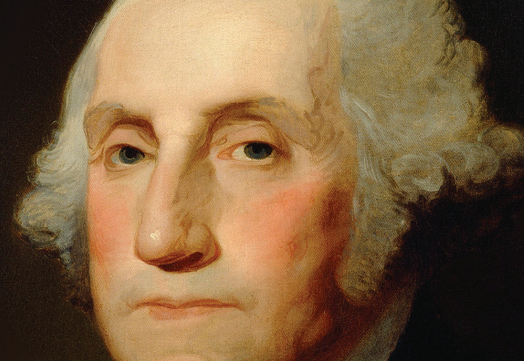




Financial Stuff

A publication of JFR FINANCIAL SERVICES, INC.

SEPT 2020



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CJ – Social Chairman

ANY ULTIMATE TRUTH IS ALWAYS A CONTRADICTION...

We've covered this before, but it is critical to financial success and life in general. If you learn what not to do, and live by it, then you will be better off than the many following, the good news of the day. Consider the simple routine of spending less than you earn; *aka saving money*. It is much more important than accumulating wealth. Saving involves living in a smaller house, driving old cars and wearing clothes for a few years instead of a few months. It's not fun! Few of the "gurus" talk about something that doesn't sell books. **BUT!** Many "rich" people got there first by not going broke. As Warren Buffet says, "Rule #1 is never lose money. Rule #2 is never forget rule #1." Ray Dalio, "It's very important... to know when not to bet. At any given time there is so much you're not seeing. My biggest advantage is not what I know. It's that I know that I don't know a lot." Taleb says, "The learning of life is about what to avoid." Negative advice helps one see around the corners to be prepared for disasters that usually appear quickly. (Source: WSJ, Stansberry, Investors Business Daily)

WHAT IS THE MOTIVATION?
















More and more clients are adding incentives to their estate plans in an attempt to motivate children to do the right thing with their inheritance. This is a great idea given the fact that very little inherited money lasts long and even less makes it to the next generation. Warren Buffett said the best amount to leave behind is "enough so that they feel they can do anything, but not so much that they can do nothing." "Incentive trusts" allow the trustee to withhold money from beneficiaries if they are not living a productive lifestyle. The problem is incentives don't seem to work well for large amounts of money. The problem is multiplied for children of wealthy parents. The odds are higher for them to struggle with addiction, depression, anxiety, fear of failure, etc. Most children do better to find their way in life with a smaller amount of money. Another challenge is personalizing the incentives for each child. Welcome now what is being referred to as a "resilience trust." Here, the child knows how much has been set aside for them and what the incentives are, which are more gray versus black and white in the incentive trust. The trustee is allowed more flexibility and encouraged to work with the beneficiary to help them achieve the trust goals. No matter what the estate plan is, the best option for the parents to always **COMMUNICATE** with their children. Telling them your plans personally helps adult children better understand the "why" behind what's in the trust. (Source: Financial Advisor, Estate Planning)



It is easier to fight for one's principles than to live up to them.

ALFRED ADLER

NUMBER OF YEARS IT TOOK FOR EACH OF THESE PRODUCTS TO GAIN 50 MILLION USERS

| | | | | |
|--|---|---|--|---|
| AIRLINES  | AUTOMOBILES  | TELEPHONE  | ELECTRICITY  | CREDIT CARD  |
| 68 YEARS | 62 YEARS | 50 YEARS | 46 YEARS | 28 YEARS |
| TELEVISION  | ATM  | COMPUTER  | CELL PHONE  | INTERNET  |
| 22 YEARS | 18 YEARS | 14 YEARS | 12 YEARS | 7 YEARS |
| I-PODS  | YOU TUBE  | FACEBOOK  | TWITTER  | POKÉMON CARDS  |
| 4 YEARS | 4 YEARS | 3 YEARS | 2 YEARS | 19 DAYS |

Source: Morgan Stanley

THE PENSION PROTECTION ACT AND LONG-TERM CARE (LTC)

It is now possible to fund long-term care insurance with pretax money and pay for long-term care expenses tax free. Retirement funds can now be used to create an extra level of protection for LTC. There are also ways to use liquid cash earning little to nothing to provide LTC benefits without tying the money up. *The Pension Protection Act* now provides the option for non-qualified (NQ) annuities to be used tax free for LTC. Insurance is never free, but the cost of nursing home care is quickly approaching \$10,000 per month. Using pretax and tax free money may make the cost of having LTC coverage more affordable. Call the office for more information. (Source: *Pension Protection Act*)

