TACONIC VIEWS

Financial Insights for Secure Retirements and Life's Transitions

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Black Swans

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Have you ever seen a black swan? No? Well neither had anyone in Europe during the 17th century. At that time, it was widely believed that there could be no such thing as a "black" swan. Having seen only white ones, Europeans naturally assumed that white was the only color that a swan could be. They learned otherwise in the late 17th century when William de Vlamingh, a Dutch explorer, discovered black swans in the wilds of western Australia. It was a shock to many to learn that black swans, which they had long thought impossible, actually existed.

Fast forward to the early 2000s in America where we meet a gentleman named Nassim Nicholas Taleb. Taleb was a finance professor, Wall Street trader, and writer who wrote *Fooled by Randomness – The Hidden Role of Chance in Life and in the Markets*. In his 2001 book, he applied the history of the black swan to more recent random events. Following the mortgage debacle and subsequent market meltdown of 2008-2009, he further refined his black swan theory in another book, *The Black Swan: The Impact of the Highly Improbable.* After further evolution, a "Black Swan" event is now used to describe the occurrence of any significant event which had previously been thought impossible.

According to Taleb, a Black Swan event has three defining characteristics:

1. The event had been thought highly unlikely and is a major surprise.
2. The event has a major effect.
3. After the event, it is rationalized in hindsight as if it could have been expected. "We should have seen that coming!"

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Microinvesting: Building Wealth Pennies at a Time

By Judy McNary, CFP ®, MBA, MS
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Over the past few years, my spending has transitioned from coin and paper to online and plastic. I used to take coins that accumulated in my wallet and transfer them to a big jar. Once the jar was full I would use the coins for something fun like a vacation or my first chocolate Labrador Retriever. As I have switched to online bill pay, debit and credit cards, I notice the jar doesn't fill nearly as quickly as it once did. Apparently, I am not the only one who has noticed. For the past few years, several banks have offered round-up savings programs. Any time you make a purchase using plastic, the bank calculates what your spare change would have been and transfers that to a savings account for you. The practice is referred to as 'microsaving' because you're building your savings a few pennies at a time.

More recently, several companies have developed smartphone apps that take microsaving a step farther. They have introduced 'microinvesting'. These apps allow users to invest in a diversified portfolio of stocks and bonds with as little as $5. I reviewed two of the best known, Acorns and Stash Invest.
Both apps let you set up automated savings to fund your investment account. This set-it-and-forget-it approach works well as users are off and investing right away.

Acorns has a few advantages worth noting. First, it offers round-up investing, taking the virtual spare

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Transitions…

Financial Planning for Life's Transitions

Being a Financial Caregiver for Your Parents

Introduction by Steve Martin, CFP®, CPA, JD
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If you are the adult child of aging parents, you may find yourself in the position of someday having to assist them with handling their finances. That’s why one of the most important conversations you can have with your aging parents is how to handle their finances as they age, become ill or incapacitated. Whether that time is in the near future or sometime further down the road, there are some steps you can take now to make the process a bit easier.

Mom and Dad, can we talk?

Your first step should be to get a handle on your parents' finances so you fully understand their current situation. The best time to do this is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf during a crisis.

You can start by asking them some basic questions:

- What financial institutions hold their assets (e.g., bank, brokerage, and retirement accounts)?
- Do they work with any financial, legal, or tax advisors? If so, how often do they meet with them?
- Do they need help paying monthly bills or assistance reviewing items like credit card statements, medical receipts, or property tax bills?

Make sure your parents have the necessary legal documents.

You'll need the legal authority to help your parents manage their finances. This requires a durable power of attorney, a legal document that allows a named individual (such as an adult child) to manage all aspects of a person's financial life if he or she becomes disabled or incompetent. A durable power of attorney will allow you to handle day-to-day finances for your parents, such as signing checks, paying bills, and making financial decisions for them. This document is not one-size-fits all, so you should periodically confirm that it still meets your parents’ needs.

You'll also want to make sure that your parents have an advance healthcare directive, also known as a healthcare power of attorney or healthcare proxy. An advance healthcare directive will allow you to make medical decisions according to their wishes (e.g., life-support measures and who will communicate with healthcare professionals on their behalf).

Find out if your parents have a will or any trusts. If so, find out where these documents are located and who is named as personal representative or executor. If the will was drafted more than three to five years ago, or if there was a major change to their situation, your parents may want to review it to make sure their current wishes are represented. You should also ask if they made any dispositions or gifts of specific personal property (e.g., a family heirloom to be given to a specific individual).

