Financial Decisions

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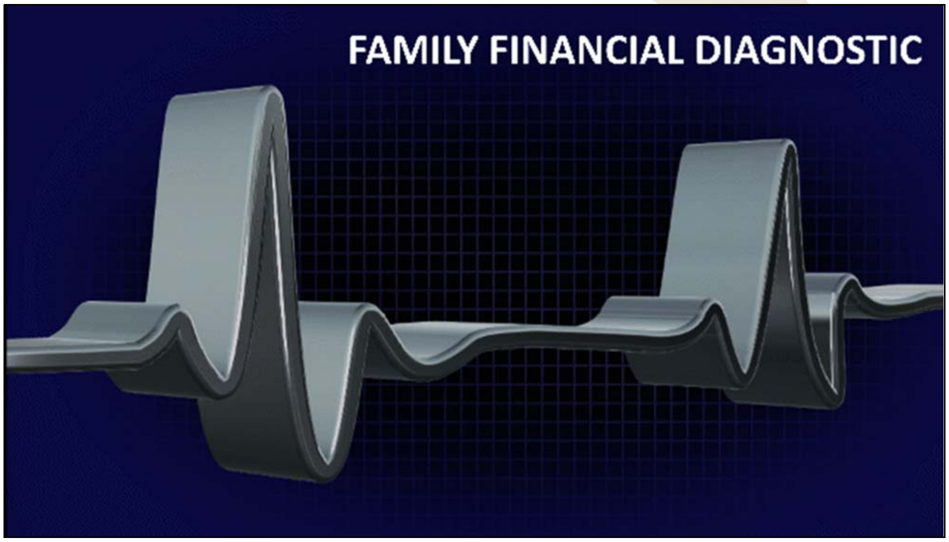
A Timely Five-Point Diagnostic for Family Wealth Management

A terrible truth of the Covid pandemic is that families are at greater risk of losing a matriarch or patriarch. Whether you're a beneficiary or grantor, here's a five-point diagnostic for managing family wealth; issues to consider that might require urgent action due to the unusual times we are living through:

When did you last update your will? Wills should be reviewed every three years.



Do you need a revocable trust to avoid probate? State laws vary, so there are no hard and fast rules, but the Covid crisis has made the use of revocable trusts a more popular estate planning vehicle, preferable to a Will. Courts were recently shuttered across the country. It's prudent to continue expecting delays in the probate court process. If a family patriarch is intubated and can no longer manage family financial matters, a revocable trust facilitates the transition in the management of family assets. Whoever is named as successor Trustee may present the trust document to the investment advisor (who should have a copy of it already) and the management of assets can then be assumed by the successor.

GRATS and other trusts should be reviewed, and they are expected to be recommended more often in managing family assets in the months ahead. Grantor retained annuity trusts (GRATS) are a way to freeze the value of an estate, to reduce estate taxes. For many years, GRATs have been set up based on the IRS's mid-term Applicable Federal Rate (AFR). However, with the AFR dropping in mid-August to 40-basis points (0.40%), trusts may need to be updated to use the long-term IRS AFR. With higher taxes expected, due to the weakening U.S. balance sheet, locking in the long-term

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Our Slightly Delayed Newsletter

We hope that this newsletter finds you and your loved ones well. We are definitely living in unprecedented times, and our most earnest wishes are that you, your family and friends are all staying healthy, both physically and emotionally.

We are happy to report that here at Financial Decisions, we are all doing well and WFH (Working From Home) efficiently and effectively. We are thankful that today's technology (Zoom, Microsoft Teams, texts, even good old-fashioned email) has kept us interconnected and functioning smoothly as a team.

We did put the newsletter on hold this year while dealing with some of the new issues and transitions that our clients have been experiencing. But we are pleased to get back on track with this (slightly belated) newsletter for September, full of pertinent information on dealing with our *really* new normal. We especially like the article on page 3, a brief summary of the Fed's response to the economic upheaval caused by the pandemic. And on page 4 is a new recurring feature: Market Data Bank, highlighting market trends from the previous quarter (again, slightly belated).

