) 931-0704
Email adam@fourthdimensionfinancial.com
Visit www.FourthDimensionFinancial.com