COLLEGE DEBT

Like credit cards, companies loaning money to students know that they have a very good chance of collecting interest for a lifetime. They pay very high commissions for agents to attract money. They even reach out to financial advisors. If they are willing to pay for new business, then how much is it worth to keep a student out of debt? There's no question the right majors lead to more lifetime earnings, but a lot of majors do not. If someone graduates from college with debt, then it is very likely the debt will hinder them financially for the rest of their lives. The student who starts saving for retirement at age 25 versus the

student paying \$300 per month on a student loan is way ahead. 5% of the people signing up for Social Security in 2019 were still paying off their student loans. There are 100 Americans who owe more than \$1,000,000 in student loans! Most graduate students owe more than \$100,000. Few think about the cost benefit of college going in. They should. There are more affordable options to consider. College is very capital intensive, with families spending \$40,000-150,000 per child on a bachelors' degree. What's the difference between a \$40,000 degree and a \$150,000? Are they paying for a label? Is it worth the extra money? A soft degree might lead to a job with a starting salary of \$25k with 1.5% annual wage growth. Conversely, a technical degree commonly starts at \$55k and has wage growth of 3% annually. Over 40 years, that's big money. With so much money involved, college planning affects everything. Do it wisely. (Source: *Financial Planning, Advisor Perspectives, SSA, American Homebuilders*)

CRAIG & JOHN

Some of you may notice Craig Sawicki's name on your next statement instead of John Robbins. This is a part of the transition to Fidelity. Craig will remain at LPL for the time being to ensure all accounts can continue to be serviced by our office.

THE LUCK OF THE DRAW

20 year market returns, ranked from best to worst. *History Matters.*

| Start Date | End date | % Gain/Year | Start Date | End date | % Gain/Year | Start Date | End date | % Gain/Year |
|------------|----------|--------------|------------|----------|--------------|------------|----------|-------------|
| 1980 | 1999 | 17.74 | 1938 | 1957 | 12.85 | 1966 | 1985 | 8.52 |
| 1979 | 1998 | 17.60 | 1983 | 2002 | 12.60 | 1989 | 2008 | 8.34 |
| 1942 | 1961 | 16.68 | 1974 | 1993 | 12.59 | 1961 | 1980 | 8.19 |
| 1978 | 1997 | 16.49 | 1936 | 1955 | 12.28 | 1963 | 1982 | 8.17 |
| 1981 | 2000 | 15.56 | 1951 | 1970 | 12.05 | 1964 | 1983 | 8.16 |
| 1982 | 2001 | 15.13 | 1986 | 2005 | 11.84 | 1990 | 2009 | 8.16 |
| 1943 | 1962 | 15.03 | 1932 | 1951 | 11.75 | 1993 | 2012 | 8.16 |
| 1944 | 1963 | 14.89 | 1972 | 1991 | 11.72 | 1996 | 2015 | 8.12 |
| 1949 | 1968 | 14.75 | 1988 | 2007 | 11.71 | 1958 | 1977 | 8.02 |
| 1945 | 1964 | 14.72 | 1987 | 2006 | 11.70 | 1957 | 1976 | 7.82 |
| 1941 | 1960 | 14.58 | 1953 | 1972 | 11.59 | 1992 | 2011 | 7.76 |
| 1948 | 1967 | 14.44 | 1952 | 1971 | 11.57 | 1965 | 1984 | 7.87 |
| 1976 | 1995 | 14.42 | 1970 | 1989 | 11.39 | 1997 | 2016 | 7.62 |
| 1975 | 1994 | 14.41 | 1973 | 1992 | 11.16 | 1931 | 1950 | 7.47 |
| 1977 | 1996 | 14.39 | 1937 | 1956 | 11.06 | 1998 | 2017 | 7.13 |
| 1940 | 1959 | 13.95 | 1971 | 1990 | 10.98 | 1956 | 1975 | 7.03 |
| 1946 | 1965 | 13.61 | 1954 | 1973 | 10.76 | 1955 | 1974 | 6.79 |
| 1947 | 1966 | 13.50 | 1934 | 1953 | 10.50 | 1960 | 1979 | 6.72 |
| 190 | 1969 | 13.31 | 1967 | 1986 | 10.04 | 1962 | 1981 | 6.63 |
| 1939 | 1958 | 13.25 | 1995 | 2014 | 9.78 | 1959 | 1978 | 6.42 |
| 1965 | 2004 | 13.12 | 1969 | 1988 | 9.39 | 1999 | 2018 | 5.55 |
| 1933 | 1952 | 13.01 | 1994 | 2013 | 9.15 | 1928 | 1947 | 4.83 |
| 1935 | 1954 | 12.83 | 1968 | 1987 | 9.14 | 1930 | 1949 | 4.54 |
| 1984 | 2003 | 12.88 | 1991 | 2010 | 9.10 | 1929 | 1948 | 3.21 |