If there is a trust, you should confirm the type (revocable or irrevocable) and whether the trust holds any assets. One of the primary reasons a revocable trust is drafted is to provide for a smooth transition of handling one’s financial affairs. Thus, it is critical to review the trustee provisions – not only who is named as initial trustee and successor trustee, but how the successor trustee takes over. There are a host of issues that should be addressed with trusts that are beyond the scope of this article.

Prepare a personal data record.

Once you've opened the lines of communication, your next step is to prepare a personal data record that lists information you might need if your parents become incapacitated or die. Here's some information that should be included:

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change and accumulating it for you. Once you reach $5 in accumulated spare change Acorn transfers the funds to an investment account where the money is automatically invested. Acorns offers default portfolios with low-cost offerings from Vanguard and Blackrock so the cost of investing is minimal. On the downside, the portfolios are limited; they include Emerging Markets but no International Developed investments. It seems inappropriate to me to steer novice investors toward investing in Brazil and Russia over Germany and Japan, but for small amounts of money the diversification offered should suffice.

The second feature unique to Acorns is Found Money. Acorns is partnering with other firms such as JetBlue, 1-800-FLOWERS, and Hulu. Spend money with these companies and receive a 10% discount that is deposited in your Acorns account. Currently the list of partners is small (how many bouquets do you order?), but growing. Acorns seems like a good option for people with limited or no investment experience who want to dip their toes in the water. Many reviewers expressed disappointment at how long it takes (5-7 days) to get their money out of their account but this disappointment is misplaced. Investing is not like saving and these accounts should not be treated like savings accounts or ATM-equivalents. When using an app like Acorns, plan to let deposits and investments grow over time.

Stash Invest is like Acorns in that it helps you set up low-cost, automated investing, though it does not have round-up programs or third-party partnerships. It is intended for more actively engaged investors. Transferring money back and forth from the bank account is quicker and Stash Invest has an active social media community that shares ‘investing tips’. Writing this makes me cringe. Investing should be used for long-term goals with a long-term perspective on performance. Many of the reviews for Stash Invest, as well as Acorns, referred to how much money users had made or lost in the most recent month. This isn’t investing; it’s gambling or playing a game. For a low-risk, hands-on way to learn how markets work, both good and bad, there is value in seeing what happens when you track a micro-account closely. For true investing, however, employing a set-it-and-forget-it approach is a smarter way to go.

Acorns and Stash Invest have similar fee structures. For accounts below $5,000, the cost is $1/month (Acorns waives the fee for young college students). The fee is pretty steep on a percentage basis. Once the account reached $,5000 or more, the fees are based on a percent of assets rather than a flat monthly fee.

Probably the biggest drawback I see is that neither of the apps support retirement accounts so the investments are in taxable accounts subject to, you guessed it, taxes.

My recommendation is to assess your current situation before you microinvest or microsave. Investing in markets is risky and there are no guarantees. Make sure you have 3-6 months’ living expenses safely set aside as an emergency fund first. Once you have your emergency fund in place, consider using one of the apps to begin microinvesting. Use these to invest over a long period and learn how markets work as you go. Once the account reaches $1,000, transfer the funds to a Roth IRA at a low-cost investment custodian such as Charles Schwab or Vanguard so the money can grow tax-free. There may be minimal taxes due because of the transition but the future tax-free growth in the Roth IRA will be worth it. At that point, you can reboot the accumulation plan with Acorns or Stash Invest or shift to saving directly into the Roth IRA. Establishing a save-and-invest habit will pay off. With apps like these you can now build wealth pennies at a time.

Black Swans… *from page one*

The terrorist attack of 2001 is a perfect example of a Black Swan event, but not all Black Swan events are catastrophic and harmful. The development of the internet and widespread use of personal computers can also be viewed as Black Swan events. The Japanese earthquake and the subsequent nuclear reactor problem, the dissolution of the Soviet Union, and the Arab Spring are other Black Swan events. In short, any occurrence previously thought impossible but which does occur and has a major impact can be seen as a Black Swan.

The financial world now takes for granted that Black Swan events will occur from time to time. Can we prepare for them? Of course, if we could completely prepare for them, they would not be Black Swans! But, we can arrange our affairs as if we expect them to occur. We know that Black Swans will visit from time to time and we can note our vulnerabilities. We then may take measures to lessen the unpleasant effects of unexpected events. For our personal finances, that means having an emergency fund in place, and ensuring that our portfolios are well diversified. The tech stock bubble and crash of 2000 was a Black Swan for those who had piled on speculative tech stocks. It also thoroughly highlighted the risk of not being properly diversified. Proper diversification has historically lessened the effect of Black Swans compared to making big bets on single stocks or on just one asset type (think real estate in 2008).

