Q1 2022
Vol. 6 Issue 1

Trust Quarterly New$letter

When the Going Gets Tough by Tim Van Pelt

Investing is not for the faint of heart, and this year is no exception. Russia's war and assault on Ukraine has brought us shocking images not seen in Europe since World War II and is the beginning of a new world order that will have economic impacts for years to come. Europe must pivot away from Russian oil and gas and figure out how to accommodate millions of Ukrainian refugees. In addition to oil and gas, Russia is also a significant exporter of wheat, iron, steel, aluminum, nickel and palladium. Western companies relying on these products now have new supply chain challenges to solve in addition to the supply problems created by the COVID-19 pandemic.

China's refusal to condemn the Russian invasion of Ukraine and the blame China put on the United States for creating the situation also highlights China's view that the West is more of a foe than a friend. Indeed, our Department of Defense has expressly stated China will be the United States' greatest existential threat in the coming decades. American companies need to re-think their supply chain and manufacturing dependencies on China. If China were to invade Taiwan, escalate its territorial claims in the South China Sea, or escalate its long-standing border dispute with India, the United States could not take steps to economically isolate China without crippling our own economy.

These new geopolitical issues come at a time when the U.S. economy is grappling with labor shortages, continued supply shortages, and price inflation not seen since the 1980s. Considering the war and our domestic economic issues, what does all of it mean for you and your money?

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In stressful and uncertain times, it is always helpful to re-focus on fundamentals. In investing, this starts with going back to your financial plan. Your financial plan should always start with reviewing and confirming your outflows, i.e., your expenses. Without an understanding of what the amount of your spending is, it is impossible to determine whether the amount of your retirement savings is adequate if you are retired, or alternatively, it is impossible to determine whether the amount you are saving is going to be enough to retire someday.

Second, your income must be understood. This is one data point almost everyone understands. In retirement planning, however, it is especially important for retirees to account for any passive income they will have, such as Social Security income, and other passive income items such as a pension or rental income.

Third, once you understand your passive retirement income and subtract your living expenses from it, this

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by Tim Van Pelt (continued)

difference determines whether you have a shortfall to cover from your retirement savings. We have done a lot of testing and modeling on this front, and the 4% rule works well. What this means is if you keep the amount of your withdrawal from your retirement savings to 4% or less each year, then you have a good chance at making your money last beyond your lifetime. If your withdrawal rate from your retirement savings is well above 4% and you have more than 20 years to live, then a) you need to be aware that you could run out of money, b) re-think quitting work or go back to work, or c) find a way to spend less money.

I am getting technical with financial planning for a couple of reasons: 1) to illustrate that successful retirement planning predominantly revolves around how much you spend rather than world events or how successful your investments are, and 2) in tumultuous times, to serve as a reminder that the most critical variable to your long-term plan, i.e., your spending, is still ultimately under your control.

Once it is determined whether you fall on the "safe" side of the four percent rule, then it becomes a matter of whether your investments are properly allocated. From our experience, an overall proper allocation hinges on two main considerations: 1) ensuring that the amount of money you will need to withdraw from your retirement savings over the next five years is conservatively allocated, and 2) ensuring that your investment allocation is true to your personality, what I call your "money psychology." Let's discuss each of these points in turn and how they relate to today's economic and world events.

Why do I say that five years of your retirement withdrawals should be conservatively allocated? This is where understanding history is an important guide. One of the fastest ways to destroy a retirement plan is to have to sell stocks during a down market to satisfy living needs. The beginning, duration, and depth of a bear market can never be predicted so a good plan needs to account for a worst-case scenario. If we look at the past 50 years of market history the worst bear markets were 2008, 2000-02, and 1973-74. In each of those events the stock market lost about half of its value and took about five years to recover to pre-crash levels. Using this history as a guide and not knowing when we will be in the middle of another one of those prolonged bear markets, the five-year conservative bucket becomes a useful tool.

Beyond putting five years of cash flow needs in a conservative bucket, your asset allocation becomes more about psychology than math. Our experience in working with hundreds of clients is that most investors expect lots of upside with little appetite for seeing any downside. In other words, whether consciously admitted or not, the pain threshold for tolerating any losses is small. For some individuals, this threshold is only five or ten percent. In today's marketplace driven by electronic trading it is now common to see movements in the prices of stocks of 5-10% in a day.

Others are comfortable riding a 30% swing. What is critically important is that you honestly assess your own comfort level with how much downward volatility you can tolerate and ensure your investments are allocated accordingly.

Too many investors do not have the honest assessment until an investment storm is well underway, and then succumb to a psychological meltdown about losing their money and sell out at the bottom. Preventing this type of scenario is why it becomes critical that you have an honest discussion with your advisor about your tolerance level of seeing losses so that an appropriate allocation can be determined before a crisis happens. As of this writing, most market indices are currently only down 5-10% from their peaks so this is a good time to still have that discussion and to make changes to your allocation if needed.

