SECURING YOUR WEALTH During COVID-19

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SECURING YOUR WEALTH DURING COVID-19

Securing Your Wealth During COVID-19 with Loreen Gilbert, CIMA®, AIF®, CRC®, CLTC®

CEO and Founder, WealthWise Financial Services

Over the past quarter, we have become accustomed to the unfortunate reality of COVID-19 and the impact it has had on our professional and personal lives. For most people, focusing on their health has been a top priority, with preserving wealth during economic uncertainty an important secondary priority. We asked our subject matter experts to weigh-in on timely strategies to secure wealth during unprecedented times.

To start our conversation, **Rhonda Ducote**, AIF, President & Principal of Apriem gives us her take on current opportunities in the public markets:

Loreen Gilbert: What investment strategies are you discussing with your clients right now?

Rhonda Ducote: We offer three distinct investment strategies, which range from 100% equities to 100% fixed income. Our recommendations are based on our client's long-term financial plan, so the ebbs and flows of markets have little impact on the strategies we recommend. With that being said, we currently believe that public equities offer the best growth and income opportunities for our clients. While we have clients invested across a range of various asset classes, most of our assets are in public equities. We are seeking to find the best opportunities in large American corporations that have strong competitive advantages and generate substantial amounts of cash flow. We believe that these two qualities will allow a company to survive and thrive through the ups and downs of today's markets. At the end of the day, we live in a very uncertain world and no one really knows the future. How long COVID-19 will last and the outcome of the upcoming presidential election are a few of today's risks that we must learn to deal with. When we invest with conviction in high-quality businesses, we feel more confident that our money will persist through the turbulence and provide our clients the returns they need to reach their goals.

Rhonda L. Ducote

Loreen Gilbert: Has anything changed in your recommendations, given the pandemic situation?

Rhonda Ducote: Nothing has really changed about our investment process due to the COVID-19 situation. At the start of the pandemic and throughout the market's wild swings, we have had to consistently re-calibrate our valuation models due to the widening of credit spreads, which directly impacts our individual stock valuations. When the Fed stepped in to support the bond market, things normalized quite a bit, so we were not impacted for long. Obviously at the start of the pandemic, the future was much more uncertain and the financial health of a number of companies came into question. All told, we have been quite active over the past few months. Our investment philosophy is centered on purchasing high-quality businesses, with strong competitive advantages, when they are trading at a significant discount to their underlying value. With the severe drop-off in economic activity and fear that spread through investors psyches because of this pandemic, several opportunities to buy and sell presented themselves. On the sell side, we exited our position in consumer products giant, Clorox Company (CLX) after investors pushed the shares to levels that we considered highly overvalued, due to the temporary pickup in demand for cleaning supplies. On the buy side, we initiated positions in a few outstanding businesses, which include the Human Resource Management company Automatic Data Processing (ADP), medical device and healthcare equipment supplier Stryker Corporation (SYK) and uniform and sanitation services giant Cintas Corporation (CTAS). All three experienced temporary set-backs due to COVID-19 but we believe each remain in a solid position to prosper over the long-term. Based on our analysis, investors oversold these shares, which created a great opportunity for us to make a few sound, long-term investments.

Loreen Gilbert: What has struck you most in talking to clients during this crisis?

Harmon Kong: We were struck by the number of families that were financially caught off-guard by the economic shutdown brought on by COVID-19. It seems within just 30-60 days after the shut down so many were in a personal crisis lacking the basics of food and shelter. This breaks our heart. One of the foundational principles to financial planning before all else is to establish an emergency fund. This should equal anywhere between 6 to 12 months of living expenses or more depending on your situation and comfort. Having an emergency fund will prevent you from taking on unplanned debt or fire sell long-term assets to cover an immediate need. Before we do any investing for our clients, we make sure they have a comfortable emergency fund. Times of economic crisis is always an opportunity to see where attention is needed most. We believe everyone will benefit from having a financial plan yet we know many do not have one. Even some of our newer clients that come to us with money to invest have not done a financial plan or maybe they have but it's been years since it was updated. We do not invest one penny of our client's money until we completely understand the "why" which is revealed during the financial planning process. Additionally, this process is not a one-time event. It is an ongoing process that develops, evolves, and changes over life and world events.

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Financial Times
300 Top Registered Investment Advisers 2019

Orange County Business Journal's OC 500
Directory of Influence 2019 - Mark Copeland

L.A. Business Journal
Largest Money Management Firms 2019 *(Ranked by assets managed)*

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During these unique times, investors are turning to their trusted advisors to give them insights as to what has happened in the markets and what will potentially happen next. I asked **Mark Hardtke**, President, Northern Trust, Orange County, how he is guiding clients right now:

Loreen Gilbert: Your clients have seen the ups and downs of the economy and the markets. However, investors haven't seen a global pandemic in their lifetimes. What are you telling clients as they look to you for advice?

Mark Hardtke: Market volatility is unsettling for even the most sophisticated investors, particularly when the best advice is to resist taking action in your portfolio and remain committed to your long-term asset allocation and wealth plan. But there are many actions you can take outside of making major portfolio moves. In fact, certain wealth planning strategies can be even more effective during market corrections. For example, establishing a grantor retained annuity trust (GRAT) to transfer assets to beneficiaries using a limited amount of the gift tax exclusion, converting a traditional IRA to a Roth IRA for future tax-free distributions, rebalancing assets in existing trusts to capitalize on future long-term expected returns, harvesting tax losses to reduce overall tax burdens, and taking strategic low-interest rate loans to negate the need to sell depressed assets or to loan money to other family members by using intra-family loans.