Source: Ned Davis Research

COVID-19, OUR GOVERNMENT AND JFR

Major changes have been happening in the financial industry since before the pandemic, primarily in the areas of technology and government regulations. The cost to invest money is racing to zero. With a little time and effort, Americans can now manage their finances and investments for free. Fidelity, Vanguard and other large firms make enough money on volume to provide most services for free or little cost. Their services work very well for the majority of Americans willing and able to educate themselves. The demand for the knowledge, skill set, wisdom and experience at JFR is also increasing, but we cannot compete with free! The added governmental regulations effective July 1st, 2020 combined with the pandemic, are forcing us to make service model changes. More of you will need to pay by the hour. We refer to this arrangement as, “*The Lighthouse*.” If a storm comes that threatens your plan or creates the need to change course, then head for the lighthouse. For most of you, we will continue to be the navigator in the boat with you. There will be a little more paperwork, but we simplify the

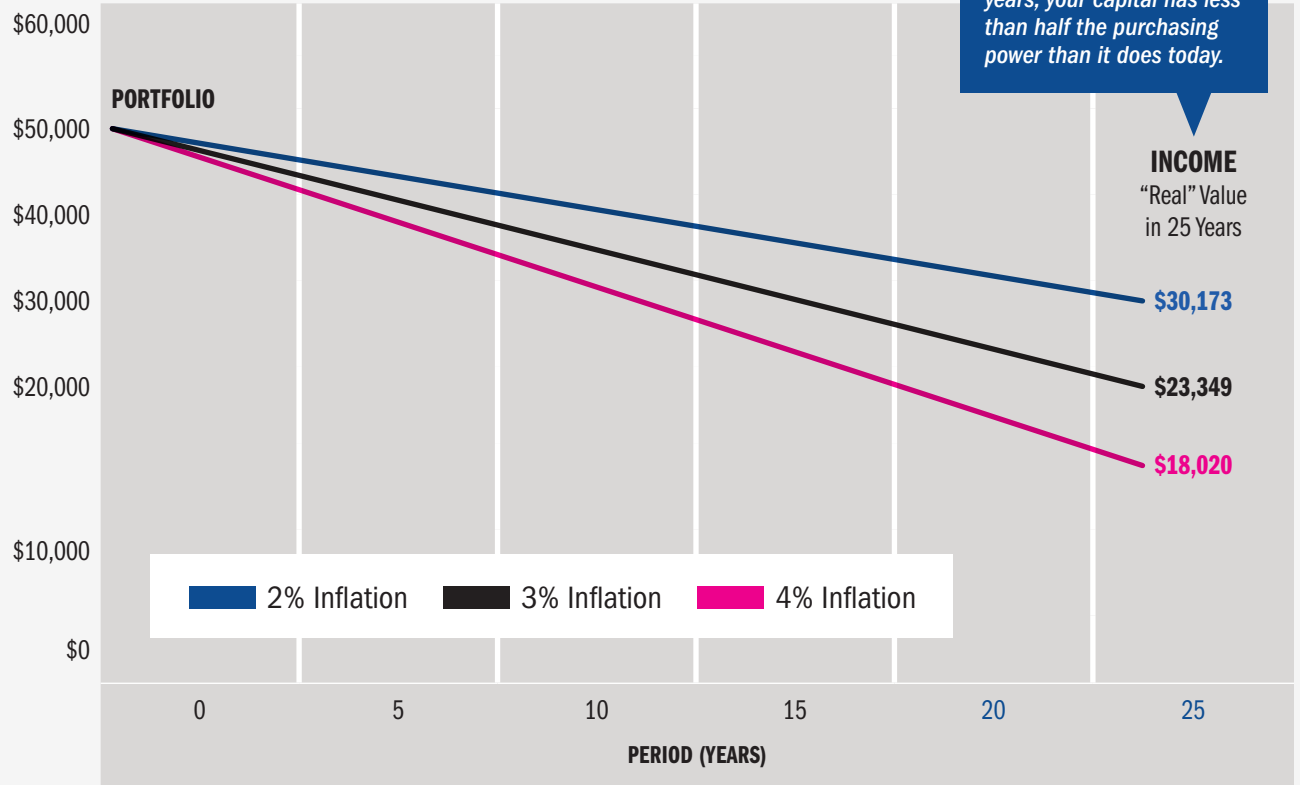
process so you can focus on enjoying the view. Myra McInerney is working with clients who can benefit from the zero/low cost options available today as opposed to paying us. It’s safe to assume the financial services industry, and the governments directing it, will continue to change and JFR will be on top of it. The current industry term, “*best interests*” and “*fiduciary*” translate into helping everyone for free. JFR cannot do that, but will continue to provide quality service for the least cost. (Source: *Financial Planning, Investment Advisor*)

