CONLON DART
wealth management

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"If you have trouble imagining a 20% loss in the stock market, you shouldn't be in stocks."

~John Bogle, Vanguard

What is YOUR Risk Profile?

Recently I attended the National Association of Personal Financial Planners (NAPFA) annual conference, and as always, came away with a nugget or two to bring back to the office.

Though perhaps not transformational, many of these nuggets were thought-provoking. For example, in a session on gauging investor risk, I was struck by a side comment the presenter made about millennials. He suggested that financial advisors and personal finance writers may inadvertently be teaching an entire generation of millennial investors to become dysfunctional, reactionary, and highly risk-averse—even though they intended just the opposite.

This scenario starts with Gen Xers, many of whom entered the work world and began funding their 401(k)s not long before the bursting of the dotcom bubble. Later, this cohort saw the equity in their homes vanish with the housing market collapse. While there isn't hard evidence to support this, it's reasonable to suggest that back-to back-events of such magnitude had a measurable impact on GenXers' collective risk tolerance, and hence, their approach to financial decision making.

In our customary one size fits all approach, we (financial advisors, personal finance writers, 401k sponsors, etc.) are now pushing the next generation, the millennials, into high growth/ high risk investments because, well, they're young, and history shows they have a long time to recover from precipitous drops in stock prices.

In fact, many millennials are better suited for a more restrained tack. After all, they witnessed in their youth what happened to Gen X. With that, many dutifully steer their discretionary income into 401(k) plans, but with as much attention to risk as baby boomers stepping cautiously into retirement.

While risk tolerance may be in part a generational response to economic events—particularly if they're cataclysmic—it is largely an individual, psychological dynamic. Being young doesn't necessarily make risk taking any easier. Each investor needs to find a balance that enables him or her to sleep well, even if it doesn't produce the most spectacular returns.

But rather than helping younger investors discover their own comfort level, we simply push them like lemmings into a standard profile, knowing that investing for growth (translation: higher

(continued on page 3)

Combating Elder Abuse

Elder abuse is not a uniquely American problem, but given the enormous amount of wealth in our country, we have become the ideal playground for hucksters and thieves that prey upon older people.

The financial repercussions are enormous. According to Carolyn Rosenblatt and Dr. Mikol Davis of AgingInvestor.com, over $36 billion is stolen annually from American elders.

The National Committee for the Prevention of Elder Abuse defines abuse as the illegal or improper use of an older person's funds, property, or resources. The sources are myriad. Sadly, family (both immediate and distant), caregivers, financial advisors, charities, and internet scams all play a part in the growing crisis.

The most vulnerable victims are those with diminished mental capacity, typically, sufferers of Alzheimer's or dementia. According to Rosenblatt and Davis, the likeli-

(continued on page 4)

Our Recent Client Survey

We would like to extend a big thank you to all of you who participated in our recent client survey. Participation was much higher than we imagined going in.

We wanted to summarize results for you, and then share our observations and takeaways.

Most notably, we learned a great deal from many of the comments you offered at the end of the survey. So we shared those comments with our team, and asked for feedback before gathering for a constructive "what can we do better" conversation.

Are we on track? Several comments referred to your financial planning updates, seeking more frequent clarity as to whether your plan is on track or not.

Our response: we are working on a mid-plan check-in, essentially a progress report where we measure progress towards your goals, along with needed action items.

Am I spending too much? Some of you would like more help with expense management/ budgeting.

Our response: This is an interesting one for us. Perhaps to a fault, we have long taken the position of not judging your spending choices, essentially leaving it to you to spend as you wish. In a planning session, we will tell you how much spending needs to be cut, if needed, but we rarely go after specific line items. The comments have been duly noted though, and when appropriate, we will do a better job giving specific input when appropriate.

Meeting Logistics—There were different concerns here, but a common theme was traffic, parking, and time constraints. We get it. Getting in for a meeting can be challenging.

Our response: We continue to seek ways to improve telephone meetings. We use GoTo Meeting, but we are looking into enhancing this tool with video to further improve communication. That said, we hope never to give up the face-to-face meetings with you. For us, this is a big part of making what we do worthwhile.

Below are select survey questions and leading responses to each:

How do you primarily measure the value received from your advisor?

- Sense of security, peace of mind – 38%
- Progress toward my goals – 24%

Rank the advisory services most important to you (there were 9 choices listed)

- Retirement Planning—#1
- Investment management—#2
- Cash flow management/budgeting—#3

My greatest fear about my personal finances is:

- Not having enough money to live comfortably in retirement – 36%
- Experiencing a significant investment loss in a market downturn – 23%

Choose the attribute you consider most important in your advisor relationship:

- Investment returns – 35%
- Experience with clients like me – 32%

I would like account statements delivered through the following medium:

- Online/website – 41%
- Hard copy/mail – 21%
- Email – 18%

The most valuable financial information to help me plan for retirement is:

- Likelihood of achieving my retirement goals – 30%
- Amount of money I can spend each year in retirement – 27%

The most valuable financial information to help me during retirement is:

- Amount of money I can spend each year in retirement – 39%
- Likelihood of achieving my retirement goals – 28%

Would you recommend your advisor to friends, family members, or colleagues?

- 98% of you said you would. **Thank you for that!**

Risk Profile...

(continued from page 1)

risk) is in their collective "best interest." The problem with this, as with all one-size-fits-all solutions, is that it doesn't work for everyone.

With these thoughts in mind, I floated a few financial questions over lunch with my mid-20s daughter and her childhood friend. I asked them how often they look at their 401(k) accounts and how they respond when the balance swings up or down from one month to the next.

