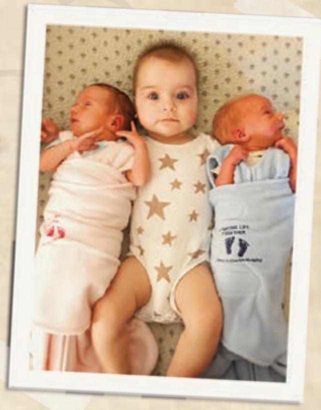
Fall 2019 Edition

The Ultimate Guide for the Successful Steward



New babies! Dave and Mackenzie added three to their family! Vesper (center) was born in March while Verity (left) and Caldwell (right) were born in September.

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

I've been struggling with nostalgia lately. I say that I'm struggling because nostalgia usually makes me sad. Like most people, I really enjoy music from my youth. When I hear that one particular song that triggers that one particular memory, I immediately feel the weight of my advancing age and shortened future. Of course, if you're 25 years older than I am, you question why I'm feeling this way because "You're still a kid." I get it, but I think nostalgia can go one of two ways: it either saddens us or comforts us, maybe both at the same time.

In trying to better understand the effects of nostalgia, I found myself doing some reading on the subject. One quote in particular, by a man named Dan Gilbert, struck me. He said people generally have a more powerful connection to the past than they do to the future because of "the ease of remembering versus the difficulty of imagining." He suggests that we know what the past looked like but we don't know what the future looks like. As a result, we find ourselves fixating on the past much more frequently than we look positively toward the future. This might explain why old songs make us (or at least me) sometimes sad and longing for seemingly simpler times of yesterday.

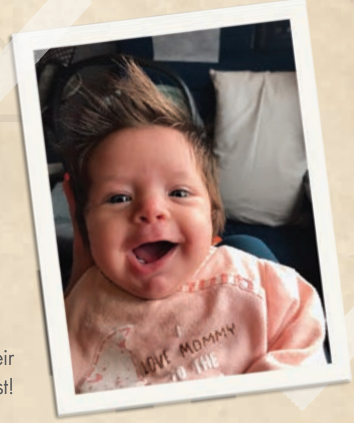
Why does this matter? Well, these same psychological forces can impact how we save and invest for the future. A very simple question is this: would you rather repeat what happened in 2008 or plan for what will happen in 2023? Duh. I know what happened in 2008; the market cratered. But I don't know what will happen in 2023, even though we may see the biggest market gains in our lifetimes. Again, this is the ease of remembering versus the difficulty of imagining.

It's with this mental framework in mind that I suggest you read Steve Hanley's column on REAL risk. Sorting out this investing conundrum in your mind may prove to be very valuable to you financially. Richard Chamberlain reflects on the estate planning question he hears most often, and responds with a series of questions that may help you answer the question for yourself. In the Briefcase Study, we tackle the big pension decision many retirees face, and I share with you a primer on the dreaded budgeting process in Back to the Basics.

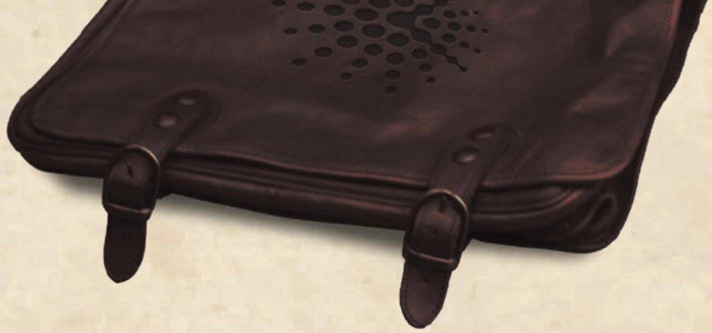
I hope you enjoy what we've shared with you here. And while you're looking ahead to the holidays and wrestling with the joys and challenges of your most nostalgic holiday memories, I hope you'll consider doing what I did; enjoy the past for what it was and imagine the future for the endless possibilities of what it could be. I'm not sure there's any other way.