The next 12 to 24 months could result in the market going up or significantly down from here. The unfolding of the war or an unexpected peace agreement, the effect of rising interest rates on the U.S. economy, the mid-term elections, the confidence of the American consumer to spend money, China's actions toward the United States and Russia, and the quality of company earnings reports as we go throughout the year will all cause significant swings in the market throughout the year. To paraphrase Warren Buffett: In the short run the market is a voting machine; in the long run it is a weighing machine. ■

The Cornerstone of an Estate Plan

by Karla Losey

In this fourth installment of our series on the basics of financial and estate planning we take a closer look at Wills. Everyone knows that it is critical to have a Will, but let us examine why it is important, the relationship between wills and probate, and finally we will investigate what happens when someone dies without a Will.

Wills are a Stop-Gap Measure. Your Will serves as a stop-gap measure, it helps to plug any holes that may exist in your overall estate plan. Your Will covers individually owned assets that do not have a named beneficiary. You may remember from prior articles that jointly owned assets with right of survivorship are not covered by your Will; they pass to the joint owner outside of probate.

Your Will can help protect assets you did not retitle into the name of your Trust. Often, we see clients with a pour over will; meaning that the Will states that any assets owned by the deceased "pour over" into their trust upon death. This is a nice safety net for assets that were overlooked when the retitling of assets took place.

The Inter-Play of Wills and Trusts. If you have a trust, you may be wondering why you need a Will. The Will can direct assets that are not titled in the name of the trust to your Trust at death. When people leave the attorney's office with their new Trust documents, it is not uncommon that assets are overlooked in the retitling process. People also acquire assets after executing their Trusts and can easily forget to title the new assets into their Trust. While your Will can help protect you from these common oversights, your Trust can ensure your assets reach who you want to have them and at the time you have chosen for them to receive the assets.

Name a Guardian for Minor Children. Parents of minor children often use their Will to name who they would like to be the legal guardian of their children. It is important to understand that a judge makes the final decision as to who will be the legal guardian of the children, taking your wishes into consideration. Stating your wishes in your Will is important, but we all know things change and often Wills do not get updated as frequently as they should. That is why a judge will consider all current information about the children and the individual that you named as guardian, then make the best decision as to who will serve as guardian for the children.

Wills and Probate. When someone dies and they have a Will, the Will goes through the probate process. The Will is first recorded with the county, and a judge oversees the settling of the estate and distribution of the probate assets. The probate court will ensure the assets are all gathered and properly appraised. The court will also oversee the payment of all debts and help prevent false debt claims from being paid. With oversight from the court, the tax returns will be filed, the attorney fees will be paid, and finally the assets will be distributed to the heirs. All of that takes place under the watchful eye of a probate judge.

Most people have a negative connotation of probate and think they want to avoid it at all costs. After all, probate proceedings are public record, there are court fees, as well as legal fees, and the process can be lengthy. Reality is there are some real benefits to an estate going through probate court. The probate process certainly protects the heirs from a personal representative that is either inexperienced or has less than honorable intentions. Probate court is also a buffer for disagreements on how the estate should be handled and what should happen to the assets. While a judge cannot prevent hard feelings among family members, the judge will ensure that the decedent's wishes expressed in the Will are carried out according to the law.

Dying Without a Will. When someone dies without a Will, it is called dying intestate. In the state of Wisconsin when someone dies intestate, the state has intestacy laws that determine how the assets of the deceased are distributed. This process is overseen by a probate judge. The goal of the state is to distribute the deceased's assets to family members. Your definition of "family member" may be different than the state's definition of a "family member." For instance, half-relatives (half sibling share one parent) are treated as whole relatives (in the case of siblings, both parents are identical). State law does not recognize as intestate heirs foster children or stepchildren who are not legally adopted. It gets even more complicated when someone dies intestate, is

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by Karla Losey (continued from inside)

currently married, is the legally recognized parent of children with the surviving spouse, and the legally recognized parent of children from a prior relationship. In this situation, the surviving spouse would retain their half of the marital property, while the deceased's half of the marital property would be split equally among all the children. The separate property would be split half to the surviving spouse and half split equally among the children, again including half siblings. The only way to guarantee your assets are inherited by the people you want to have the assets is to have an estate plan and ensure that your assets are titled appropriately per your plan documents.

Summary. In this article we looked at why a Will is the cornerstone of an estate plan. We also looked at probate with a fresh perspective and found the probate process is a good and often needed oversight. We also looked at what happens when someone dies without a Will and have a better understanding of why dying intestate should be avoided. If you have not reviewed your Will in the past two years, it is absolutely time to do so. Read your Will and see who is named and to whom your assets are going. You may need to update your Will. It is also a good time to verify the titling on your accounts and any POD or TOD (payable on death or transfer on death) that are named. Proper planning is critical to accomplish your goals, both during your lifetime and after death. We are here to be your partner in all phases of planning for the different stages of life. We will listen to you and make appropriate recommendations based on your unique situation. ■