The query didn't go well. I learned that both of them check their account balances rarely, if ever. From what I could gather, they didn't really know which funds they were invested in. Clearly, my daughter (who defended herself by saying she had done "whatever I told her to do" a couple of years ago) isn't gearing up to become a financial advisor, nor is her friend.

I suppose I could spin this nascent case study by arguing that these two millennials were wise in sticking with their investments rather than micromanaging (translation: undermining) their retirement accounts.

Maybe so. But there is plenty of evidence showing that millennials, along with everyone else, do check their account balances, and make changes with some regularity. Each responds to the same economic events and subsequent market noise in their own unique way.

What is there to learn from all of this? Perhaps this: successful investors are self-aware enough to recognize their bad tendencies and vulnerabilities, including how they tend to react to real-life financial events both good and bad. The good ones guard against gut reaction. Young or old, every investor would be well-served exploring their own attitude and tendencies around risk, if only to help ward off the penchant for self-destructive investment behavior.

There are myriad risk assessment tools both online and in print to help investors through this process. Some are useful and some are not.

In the useless category are questionnaires that ask whether you would pick Portfolio A, B, or C based on a range of increases and decreases in value over a certain period of time. Early in my career, these risk assessment questionnaires were all we had. Unfortunately, they proved useless in gauging how a particular investor will respond to an actual market rally or subsequent swoon. While these early tests attempted to measure "attitude" towards risk, they failed to dig deep enough into behavioral tendencies to be meaningful.

Today we have better tools. Conlon Dart, for example, asks clients to complete a risk assessment developed by FinaMetrica that measures risk using psychometric-based tools.

In theory, a well-designed risk profiling questionnaire should deliver similar results for an individual regardless of the life circumstances they find themselves in. In FinaMetrica's case, years of repeated testing suggests that if you were to take the same risk assessment test many years apart, even if your personal or economic circumstances had changed markedly, your results would in all likelihood be highly consistent.

Even so, risk profiling questionnaires only serve to gauge your *attitude* towards risk. They don't measure your *capacity* for risk—your ability to withstand adverse market events when they actually occur. Nor do they measure the amount of risk required to help you achieve your financial goals.

In next quarter's newsletter, we will discuss risk *capacity* in the context of your financial plan. Specifically, we will explore how it ties into constructing a portfolio strategy that allows you to sleep at night.

- Mitch Conlon

Stat Bank

55...Percentage of Americans who die without a will or estate plan.

(American Bar Association)

65...Percentage of elderly with long-term care needs who rely exclusively on family and friends for assistance.

(U.S. Administration on Aging)

50...Percentage of elderly in nursing homes with long-term care needs who have no family available.

(U.S. Administration on Aging)

17...percent of total state expenditures for Medicaid, up from 12% in 2010.

(Medicaid)

0.1...Average loss for the S&P 500 Index during the summer months (June-August) over the last 25 years.

(BTN Research)

Finding

Clarity

in

the

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Elder Abuse...

(continued from page 1)

hood of developing Alzheimer's doubles every five years after reaching age 65. By age 85, one in three people will be diagnosed with Alzheimer's, two-thirds of them women.

Whatever form diminished capacity takes, it is important to be vigilant and watch for troubling cues. It also helps to be organized, perhaps by bringing in a trusted friend or family member to help pull it all together. Rosenblatt and Davis suggest using the following checklist*:

- Decide whom you want to communicate with about your future. Set a date and sit down together for a chat.
- Create a signed, notarized durable power of attorney.
- Create a signed advance health care directive.
- Make a list of bank accounts, passwords, hard drive backup locations, investment records, and financial plans, specifying people to contact. You can also give written permission to your loved ones to talk with your lawyer, accountant, and financial planner.
- Make a list of all insurance policies, including life, disability, health, property, earthquake, and any others you own that will protect your heirs.
- Make a copy of your mortgage statements, other loans, debts, financial statements, and bank statements. Keep them in one place and update them as necessary.
- List your physicians, care providers, and medications. Give written permission for your loved ones to speak with your doctors.
- Create and have on hand information about your wishes for burial or disposition of your remains.
- Update your will and/or trust with your attorney. Laws change, and you need to keep up with those in your state.
- Have a family meeting to explain the items above to your loved ones.

* Source: www.aginginvestor.com

An additional document we offer to clients at Conlon Dart is a Preparation for Diminished Capacity form. By completing this consent form, clients may choose, if they desire, to authorize us to speak with one or more designated friends or family members if we notice behavioral changes that might lead to financially harmful decision making. Unlike a formal power of attorney, our consent form is not a legal document, and therefore has no enforcement capabilities. Its purpose is much more modest than that. If and when we bring this form to your attention, the intent is to foster an open dialogue well in advance of any issues. At minimum, it encourages you to think critically about the future and prepare accordingly. We hope it plays a small role when it's needed most—in reducing the prospects for elder abuse.

- Mitch Conlon

Newsworthy

Save the Date

We are excited to announce the date for our next Speaker Series event. We hope to see you on Thursday, October 26th. More to follow.

Fiduciary Standards Upheld

After much wrangling, beginning June 9 advisors to retirement investors are considered fiduciaries and must comply with "impartial conduct standards." In other words, they must give advice that's in the best interest of the retirement investor, charge no more than reasonable compensation and make no misleading statements. Whether the ruling has any bite, or even sticks, remains to be seen. But for now anyway, we consider this improved standard a small win for investors.