All the best,

Adam B. Cufr, RICP®



Steve and Julia added their sixth, Cecilia, in August!



Briefcase Study: The Pension Decision

A very common decision for current retirees to make, and one that we've seen a lot of recently, is that of which pension option to choose when preparing for retirement from your company, school, or municipality. You'll see options such as Single Life Annuity, 50% Joint & Survivor Annuity, or Partial Lump Sum Option (PLOP). All of these options can have a dramatic impact on your financial wellness, so we'd be wise to have a discussion about how you might choose which is best for you.

I can never resist making the joke that this decision would be much easier to make if you'll just tell me how long you plan to live. Because each option has a longevity component to it, we're really just doing our best to factor your lifespan and that of your spouse into the financial equation to decide which is best.

If we take this to another level, this fundamental question lies at the very heart of all retirement planning. It's the very reason for retirement planning; if you and/or your spouse live a long life, you'd better have prepared for it financially. After all, the very notion that we might run out of money before dying is the concern that drives most of our retirement planning decisions. As such, choosing how much money to allow yourself to spend each month in retirement is the flipside of the life expectancy coin.

When one of the families we serve delivers us their packet of paperwork outlining their pension buyout and lump sum options, I get to work to spreadsheet various scenarios. These scenarios highlight which option might be the best choice, given various life expectancies.

An example of pension income options might look like this:

The employee will receive at retirement:

- $2,000 monthly for life, with nothing left for the spouse, should the employee die first. This is usually called the 'Single Life Annuity' option;
- $1,700 monthly for life, with 50% of that ($850) continued for the spouse until the end of their life. This is a 50% Joint & Survivor option;
- $1,400 monthly for life, with none of that passing to the spouse, but a $70,000 lump sum is also available. This is a PLOP, a Partial Lump Sum Option

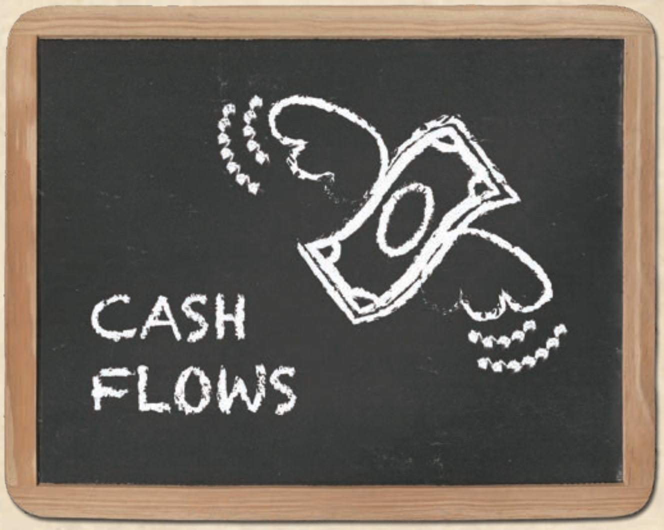
So, if you're married, which do you choose?

As you can imagine, or maybe you've already experienced this, the process of choosing can be very nuanced. Maybe the lump sum (which is almost always rolled into an IRA, tax-free) would create a legacy for your grandchildren, or would make for a nice contribution to some long term care planning. Maybe you need maximum monthly income each month and have great family health history and longevity potential, thus leading toward one of the pension income choices.

Each situation is very unique, but the fundamental question is the same: "How long do we think we'll live, and how do we wish to set ourselves up financially?" Whether you're presented with a pension choice or not, the moment you step into a retirement planner's office, you're contemplating this very question in your own plan.

If you're considering options similar to these, please let us know and we'll help you think through it. It's a great thing in life to have options, but it's even better if you feel good about the choices you've already made.

