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QtrNotes

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Quotes

How we spend our money is the ultimate manifestation of our deepest values
Charley Ellis

Education costs money. But so does ignorance.
Sir Claus Moser

A truly rich man is one whose children run into his arms when his hands are empty.
Ziad K. Abdelnour

It is not what you do for your children, but what you have taught them to do for themselves, that will make them successful human beings.
Ann Landers

Everyone has opinions about these things, but no one has any concrete answers because the future hasn't happened yet. That's why they call it the *future*.
Josh Brown

Economy Robust, but Tariffs Rattle Markets

Admit it. You were spoiled by the markets in 2017. Stock markets in the US and around the world were trending upward, as economies in Europe, Japan, emerging markets and the US all moved in synchronized growth. Volatility dropped dramatically, and we became accustomed to steady advances with no major declines. Halfway through 2018, market volatility has returned to normal and asset prices are fluctuating up and down. Investors are trying to discern where we are in the economic cycle.

Index	6/30/2018	YTD
Dow Industrials	24,271.41	-1.8%
S&P 500	2,718.37	1.7%
MSCI EAFE	1,958.64	-4.5%
Bloomberg US Bond	2,013.28	-1.6%
US Treas 10-yr yld	2.9%	

At present, we are nine years into one of the longest economic recoveries in history. Instead of slowing down, the latest data suggest the economy just accelerated. Unemployment has been steadily trending lower and just hit 3.8%, a 40-year milestone. Tax cuts are in full effect and corporate America is reporting net earnings growth of nearly 20%. Stock investors should be cheering, but instead are proceeding with caution. Burgeoning trade wars and rising interest rates are clouding the outlook.

The US has picked fights with nearly all our major trading partners. Thus far, we've imposed tariffs on washing machines, solar panels, steel, and aluminum. In response, our trading partners will soon put tariffs on US bourbon, denim, pork, apples, steel, and Harley-Davidson motorcycles. Expect to see additional tariffs on Chinese goods and possibly European cars in the year ahead.

Tariffs are ultimately taxes on consumers and businesses. The world economy can survive a wave of tax hikes, and we expect businesses to do their best to reposition themselves to minimize the ultimate costs. If you've had your eye on a Mercedes, now might be the time to act, but long-term stock investors have fewer reasons to make short-term moves.

Investors are also keeping an eye on interest rates and bond values. In June, the Fed increased its target rate by another 0.25%. This was the second hike this year, and most expect the Fed will increase rates at least once more, possibly twice, before year-end. If the economy keeps growing, it will be normal to see bond interest rates continue to drift upward. The role of bonds in our diversified portfolios remains unchanged: bonds remain a source of predictable income, and help hedge our stock positions and exposure to economic recession risk.

We still expect continuing economic growth and modest increases in interest rates. At present, we are not making major changes to portfolio allocations. Today's risks are more political than economic. We will be watching the data and market signals, and we will make portfolio changes as they appear to be necessary.

Legacy Planning

An old Chinese proverb states, "Wealth does not outlast three generations."

Proverbs serve as both warnings and calls to action. For families looking to make an impact on future generations, legacy planning serves as an extension of traditional estate planning and wealth management. In addition to ensuring financial security for children and generations to come, legacy planning may include continuing a family business, supporting charities, or donating to a religious or educational institution.

In our thirty years of practice, we have witnessed many successful family wealth transfers into the

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The Gadget Trap

The most recent call for electronic panic was May's alert to reboot all routers, as over half a million homes were found to have been hacked. This specific alarm brought a new focus onto a growing problem: we have more and more so-called "smart" devices in our lives, and they're making fools of us.

When the "Internet of Things" first started to unfold, the possibilities seemed endless. Call your house during your drive home and have the thermostat adjusted, the lights turned on, music playing. Connect your bathroom scale to your Fitbit and send the latest results to your trainer. Soon, we'd be reading or napping as our self-driving cars took us to work.

The reality has already begun to look less rosy, with glitches, data leaks, privacy issues, even stalking fears. With the genie well out of the bottle, what's the best course? Take a hammer to all those gadgets?

Tempting as that sometimes sounds, there are less drastic approaches. The first step is to round up details on your devices: what are they? Do you have passwords for all of them? Which ones are potential problems? And the key question: is each one actually making your life better?

If 'yes', you can take control of that part of your digital life. If it's no – well, there's always the hammer.

Legacy Planning

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third generation (as well as some that weren't successful even with the first generation). Most families that succeed in this have common traits:

- **A conscious desire to leave, not just an inheritance, but a legacy.** There is often an intuitive sense of what kind of legacy a family would like to pass to future generations. What do you want your legacy to be? What is most important to you?

- **A clear and defined set of values, often a family vision and mission.** What values do you want your family to cherish and express? What principles have been central to your personal and financial success? Have these been clearly articulated and communicated to your heirs? Will these values nurture a legacy of stewardship and financial health for succeeding generations?

- **Thoughtful parenting to prepare the heirs.** This one is hard for most families: we all want to give our kids a better life than we had. But we need to ask: what is in their best interest? Successful families usually talk openly about money. They allow their kids to struggle (with safety nets) and to learn from their own mistakes. They are careful to not provide too much financial assistance, which can lead to a lifestyle that their children cannot sustain without constant parental assistance. To build financial "muscle memory," parents must set healthy boundaries and financial limits, let their children live within their own means, and set an example in prudent money management.

- **Generosity.** Leaving a legacy is more than just giving gifts and bequests: it's often about a desire to make the world a better place. This includes a deliberate use of all the family capital – work, wisdom, and (when available) wealth.

- **Proper planning and advice.** Planning is key. Your goals and vision also need to be clearly articulated to all your advisors so they can work in unison to serve the family.

Successfully passing wealth and wisdom to children, grandchildren, and beyond is no accident. It takes planning, and the families that succeed do so because they have managed their family's financial and non-financial resources with intent. With a little effort, the next generation will have the tools to succeed, flourish, and pass the legacy on.

Ongoing Financial Planning

A financial plan used to carry substantial weight: a thick leather-bound document, diligently prepared and prudently stored in a secure vault hidden from sight. It's better to think of your financial plan as a dynamic, virtual document, easily accessible for you to review, monitor, and amend.

There are countless reasons why your financial plan may need an update: marriage, divorce, career changes, relocation out of state or even overseas, retirement, death of a loved one, or birth of a child. Major life events carry the most obvious financial implications, but sometimes the simple progression of life prompts a review of plans from years ago. Relationships with family can morph over the years, children mature, our views of money change our long-term intentions. *Now* is the right time to pull your will out of the home safe and read it again.

Financial plans may also need review for reasons completely out of our control and unrelated to family circumstance. The government has a knack for amending laws and regulations and does so frequently: the estate tax exemption alone has jumped tenfold in the last decade.

The good news is that your will probably isn't broken: most properly drafted wills were worded sufficiently well to anticipate the possibility of the government changing its mind on estate taxes. What we see most frequently is that old wills are overly complex and could be simplified.

Changes in state tax laws and regulations are another reason to revisit your estate documents. In 2015, the Florida legislature amended how patients delegate health care powers. Documents such as Advance Directives and Durable Powers of Attorney may need revising and updating, as well as provisions for naming a health care surrogate on behalf of a minor, in case the parents are unable.

Your investment plan also needs to morph as your financial circumstances change. Your willingness to accept and ability to take risk, and your actual need to assume risk, will all change over time. If it's been some time since we spoke about the role of risk in your portfolio, let's talk.