FRANKLY FINANCIAL.COM

119 Cedar Street
East Hanover, NJ 07936

973-515-5184 • Fax: 973-515-5190
frank@franklyfinancial.com

Frank McKinley
Investment Professional

financial $UCCESS

OCTOBER 2020

Estate Planning Considerations for Children

It takes special care to create an estate plan that efficiently distributes your assets and meets your goals for every person and cause important to you. But no part of the process means more to most people than that which involves their children. After all, for most of us, our children are our most important legacy, and how your estate documents treat them will have an impact long after you're gone.

To help organize this process, it is useful to think of children in three categories: minors, young adults, and fully grown adults with spouses and children of their own.

Minor Children

Children from infancy through high school have a different set of needs than children of other ages. One is simply to be able to rely on an income for daily needs in case you're no longer there for them. Since the parents of young children usually don't have large savings or net worth, the challenge is to provide an instant estate, for which life insurance is the best answer.

There are several rules of thumb for how much life insurance to buy — from four to 10 times your annual income. The right amount should be the result of a thorough needs analysis of your entire family, which can be accomplished by asking your spouse and yourself a series of probing questions, including:

- ✔ How much do the two of you already have saved?
- ✔ Will your spouse be able to work full- or part-time? If so, what will childcare cost?
- ✔ Will your children go to public or private elementary and secondary schools?
- ✔ How much will your children need in college funds by the time they're ready to attend?

Continued on page 2

Frankly Speaking

"It is not the strongest species that survive, nor the most intelligent, but the most responsive to change." - Charles Darwin

"Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, one by one." - Charles MacKay

"Nothing sedates rationality like large doses of effortless money."- Warren Buffett

With markets bouncing around all-time highs recently, pending elections and political unrest creating additional emotion and drama, one can only speculate where the indexes may be going. Yet when the market is high, so is risk. Will you accept more risk and 'ride the tiger', or consider a more rational approach toward fixed income or even guaranteed income accounts*?

**All guarantees and protections are subject to the claims-paying ability of the issuing company.*

Estate Planning

Continued from page 1

✔How much will your spouse need for retirement, and how much of that will he/she be able to accumulate on his/her own?

After you determine how much life insurance to buy, you need to think about who will raise your children if you and your spouse both die before the children are adults. This calls for naming a guardian in both of your wills. If you don't have a will, a state court will appoint a guardian for you, and it may not be someone you or your spouse would have wanted for this role. In addition, parents might also wish to designate a person to manage the children's assets, known as a custodian or trustee. This can be the same person as the guardian, but designating an unrelated third party, like an attorney, banker, or trust company officer, who can be charged with thinking only of your children's welfare, appeals to some people.

Among the other major decisions you have to make is whether and how to split your assets among your surviving spouse and your children, and if you leave some assets directly to your children, how to determine the split among them. Often, it can make sense to leave all or most of your assets to your spouse and to divide assets you bequeath to your children evenly. But this might overlook such considerations as children with special medical needs or special abilities.

Young Adults

Once children reach the age of majority — 18 in most states — a new set of considerations enters the picture. By this age, your children no longer require a guardian and are legally capable of spending their money in any way they want — and therein lies a potential problem. What if you leave $250,000 for college, and instead, your children decide to waste the money and skip college?

One way to control how the inheritance is spent is to establish a trust with a schedule for distributions. One option is to delay a full distribution until they reach a certain age, like 25 or 30. Another choice is to give them a series of partial distributions over many years. Another increasingly popular strategy is the incentive trust. This vehicle makes payouts contingent on your child's achievement of specific accomplishments — like maintaining a certain grade point average; graduating from college, graduate, or professional school; marrying; or buying a home.

Adult Children

Many of the same kinds of considerations that apply to minors and young adults can also influence your decisions regarding your adult children. Do they, their spouses, or their children have special medical needs? Have your adult children fallen on hard times or are they irresponsible with money? How many children do they have and how much help will they need to finance their education?

Another consideration has as much to with your own objectives for minimizing estate taxes. If your estate is much larger than you and your spouse's combined estate tax exemptions (currently $11.58 million for each spouse in 2020), you might want to shrink it with an aggressive campaign of gifts to your children and grandchildren. On the other hand, any funds you leave to your children might encumber them with estates equally as large as yours or larger, with the same tax challenges. In this case, you might want to transfer some of your assets to a generation-skipping trust, which bypasses your children and names your grandchildren as the beneficiaries.

Don't go it alone when mulling over these decisions. Most importantly, you need to reach a meeting of the minds with your spouse and even your children, especially if they are adults. One thing you don't want to do is to create bad feelings after you're gone, either toward you or among your survivors. Please call if you'd like to discuss this in more detail. ❍❍❍

New to Investing? Avoid These Mistakes

If you are new to investing, there is no doubt that you will make some mistakes; it just goes with the territory. However, you should familiarize yourself with these common mistakes and take steps to avoid them.

No Investment Plan — Many investors just get started in the stock market without giving any thought as to what they are trying to accomplish. It is important to have a plan that will keep you on track and help you ride out turbulent markets. Your plan should include:

✔ **Goals** — Define what you are trying to accomplish so you can measure your portfolio's performance in meeting your goals. You will want to be as specific as possible, such as accumulating $1 million for retirement by age 60 or $100,000 for your child's education within 15 years.

✔ **Risk Tolerance** — Define how much risk you are comfortable with so you can determine an appropriate allocation for your assets. Stocks are riskier than bonds and will fluctuate more than other asset classes, so you want to figure out how much risk you are willing to assume. The younger you are, the more risk you can typically assume, since you have more time to overcome any declines in your investments.