Back To The Basics:
Having a Budget vs. Budgeting



One of the most critical – and often overlooked – aspects of planning a successful retirement is the estimating of expenses during retirement. The ability to project what your lifestyle will cost into retirement allows you to determine whether the nest egg you've accumulated will go the distance. When we approach this subject with aspiring retirees, we're often met with a similar response: "Well, we've always lived on what we made so we never really had a budget."

Let me start by saying that there's nothing wrong with this. You may have expected me to say that you should have been running a detailed budget all of those years but I'm not going to say that at all. Why? Because whether you counted every penny and budgeted your expenses in advance of each month or not, you still had a budget. It was simply the amount you had coming in! You see, the act of budgeting is not the same as having a budget. In fact, I could argue this by pointing out that everybody has a budget – a finite amount of funds at their disposal – but not everyone performs budgeting.

When we get ready to retire then, it makes sense to look as closely as possible at the amount that's spent each month to live as you do because once the paychecks stop coming from your employer, you need to replace those with paychecks from your accumulated savings and investments. In other words, you need to review your past budget in order to do some forward-looking budgeting in advance of retirement.

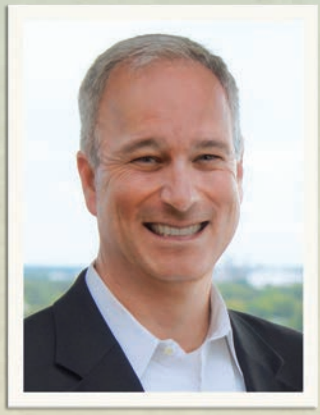
How do you do this if you've never really used budgeting? There are two ways you can get at the number that represents your lifestyle cost:

1. Sit down and analyze all of your credit card statements, checkbook registers, bank statements, and bills for at least a three-month period. Doing so on a three-month basis allows you to capture quarterly payments like insurance premiums and also outlier expenses that may not be normal but still happen from time-to-time. When you get everything typed onto a single page, start adding everything up to see what it costs to be you. Or,

2. Start with your gross (pre-tax) incomes, then subtract your retirement plan contributions (you'll not be making these after you retire), taxes paid, and any regular savings you set aside. Unless there's credit card debt that's growing, the total of these numbers should come close to representing your spending. By backing into your spending, you're less likely to miss items had you used just the first strategy above.

It's at this point that you can identify any expenses that you'd like to reduce or eliminate or even some expenses that you'd like to increase during retirement like travel or fitness memberships, now that you'll have a bit more time on your hands. This budgeting process can shed a lot of light on your expected budget going into retirement. With this information in-hand, you're much more likely to retire confidently knowing whether you've saved enough to retire in the way you desire. One last item to consider: health insurance. For many retirees, health insurance costs are the biggest variable in their budget so be sure to pay special attention to this area. Having taken a little extra time to review your true budget allows you to do some budgeting, which leads to more peaceful living during retirement.

Wills vs. Trusts.
Which Plan is Right for You?



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

As an estate planning attorney, one of the most-often asked questions I hear is, "Should I have a Will or should I have a Trust?" The answer, not surprisingly, is "It depends." The kind of estate plan that is best for any individual or couple depends on what issues the plan needs to address. Your objectives determine the kind of plan you should have.