Our conservative investment portfolios have performed quite well during this year's market dip and rebound. But far more importantly, please continue to keep yourselves and your loved ones safe and happy for when we finally get to meet again.

Florence, Linda, Ken and Krystina

Private Wealth's Perfect Storm

Amid the Covid pandemic, changes in tax, financial, and economic arenas have created a deluge of added complexity for advisors managing private wealth. Here's an overview of the abrupt change in conditions now battering private wealth, which, when taken together, amounts to a "perfect storm:"

Tax Policy. Budget shortfalls across the states as well as at the federal level are expected to result in steep hikes to state and federal income and transfer taxes.

Taxable Estates. For individuals with taxable estates, the current exemption of $11.58 million from estate and gift tax will be cut in half January 1, 2026. However, the exemption amount could be cut much sooner, depending on the outcome of the November 3 election. Changes in tax policy increase the downside risks of failing to plan. While 2026 may sound a long way off, preparing now to maximize annual gift-tax exclusions, charitable donations, and appropriately tailored trusts to accomplish your goals can ensure a lasting legacy.

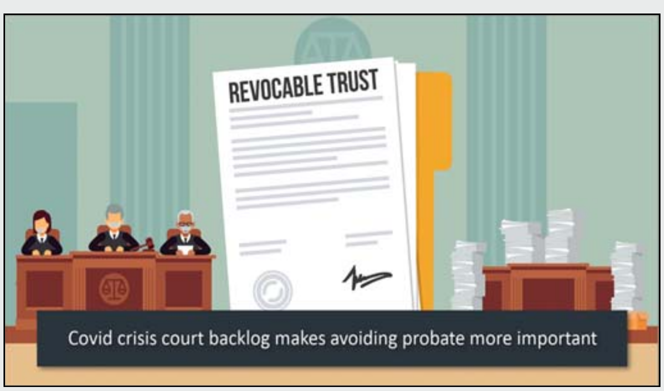
Lowest Rates In Decades. Every month the IRS releases the minimum interest rates you are permitted to charge on loans to family members, trusts and other related entities. With this "applicable federal rate" currently at less than 1%, loaning assets may be a savvy way to transfer wealth to the next generation for buying a home, starting a business, or making charitable bequests. The loans are sometimes part of a plan to transfer a family business, or support children with special needs. With the pandemic potentially lowering the value of real estate and business assets, and causing frequent stock market volatility, optimizing low interest rates to make intrafamily loans is suddenly a more viable solution to reducing taxes and enhancing legacy planning.

Liability Explosion. With tenants more often unable to pay rent, and small businesses facing financial difficulty, landlords and business owners are suddenly facing an explosion in their liability exposure. Asset protection strategies to mitigate personal liability exposure in the event of a setback requires preparation before a problem arises or facing a legal challenge.

The Covid pandemic abruptly changed tax and financial conditions affecting estate tax and asset protection drastically, and this perfect storm requires proactive engagement of family members as well as advice from tax, legal and financial professionals. Please contact us with questions about your personal situation. ●

Confronting Mortality's Details

The Covid pandemic is causing families unimaginable suffering, worry, and grief. It is forcing many individuals to confront mortality, to consider, in very real terms, perhaps for the first time, what will happen when their life comes to an end. Here, in less than 300 words, are key facts about documents that govern what happens to you at the end of your life.



A health care proxy and living will name someone to make medical decisions if you're unable to express your wishes and contain instructions about end-of-life care. It is especially important to review your health care proxy, to make sure the proxy can give instructions without being present in the hospital. In your Living Will, we recommend you review wishes about intubation to make sure they reflect what you would want if you were hospitalized with COVID 19. This is understandably top of mind for a lot of people right now.

A durable power of attorney (POA) permits someone else to manage financial and other matters while you're alive. The POA empowers someone you appoint to pay bills, write checks, or sell and purchase assets on your behalf should you become incapacitated.