There can be no greater error than to expect, or calculate upon real favours from Nation to Nation. Tis an illusion which experience must cure, which a just pride ought to discard.

GEORGE WASHINGTON

A SOUND RETIREMENT REQUIRES INVESTING

Effect of inflation: \$50,000 portfolio over a 25-year period



MAKE A PLAN AND **STICK TO IT!**

The last 6 months has resulted in most investors sticking to the plan, but as always a few sold out at the worst possible time. It could be as simple as some shouldn't invest at all, but today that translates into 1% returns when inflation is 2-3%. One of the best investors of our generation, Ray Dalio, has some thoughts on how to invest.

- 1) Determine what you want.
- 2) Determine what is true.
- 3) Decide how to achieve #1 in light of #2.

To help determine what you want, there are questions to answer. The first is what do you believe about investing? Have your beliefs been tested and mathematically proven? What makes you think your beliefs will work? Are your beliefs consistent with your age, personality and financial situation? How will you implement your beliefs and make sure they help realize your goals? What type of investments will you own? Are they consistent with your beliefs? What investments should you avoid? How do you know your beliefs will achieve your goals? When do you need to make changes? Who will continue your investment plan if you die or become disabled? It's been said that *"he who stands for nothing will fall for anything."* The best way to avoid being a victim or falling for propaganda is to have a sound and well researched investment plan. (Source: Ray Dalio, *ETF Guide*)

If we can prevent the government from wasting the labors of the people, under the pretense of taking care of them, they must become happy.

THOMAS JEFFERSON

HOW MUCH CAN I SPEND?

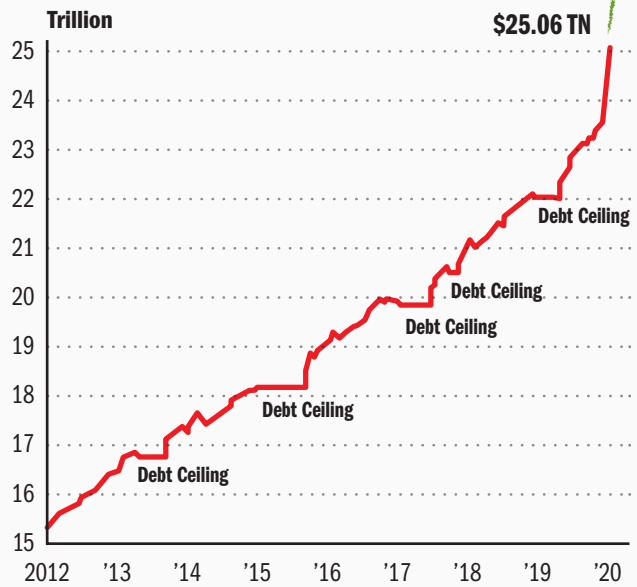
We've covered this many times, but its an ongoing discussion. The most popular *"research"* is the 4% rule plus annual inflation adjustments. When you follow this strategy, the odds are very high that you will not outlive your money in a 60% stock & 40% bond allocation. **BUT!** This is based on periods when interest rates were higher than today. The primary weaknesses of the strategy is it ignores market performance and is somewhat good year your withdrawals are higher. While your income is unpredictable in any given year, your account will never be depleted as the withdrawals are constantly adjusting to market conditions. The latest theory for retirement income is referred to as *"dynamic spending,"* where you withdraw as much as 5% in a good year and 2.5% in a bad year. This strategy is somewhat responsive to market fluctuations and results in a more stable account value over time. The downside is your withdrawal amount can fluctuate from month to month. (Source: Vanguard Funds)