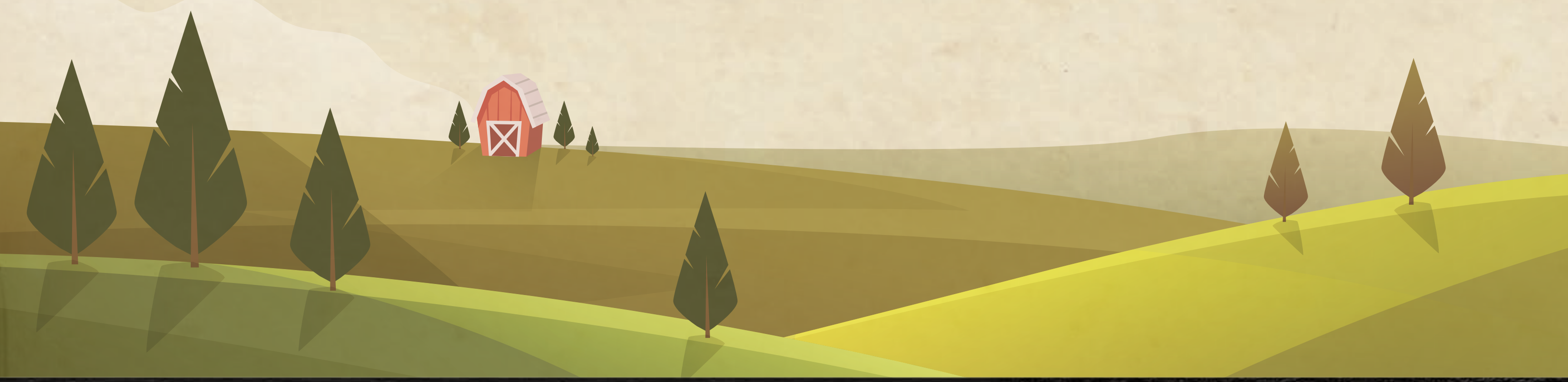
A Will-Based estate plan is right for you if you have the following objectives:

- You want to keep your plan as simple and inexpensive as possible;
- You want to nominate a personal representative to administer your estate and execute on your wishes;
- You need to select guardians for minor children or grandchildren;
- You want to direct the distribution of your assets to your beneficiaries upon your death with no restrictions and no protections; and
- You are not concerned about any of the issues addressed in the Trust-Based Plan list below.

A Trust-Based estate plan is right for you if you have one of more of the following objectives:

- You want to keep your estate out of Probate;
- You want to keep the administration of your estate as simple and inexpensive as possible;
- You want your private information to remain private after your death;
- You want to protect your loved ones and their inheritances from creditors, lawsuits, and divorcing spouses;
- You need to plan for an adult beneficiary who is financially irresponsible or immature;
- You want to protect your spouse and/or your kids in a blended marriage or relationship;
- You want to control the timing and purpose of distributions for minor beneficiaries;
- You need to provide for a beneficiary who is disabled; or
- You want to protect your assets from long-term care expenses.

If you have questions about what kind of estate plan is right for you, we offer a no-cost, no-obligation initial consultation in which we help you identify your planning needs and objectives and can recommend a planning approach that will best achieve the desired results. You can call my office at 419-872-7670 to schedule your appointment. I look forward to seeing you.



REAL Risk 101

'Real Risk' to us takes two basic forms:

- The RISK of permanent loss of capital
- The RISK of inadequate return relative to your planning needs

If you invest money for the future and need to use the money in 5, 10, 20, or 30 years, then the real risk to you is relative to the amount needed in future years to complete your objective. What happens between now and then should theoretically be of little consequence. Unfortunately, the biggest mistake many investors make is allowing emotion to change the framework of real risk. We aim to keep it clear and simple.

> "Simplicity has a way of improving performance by enabling us to better understand what we are doing." –Charlie Munger

Let's use bond investing as a way to better understand real risk in a practical and simple manner; specifically, the concepts of maturity and interest payments. Here are three examples to consider:

1. If you choose to invest money now that you'll need in five years, perhaps you invest into a five-year bank CD with a set interest rate. In exchange for allowing the bank to use your money, you'll receive a set amount of payments each year from the bank. Five years later, when the CD matures, you'll receive your full initial investment back, in addition to all of the promised interest payments you'd received. So, what's the real risk?

2. Perhaps you need money 10 years from now and decide to invest your money in a 10-year bond. Like with a CD, the bond pays you a set interest rate for lending your money and trusting the bond issuer (corporation, government, etc.). In addition to the interest received each year, in 10 years you'll receive your full initial investment back upon maturity of the bond. Again, what's the real risk?