✔ **Asset Allocation** — You will want to determine how to allocate your assets across different investments, such as stocks, bonds, etc.

✔ **Diversification** — Once you determine your asset allocation, you will want to diversify within each individual asset class. For example, when investing in stocks, you will want to spread your funds across large-, mid-, and small-cap stocks.

✔ **Time Horizon** — Don't wait too long to start investing because time is your friend. If you are saving for retirement, plan on 30 years of investing to meet your goals. If you don't allocate enough time to meet a specific goal, you will need to adjust your asset allocation to help you meet the goal within a shorter timeframe. For example, if you start saving for a child's college education when he/she is a freshman in high school, your assets will most likely need to be allocated more heavily to stocks in an attempt to meet that timeframe.

Stop the Noise — Be careful with how much time you spend and the credence you lend to the financial media. Media noise can be hard to turn off, but remember the best advice is to stick to your plan.

Not Rebalancing — You will want to review your portfolio regularly and rebalance if it strays from your target asset allocation. When you allow your portfolio to drift based on market returns, some asset classes will be overweighted at market peaks and underweighted at market lows, which may lead to poor performance. While it will sometimes feel counterintuitive to sell assets that are performing well for those that are not performing as well, your target asset allocation will lead to a stronger performance in the long term.

Chasing Performance — Many investors are always trying to find the next big investment. They will rely on recent strong performance as the single factor in purchasing an investment. If a certain stock has been doing extremely well for a number of years, you should probably have invested in it years ago, since it may be nearing the end of its high performing cycle.

When an investment is doing extremely well, many people will not sell and take the profit because they are afraid that it will continue to increase in value. But there is also the risk that it will go down in value.

You should also consider identifying a target value at which you will sell your stocks. This will help take the emotion out of your sell decisions.

Becoming Too Emotional — It's hard not to get emotional when the market encounters a severe correction, but the investors who have the ability to remain calm during these times more consistently outperform the market. If you start selling off investments at the worst possible time, you may then be out of the market when it starts to rebound.

While it is easier said than done, you have to build a resistance to those things that create emotional triggers so you don't make bad decisions. Thoughtfully consider new information, don't just follow the crowd, and make decisions when you are calm based on your long-term plan. Please call if you'd like to discuss this in more detail. ❍❍❍

Watching Your Stocks

No matter how often you prefer to monitor your stocks' performance, there are certain items you should consider. Here are five things to review as you monitor your stocks' performance:

✔ **Earnings** — Pay attention to the company's quarterly and annual earnings statements, which include comparisons with the recent past and often reviews of what management expects for the next quarter and year. Review the stock's earnings trend and how the company performs compared to analysts' estimates. Watch out for earnings surprises, which can cause rapid price changes up or down, and may indicate the start of a new stock price trend.

✔ **Price and dividends** — Follow the stock's price compared to its 52-week highs and lows. Examine its trailing total returns year to date and over the last one-, three-, five-, and 10-year periods. Look for changes in the absolute dollar amount of dividends and the current yield (the annual dividend divided by the current price).

✔ **P/E and PEG ratios** — Price to earnings (P/E) and price/earnings growth (PEG) ratios are often better indicators than the stock price as to how relatively expensive or cheap a stock is. The P/E ratio is useful for comparison to other stocks and the market, while the PEG ratio is a strong indicator of whether the stock is overpriced or underpriced compared to its projected earnings growth rate over the next five years.

✔ **Insider transactions and stock buybacks** — A company buying back its own stock or whose senior executives and directors are accumulating more shares is a bullish sign. On the other hand, when insiders are selling off major holdings of their own stock, it's quite often an indication that the stock price has peaked.

✔ **Sudden and large price changes on high volume** — When a stock makes a sudden, high-volume move — particularly when it opens much higher or lower than the previous day's high or low — it can be the start of a new, long-term trend.

For help monitoring your stocks' performance, or if you need to make a change to your investment portfolio, please call. ❍❍❍

Dividend Investing

Dividend investing creates both an income stream from dividends as well as portfolio growth from asset appreciation.

The first thing dividend investors look for is safety, which is measured by the dividend coverage ratio. Typically, dividend investors don't want to see companies pay out more than 60% of their profits as dividends to investors to ensure the company has the resources for operations. Dividend investors look for companies that have good cash flow and stable income, because they can get a higher payout ratio and don't have to worry about the company's ability to pay the dividend.

When an investor follows the **high dividend yield strategy**, he/she is investing in companies with yields at the top of the range that will provide a predictable income stream. Investors who focus on a **high dividend growth strategy** are investing in companies whose dividend payments are significantly lower than average, but the company is growing at a very fast rate. After a period of time, these fast-growing companies can increase dividends to an equal or much higher level than what would have been collected using the high dividend yield approach. ❍❍❍

Financial Thoughts

In a recent survey, 9% of nonretiree respondents said that they knew for certain what their Social Security benefits would be, 41% had a guess or estimate, and 49% had no idea how much their benefits would be (Source: *AAII Journal*, March 2020).

A recent study found that individuals with children have 10% less wealth by retirement age than individuals without children. However, individuals with children were just as satisfied with retirement as those without children. One of the reasons for this difference is that retirement saving goals differ in meaningful ways between the two groups (Source: American Enterprise Institute, December 2019).

Consumers worldwide put an average value of $35,000 on digital assets stored on their mobile devices, which includes photos and videos (Source: *Journal of Financial Planning*, April 2020).

About 81% of U.S. adults age 72 and older have a healthcare power of attorney, while only 41% of millennials have one (Source: AARP, 2020).

Approximately 20% of baby boomers who receive an inheritance of $100,000 or more spend the entire inheritance (Source: *Journal of Family and Economic Issues*, 2020). ❍❍❍