Your last will and testament provides

Covid, The Fed & American Exceptionalism

The Coronavirus financial crisis is being compared to the near collapse of the global financial system in 2008 and The Great Depression from 1929 to 1939, but there is one big difference this time: The Fed. The Federal Reserve Bank is using innovative new tools to contain the financial damage of the Coronavirus epidemic.

In the financial crisis of 2008, the chairman of the Fed at the time, Ben Bernanke, an academic who had spent decades studying previous financial crises, repeatedly deployed a technique called quantitative easing (QE). QE expanded the Fed's balance sheet to buy back U.S. Government bonds on the open market, thus, lowering long-term interest rates.

Never before had the tactic been used by a central bank in a major economy. It worked, however, and QE was one of the reasons the U.S emerged successfully from The Great Recession of 2008 and 2009. The Fed's present response to the Coronavirus crisis is literally 10 times more powerful.

Under the $2.2 trillion Coronavirus Aid, Relief, and. Economic Security (CARES) Act enacted March 27, 2020, the U.S. Government allocated $454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thus enabling it to lend up to $4.54 trillion to companies in financial distress.

That sum is reportedly more than all U.S. commercial and industrial loans outstanding at the end of 2019, plus all the new corporate bonds issued during 2019 combined! Although the expansion of the Fed's power has been criticized as a step toward a centrally planned economy, this government action limits the risk of potentially massive corporate bond defaults and corporate bankruptcies.

The U.S. led the worldwide economic recovery following the global financial crisis of 2008, in part because of the Fed's innovative approach. And now, this most recent display of Yankee ingenuity -- in the form of the Fed's new tools -- is at play once again in fighting the Coronavirus-induced financial crisis.

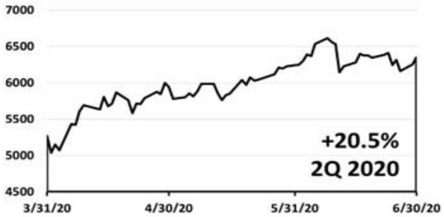
In these frightening times, the Fed's new toolset is likely to become a mere footnote in history books that will be written about the pandemic in the decades ahead. Ever since Alexander Hamilton established the first U.S. central bank in 1791 to respond to the financial crisis that followed the Revolutionary War, the uniquely American central bank has enabled the progress of civilization through financial crises. The Federal Reserve's response to the Coronavirus financial crisis is a shining example of what makes America exceptional among the nations of the world. ●

the details which take effect at your death for distributing your property. It should be reviewed every three years so that the trustee, executor, and guardians of minor children you have appointed still conform to your current wishes. It's best to speak with whomever you're appointing about your wishes so that they're aware of your intentions.

A revocable trust can also provide for the disposition of your property after you die while avoiding the probate court process. This can prevent assets from being tied up in a now back-logged probate system, and can also limit court administrative costs associated with probating your estate. Setting up a revocable trust requires changing the titling of bank and brokerage accounts, real estate, and other assets, and may require signing documents with a witness or notary present, which is now complicated due to social distancing. Fortunately, remote signings can be properly executed via online meeting such as Zoom.

Finally, and most importantly, you will want to be certain that the beneficiary designations on both your retirement plans and your life insurance policies are up to date, as circumstances change over time. As a financial advisor, we can help you formulate your thoughts, assemble your asset information and direct you to experienced professionals who can create these documents so they can be properly integrated into a comprehensive financial planning strategy. ●

Market Data Bank: 2nd Quarter 2020Ψ

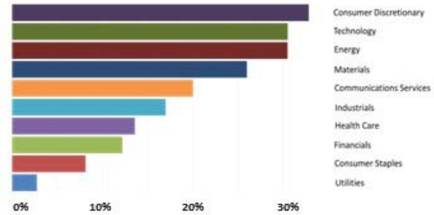


S&P 500 RECOVERED SHARPLY IN 2Q 2020

This was the COVID quarter, and the nation suffered the worst kind of loss. By the end of 2Q20, 125,000 lives were lost to COVID-19 in the US. The +20.5% S&P 500 return in 2Q20 does not reflect the -33.9% plunge in 1Q2020 from the all-time high in the S&P 500 on Feb. 19, 2020 to the Mar. 23, 2020 bear-market low.