KNOWLEDGE OR WISDOM?

We need both! Non-profit endowments have failed to outperform the markets. There are ~35,000 nonprofit organizations (NPOs) with endowment funds, representing ~\$800 billion in assets under management. Little is known about how they invest the money. Sandeep Dahiya and David Yermack performed a study in March 2020, "Investment Returns and Distribution Policies of Non-Profit Endowment Funds." Their data sample was ~30,000 NPOs drawn from IRS filings for 2009-2017. Colleges and universities accounted for 6% of the observations and 54% of the assets. The typical endowment is quite small, with an average of ~\$27 million and a median of ~\$1 million. The largest funds, \$100+ million, accounted for 4% of the observations and 78% of the assets. The smallest endowments, less than \$1 million, comprised 41% of the observations but only 0.5% of the assets invested. The average return was 5.68%, with the median return 4.84%. The median distribution rate was 2.4%. The smallest endowment funds make no payouts in most years, while the largest have mean and median distribution rates near 4.5%. Nearly all NPOs outsource the money management. Their basic conclusion was NPOs would be better served by establishing an asset allocation strategy and implementing same with zero/low cost index funds. (Source: Sandeep, Dahiya and Yermack)

U.S. NATIONAL DEBT

Spiked \$1.5 trillion in 6 weeks;
Passed \$25 trillion within the last 4 months

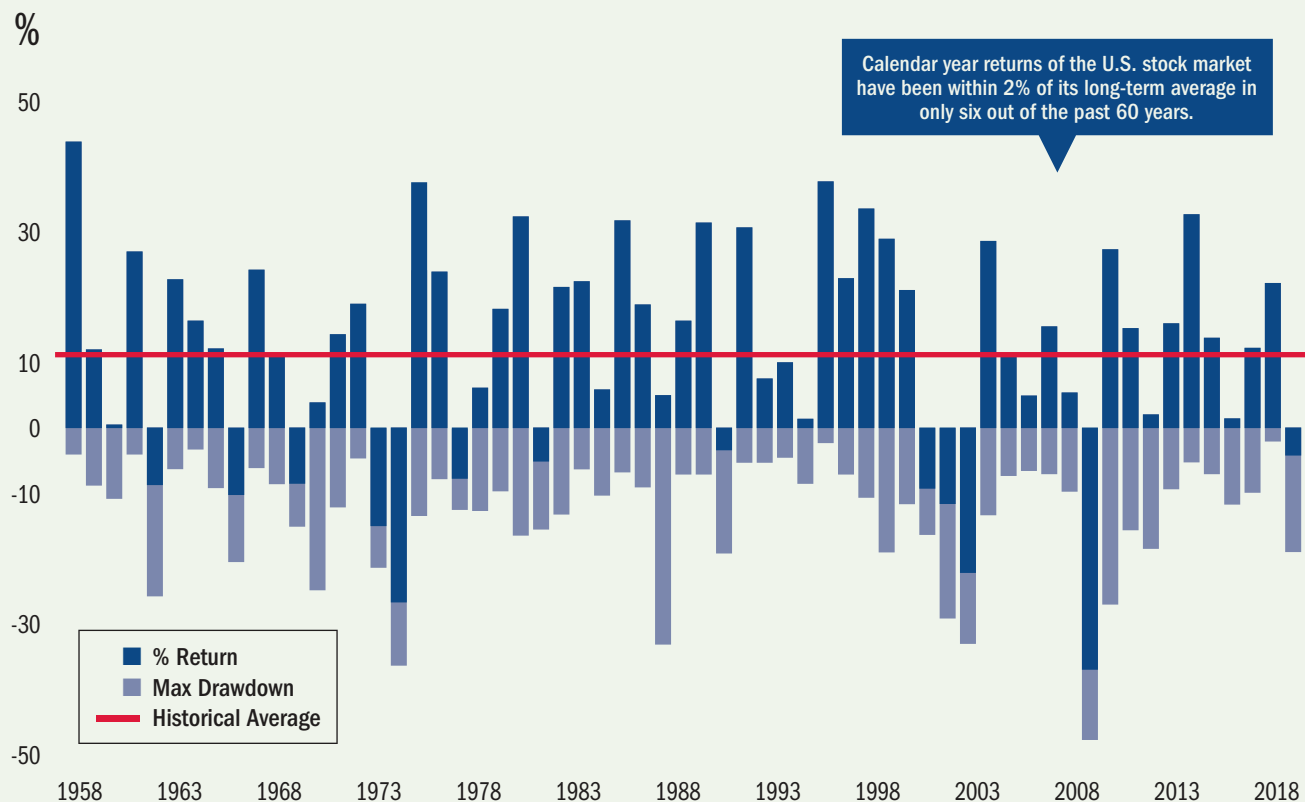


Source: Treasury Department

UPS AND DOWNS

S&P 500® Index Annual Returns and Intra-Year Drawdowns 1958-2018

Big drawdowns in the stock market have been a common occurrence.

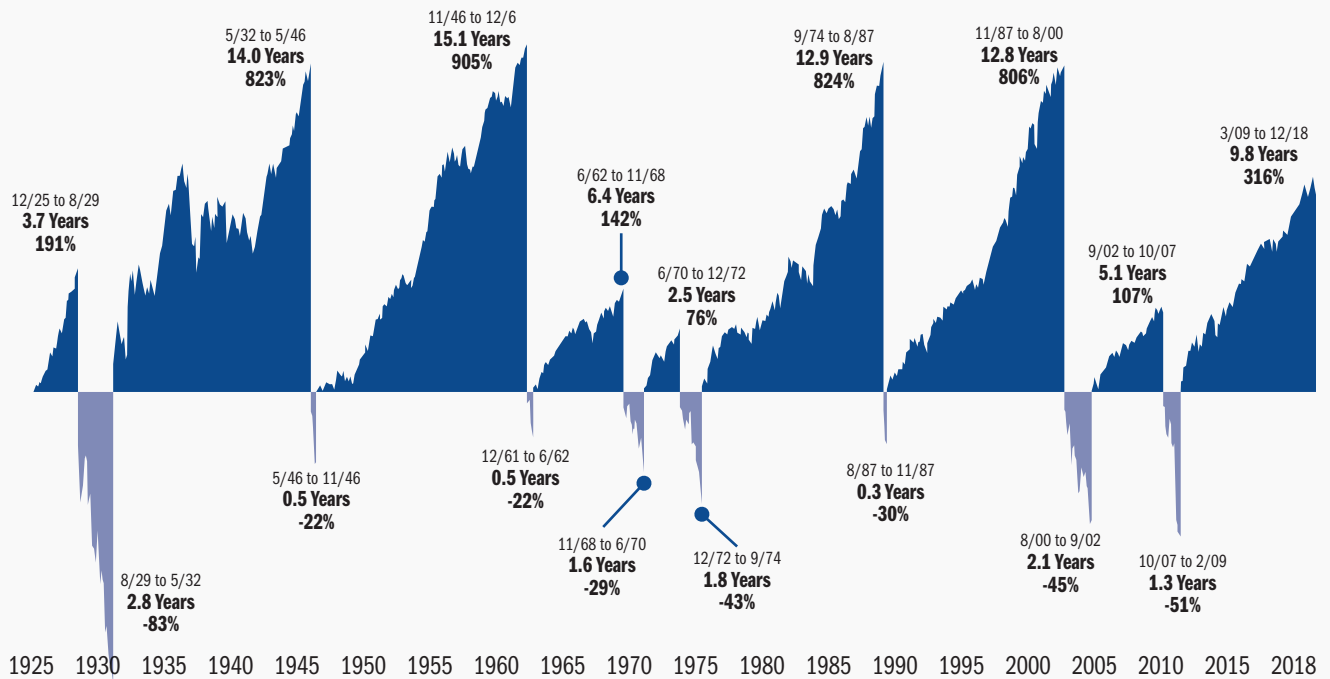


Source: Ned Davis Research

THE SHAPE OF MARKETS

History of U.S. Bull and Bear Markets: The Ride Matters

Based on S&P 500® Index Returns 12/31/25–12/31/18 (Log Scale)



Bull markets are defined from the lowest close reached after the market has fallen 20% or more to the next market.