Black Swan theory is fascinating to me. I have noticed that more commentators in the financial arena have recently been using the term (and not in the ornithological sense). They likely have no better idea of when the next one may appear, or what form it may take, than do you or I. I won't lose sleep over Black Swans, but I will also try to make sure that I am not caught completely off guard. So, be alert for Black Swans as you face your future; you will likely see one sometime, somewhere. And, with the help of your financial advisor, take the steps needed to be as prepared as you can be.

Caregiver … continued from page 2

- *Financial information:* Bank, brokerage, and retirement accounts (including account numbers and online user names and passwords, if applicable); real estate holdings
- *Legal information:* Wills, trusts, durable powers of attorney, advance health-care directives (and the details behind such)
- *Medical information:* Healthcare providers, medication, medical history
- *Insurance information:* Policy numbers, company names
- *Advisor information:* Names and phone numbers of any professional service providers
- *Location of other important records:* Social Security cards, home and vehicle records, outstanding loan documents, past tax returns
- *Funeral and burial plans:* Prepayment information, final wishes

If your parents keep some or all of these items in a safe-deposit box or home safe, make sure you can gain access. It's also a good idea to make copies of all the documents you've gathered and keep them in a safe place. This is especially important if you live far away, because you'll want the information readily available in the event of an emergency.

Don't be afraid to get support and ask for advice.

If you're feeling overwhelmed with the task of handling your parents' finances, don't be afraid to seek out support and advice. A variety of local and national organizations are designed to assist caregivers. If your parents' needs are significant enough, you may want to consider hiring a geriatric care manager who can help you oversee your parents' care and direct you to the right community resources. Finally, consider discussing the specifics of your situation with a professional, such as an estate planning attorney, accountant, and/or financial planner.

**This article was modified by Steve Martin, Oasis Wealth Planning Advisors with initial preparation by Broadridge Investor Communication Solutions, Inc. Copyright 2016.*

Tax Time and Spring Cleaning

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You’re probably congratulating yourself for surviving another tax season and the chore of gathering tax data for your ACP advisor or tax professional…and thankful you won’t face that task again until next year. Now that you’re fresh off the process of getting organized to have your tax return prepared, why not continue the “spring cleaning” with a bit of housekeeping in other areas of your personal finances?

The most obvious task, now that you’ve sorted receipts and used Quicken or another personal finance program or app to gather your income tax data, is to go through old records and documents. Most bank and investment statements are archived online, so there’s no need to retain - or even receive - paper statements. Sign up for electronic delivery of statements and be sure to shred paper statements that contain personally identifiable information. And maybe you're ready for a change in the way you track your expenses; there are plenty of online tools and apps that can simplify your record keeping.

With the tax filing deadline behind you, it’s likely you made an IRA or SEP-IRA contribution. Take a few extra minutes to check your beneficiary designations and update your beneficiaries if needed. While you’re at it, take a look at your will or trust. Verify that the guardians and trustees named in your will/trust still reflect your wishes regarding the care of your children and disposition of your estate.

Speaking of children, be sure to open an IRA for your child if he or she expects any earned income for 2017. Usually a Roth IRA is best suited for minor IRAs, but consult with your ACP advisor. It’s never too early to begin saving for retirement. Even a small contribution will grow exponentially. A $300 IRA deposit, for example, will grow to nearly $6,000 over the next 50 years (assuming a 6% annual return).

If you’re a small business owner, tax time is a great time to review your retirement plan options with your advisor and ensure you have the best plan for your situation and goals. Employees can review their company’s 401k or 403b plans to make sure they are contributing the maximum and are choosing the investment options that are best within the context of their overall financial plan and goals. If you will reach age 70½ this year, ask your ACP advisor how to best start taking required minimum distributions from your IRAs and any other tax-deferred retirement plans.

Finally, plan now for your 2017 tax liability to avoid owing a large amount next tax season, or perhaps worse, receiving a large refund (which is basically an interest-free loan to the IRS). If you’re a wage earner, confirm that your withholding amount is in line with your tax liability and file a new W-4 if you need to change the amount withheld. And if you’re self-employed, be sure to make your quarterly estimated tax payments as directed by your ACP advisor or tax professional (and adjust the amounts as the year goes by if your income changes).

Remember, financial planning is a process, not an event, and taking a few minutes every tax season for some financial housekeeping will keep your finances running smoothly.