3. Consider a scenario where you don't need access to some money for 30 years. You do some research and choose to buy shares in the Coca-Cola Company. They pay shareholders a 3.3% dividend each year from the profit they earn. As a shareholder for 30 years, you will have collected 30 years worth of dividends in addition to maintaining ownership of your Coca-Cola shares of stock at some market value. In a way then, you can think of the stock as having a 30-year maturity. Again, what is the real risk?

The REAL risk

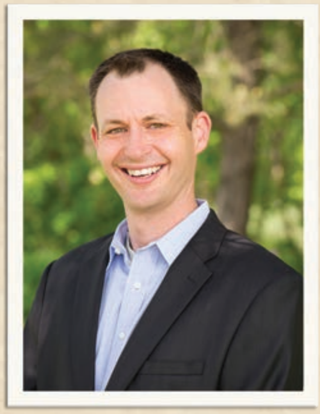
All three examples exhibit the same REAL risk: **the potential for the business backing the investment to fail outright or to fail on its promise to pay the expected payments.** You choose to either trust the bank backing the CD, or the government to back its bond, or a company backing its stock. In all cases, the real risk of investing is the ability for the entity you're trusting to fulfill its obligations. Diversification then, is the main tool available to spread out the risk of any single institution failing to back its promises, which would lead to the loss of your investment or not meeting your expectation for adequate returns.

The Great Deception

> "A lot of people with high IQs are terrible investors because they've got terrible temperaments." –Charlie Munger

What would happen if we had a complete system meltdown similar to 2008? Looking at our three examples above, we might expect to see real life scenarios of real risk playing out over time. Coca-Cola endured the meltdown and is still paying dividends to shareholders while the stock is at all time highs. The bonds paid all of the interest owed and have since matured, while the CDs paid all promised interest and fully matured as well. The 'Great Deception' about the risks of investing in stocks then is actually a false safety in cash, CDs, and bonds. While these investments are all key ingredients for shorter-term needs in a well-built financial plan, their 'real risk' is not different than with stocks!

Stephen L. Hanley,
Investment Strategist
Evergreen Wealth Management



Case-in-point: had 2008 continued into a full depression, and been left unchecked by central banks similar to the Great Depression of the 1930s, then we would've likely seen Coca-Cola eventually cut their dividend to zero, bonds would've likely defaulted, and many banks would've shut their doors leaving CD owners without their payments or principle. Insurance companies would've been at risk as well, since their portfolios are backed by bonds, stocks, and banks. In a nutshell, the interconnected system (built on the foundation of companies and employees) means all institutions share similar risks in the face of a Great Depression-like scenario.

> "The big money is not in the buying or selling, but in the waiting." –Charlie Munger

It's popular to claim that the lowest risk option in our above examples would be the bank CD. While this is absolutely true for those needing money in the next five years, it's not true from an absolute risk perspective. If the economy gets bad enough, however, all the investments above share the same REAL risk – Systemic Risk.

Investment Takeaway

A well-built financial plan will match your need for money with the timeframe with which you need it, while diversifying among asset types. Building the plan in accordance with a long-term horizon is key. The Real risk for each component is very, very low if each is held to maturity. Worrying about the shorter-term (before maturity), and making significant moves will generally hurt your success (unless we are moving to capture opportunities).

Making drastic moves from stocks to bonds or cash does not help reduce 'real risk', but most certainly can damage expected returns. If our fear is an ultimate long-term meltdown—and not having money when we need it—then moving to bonds or cash would've all met the same demise during the depression. However, owning stocks has delivered superior returns in the long-term. If we're interested in having a solid investment strategy for 30+ years, then emotional responses based on short-term concerns should be guarded against, while keeping the realities of 'real risk' top of mind.

> "If a moody fellow with a farm bordering my property yelled out a price every day to me at which he would either buy my farm or sell me his—and those prices varied widely over short periods of time depending on his mental state—how in the world could I be other than benefited?
>
> If his daily shout-out was ridiculously low, and I had some spare cash, I would buy his farm. If the number he yelled was absurdly high, I could either sell to him or just go on farming." –Warren Buffet

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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®

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