Bear markets are defined from the last market high reached prior to the market closing down at least 20% to the lowest close after it's down 20% or more.

Source: S&P Dow Jones Indices.

The Big Picture: Bulls and Bears

On any given day, the price of an investment is nothing more than what someone is willing to pay. The tradition is a bull or bear market, determined by a 20% advance or decline. After ten years of bull market, do the traditional measures still apply? A true bull market is when the price of the market is trending higher over a long-term period. A bear market is when the previous advance breaks, and prices begin to trend sideways and/or lower over several months. This chart provides a visual distinction. Rallies and corrections generally occur within the trends over a short time period and then reverse. Most recently, the “correction” in March happened more quickly than ever, but it did not break the long term uptrend. Some say the bull is alive, but others not. What we all can agree on is volatility is high and the average stock is very expensive based on historical averages.

(Source: Kiplinger, Wall Street Journal, Motley Fool, AAll)

THE RISK OF SELLING IN A MARKET DOWNTURN (S&P 500 INDEX)

| Historical Market Crisis | Sold at Bottom | Did Nothing (Hold) Recovered In: | Added Investment of Equal Amount Recovered In: | Recovery From Market Bottom One Year Later |
|-----------------------------------|----------------|----------------------------------|--|--|
| Great Depression (1926-1936) | Lost 78% | 52 Months | 2 Months | +163% |
| World War 1 (1939-1946) | Lost 29% | 9 Months | 5 Months | +61% |
| Oil Crisis (1972-1976) | Lost 43% | 21 Months | 5 Months | +38% |
| 1987 Crash (September - November) | Lost 29% | 13 Months | 1 Month | +23% |
| Gulf War Crisis (1990-1991) | Lost 13% | 3 Months | 1 Month | +34% |
| Gulf War Crisis (2008-2009) | Lost 46% | 24 Months | 5 Months | +54% |

Source: Morning Star, “2018 Fundamentals for Investors.”

“GRAY DIVORCE”

The rate is rising among older Americans. The top priority is to keep it simple (KISS) and avoid fighting where the only winners are the attorneys. How best to divide assets is usually black and white. Try not to add any gray to the picture! The most common first question is ‘*who gets the house?*’ Marital property is everything acquired during the marriage regardless of whose name is on the title. It also includes appreciation on property owned before the marriage. It includes property inherited during the marriage as well as gifts. In community property states, the default is 50/50, but it's not always equitable. States without community property tend to go with “*equal distribution*” which doesn't always divide by the value. When it comes to the home, it can be sold and you split the difference, continue to own the home jointly or one spouse can buy the other out. What can complicate the situation is the tax considerations. Retirement plans are usually the second largest asset after the house. Defined benefit and/or pension plans can be complicated when it comes to determining the present value, but there are plenty of formulas and precedent to follow. For other money, a qualified domestic relations order (QDRO) should be used to divide accounts. Group benefits can be complicated, but again there is plenty of precedent to work from. If there are still dependent children, then how they are going to be provided for should be specific, especially in the area of insurance. For long-term care insurance, it should be purchased before the divorce given the lower premiums available for married couples. Once the divorce is final, make sure both parties update all of their estate documents, accounts and insurance policies. We see many situations where this has not been done. Updating the beneficiaries on accounts is a common step that is forgotten. Your ex can end up receiving your IRA and/or becomes the executor of your estate. Some states have protection provisions against these situations, but we can't count on the courts to fix mistakes. 33% of marriages end in divorce today. The percentage is slightly higher for people aged 50 and older. Second and third marriages have a much higher divorce rate. Social media increases the risk when one or both spouses spend a great deal of time on Facebook each day. The increase in “*gray divorce*” is likely due to increasing life expectancies. 50+ years ago unhappily married people would likely wait it out. Divorce wasn't as socially acceptable. Society accepts divorce as a part of life today and divorce rates have doubled since 1990. The costs are not just financial. Health problems normally increase after divorce, especially for men. Your finances often suffer, especially for women where they average a 45% decline in standard of living versus 15% for men. Of the women 63 and over who go through divorce, there is a 27% poverty rate. Finally, divorce isn't cheap. Spending \$15,000-20,000 is pretty normal today and can go much higher when there are fights over one thing or the other. (Source: *Financial Advisor, US Census*)

In war, truth is the first casualty.