U.S. STOCKS DOMINANT OVER FIVE YEARS

The S&P 500 has trounced returns of major regions and emerging markets across the globe, this is just a five-year snapshot. The outperformance of the U.S. economy and stock market actually began in early 2009 and drove the long bull market that ended with the Covid bear market that bottomed March 23, 2020.



ENERGY WAS WORST SECTOR IN Q1 & Q2

Energy stocks lost half their value in 1Q 2020 and another -38.2% in Q2. With stay-at-home orders in effect across the globe, the world oil glut worsened. Meanwhile, U.S. Government stimulus — $1200 checks, plus $600 a week of extra unemployment insurance benefits, boosted consumer spending.

INDEXES TRACKING 13 ASSET CLASSES

In the immediate aftermath of the Covid-19 bear market, the five years ended June 30, 2020, the S&P 500, the growth engine of a diversified portfolio, was the No. 1 investment across a broad range of 13 assets. Even after the coronavirus bear market, the five-year return of +66.5% wasn't terrible for the S&P 500.

ASSET RETURNS OVER 25 YEARS

Interest rates are low, the Fed says it does not expect to raise interest rates anytime soon, and stocks are fully valued. This could push money into gold, which is a small asset class relative to stocks. Even a small shift of capital from stocks or bonds could drive up the price of gold.

The 10 Largest S&P 500 Companies By Market Capitalization

Apple	$1.7T
Microsoft	$1.6 T
Amazon	$1.5T
Google	$1.0T
Facebook	$681B
Berkshire Hathaway	$449B
Johnson & Johnson	$383B
Visa	$367B
Proctor & Gamble	$307B
JP Morgan	$298B

CONSENSUS FORECAST

Facebook, Apple, Amazon, Netflix, Google, and Microsoft, have the most influence on the broad S&P 500 composite, and those are the very companies that were growing fastest through the recovery from the pandemic, which magnified their influence on the S&P 500, in propelling the stock market in 2Q 2020.

Past performance is never a guarantee of your future results. Indices and ETFs representing asset classes are unmanaged and not recommendations. Foreign investing involves currency and political risk and political instability. Bonds offer a fixed rate of return while stocks fluctuate. Investing in emerging markets involves greater risk than investing in more liquid markets with a longer history. Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk of loss. Actual annual sector performance data from Standard and Poor's; 25-year asset return data ©2020, 7Twelve™ Portfolio, Craig Israelsen. Data through August 4, 2020.

A Timely Five-Point Diagnostic

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AFR on a GRAT is worth considering. To be clear, higher taxes on inheritances are a likely target for generating new revenue, which makes it wise to consider 10-year GRATs instead of the traditional two-year GRAT.

Intrafamily loans are also pegged off the IRS's AFR, and this may also be a way of transferring wealth. While direct loans to children might expose assets to divorce settlements or claims by business creditors, loans made through trusts are more compelling tax-wise. They allow you to loan some money to the trust at a 40-basis-point interest rate for a mid-term loan of up to nine years, or you can even go out 20 years, with the rate at 1.2% here in August 2020. Any earnings beyond that 40 basis-point hurdle rate is shifted over to the trust tax-free.

Don't wait until the end of the year to do any of this. Don't wait until after the election. Estate and trust lawyers are already overwhelmed with work, and may not be able to get everything done before the end of the calendar year, before higher tax laws could potentially be retroactively applied. And it's not simply a matter of just drafting a trust. You also must get the Grantor and the Trustee to execute it. Or, if you have an institutional trustee, you must determine, "OK, what am I going to transfer to the trust? Am I going to need appraisals?" All of these decisions take time. It's therefore best to start now, just in case you run into problems.

Tax and financial management for private wealth requires highly personal advice beyond the scope of this article. ●