AESCHYLUS (Ancient Athenian Playwright)

THE FINANCIAL INDUSTRY CONTINUES TO CHANGE

The cost to invest is racing to zero, **BUT!** Wisdom is still sold separately. We are working hard to provide excellent service for very low cost. To that end, we are pleased to announce our response to the many regulatory changes that became effective on July 1st. They can be summed up in two phrases; “*Fiduciary Duty*” and “*Best Interests.*” As usual, the end result is more paperwork! The primary change will be consolidating more accounts with Fidelity Investments. We believe their platform and technology will best support our business model and the services provided to clients in our fast changing investment world.

Advisory (Fee Based)

JFR Financial Services, Inc. is a Registered Investment advisor (RIA) and registered with the Securities and Exchange Commission (SEC). As such, we are allowed to charge fees for our services and have limited discretion to manage client accounts to an agreed upon strategy. Fees are charged quarterly and subtracted from the account. Over 80% of the funds we manage are in this arrangement. We have decided to consolidate these accounts with Fidelity Investments. Paperwork is being prepared and you should receive yours before the end of the month. If you would like to receive the paperwork via email and DocuSign, please let us know.

Brokerage (Commission Based)

Brokerage Accounts

Brokerage accounts pay commission to the agent on transactions. This was the typical arrangement 20 years ago, and still available today, but the industry is clearly pushing toward fee-based accounts. Most importantly, we have ZERO discretion. Every change must be VERBALLY approved by the client. *JFR Financial* is working to transfer most of these accounts into a fee-based arrangement. We are contacting those with brokerage accounts individually to discuss whether or not a fee based account is more appropriate for you.

Direct Held Mutual Funds

Accounts held directly at the mutual fund company can work well when the fund performance is competitive. The primary challenge today is the increasing regulatory and compliance costs to maintain a client file. The 12B-1 fees paid by the fund company for us to be the agent of record often do not cover the cost. We review the options during your annual review. Paying by the hour, what the industry refers to as “*Fee Only,*” will be a better option for some of you going forward. The cost to invest money is racing to zero, so there is incentive to have your investments in the least cost options.

Pay As You Go

This involves paying *JFR Financial Services, Inc.* by the hour or project. Periodic meetings are held as needed to ensure you are on track to achieve your financial goals. You handle all the paperwork and management by yourself.



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SEPT 2020

HOW JFR FINANCIAL SERVICES CAN HELP YOU.

We are in business to serve you! More specifically, we are in business to help you work toward your lifelong financial goals. Services available through JFR Financial Services include:

| | | |
|-----------------------------------|---|---|
| Financial Planning and Consulting | Stocks*, Bonds*, Brokered CD's*, Money Markets* | College Funding Programs |
| Retirement Planning | Public Speaking and Educational Seminars | Management Training Classes and Consulting |
| Personal Coaching | Insurance: Life, Health, Disability, Long-Term Care | Fee-Only Investment Consulting and Asset Management |
| Business Planning and Development | Estate Planning | Employee Sponsored Retirement Savings Plans |
| Real Estate Investment Trusts | Asset Management | Retirement Plans: IRA, SEP, 401k, Keogh, 403b |
| Mutual Funds* | Annuities, Fixed and Variable* | Full-Service Brokerage Accounts* |

We have the knowledge, tools and experience to help. Call us today at 800/315-2945 or 734/692-1421.

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■ The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

■ All indices are unmanaged and may not be invested into directly. *All investing involves risk including loss of principal.

■ Bonds are subject to market and interest rate risk if sold prior to maturity. Bonds values will decline as interest rates rise and bonds are subject to availability and change in price.

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This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

Variable Annuities are suitable for long-term investing, such as retirement investing. Withdrawals prior to age 59½ may be subject to tax penalties and surrender charges may apply. Variable annuities are subject to market risk and may lose value.

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