Mark A. Hardtke

Loreen Gilbert: What opportunities do you see going forward?

Mark Hardtke: Rather than predicting, we prefer to be in the business of preparing. Market downturns and volatility are part of economic cycles. We understand that it's not a matter of defining how clients can rebound; rather, it's about mapping out a deliberate plan when the unexpected occurs. Our approach is to model multiple scenarios while stress-testing a client's complete financial picture. This ensures our clients avoid making short-term decisions that could jeopardize long-term goals. Through prioritization, we develop a uniquely structured framework focused on our clients' goals, so when the markets become stressed, our clients can calmly and confidently stick with their plan and resist the temptation to panic.

Loreen Gilbert: How do you help clients prepare for an inevitable uncertainty, such as COVID-19?

Mark Hardtke: Our Goals-Driven Wealth Management process provides confidence in each client's unique plan and gives them peace of mind in times otherwise filled with panic and uncertainty. We have been working alongside clients for generations, and through our holistic advisory practice, we make sure that our clients get compensated for the risk they take while setting aside enough to confidently fund years of lifestyle spending without having to sell assets at depressed prices in a market downturn. This framework also gives us a unique vantage point from which to recommend wealth planning strategies to optimize their plan.

Finally, I spoke to **Mark Copeland**, CFP, AIF, Senior Partner at SEAI, LLC to discuss his viewpoint and advice to clients.

Loreen Gilbert: How are you keeping investors calm during this unnerving period of time in the markets and the economy?

Mark Copeland: We want to reaffirm our client's financial objectives and guide them to maintain an asset allocation that allows them to remain comfortable and rational. The economic crisis, and subsequent market volatility, has challenged investors to stay disciplined and not allow emotions into their decision-making process. We want to use this economic downturn to actively reposition portfolios to maximize tax efficiency and improve portfolio returns. We are focusing on companies with best business prospects given the changing consumer and business landscape. In these times of economic uncertainty, we want to overweight equity and fixed income securities into companies with strong balance sheets, positive secular growth prospects, and products/services that have benefited by the economic shutdown.

Loreen Gilbert: Given the market volatility and economic uncertainty, what changes have you been making in recommendations with your clients?

Mark Copeland: The global economic uncertainty, along with the US political uncertainty has caused us to alter our strategy in both our equity and fixed income recommendations. Although we believe market volatility will continue into the fall, extremely low interest rates have limited investment alternatives to equities. In equities, we want to overweight sectors of the economy benefiting from current economic trends and longer-term secular growth prospects: technology, healthcare, and consumer staples. We do see opportunity in sectors which have more headwinds in this economy (energy, financials, industrials), but we will underweight exposure and limit selection in these sectors to strong balance sheets and industry leaders. These opportunities may require a longer time horizon due to economic and political uncertainty. In fixed income, we are focusing on longer duration assets as the Federal Reserve voices the desire to maintain an easy monetary policy and keep rates low for longer. Federal Reserve support of certain credit markets have created opportunities to increase exposure to higher yielding fixed income as the risk/reward is appealing considering the Federal Reserve stance. Finally, liquidity is important as conditions change, offering opportunities in both equity and fixed income investing.

Mark Copeland

Loreen Gilbert: How do you keep investors on track in the midst of financial chaos around them?

Mark Copeland: We want our clients to implement a financial strategy consistent with their needs that will allow them to maintain a rational approach through economic uncertainty and market fluctuations. The strategy should include the ability to opportunistically reposition their allocation to take advantage of market volatility and not simply remain in a static, passive model. Over my 30 years in the industry, I have been consistently and pleasantly surprised by the resiliency of the US consumer, the US economy, and the US equity and fixed income markets. Optimism has led to a successful strategy over this period of time and in spite of such economic uncertainty, it will be difficult to bet against it in the long run.

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In talking to our experts on the current market climate, one thing is clear: working with an investment professional can help investors make sound investment decisions.

At WealthWise Financial, we are focused on helping our clients sift through the barrage of data in order to execute decisions that will benefit them over both the short and the long term. While uncertainty is a constant, tactical investment strategies can help investors create a financial path for their future.

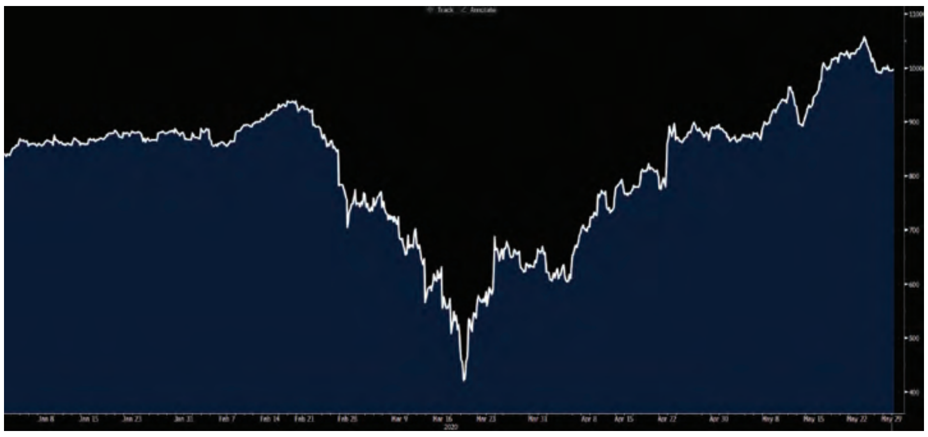
For more information, please contact these subject matter experts to find out more about how they can help you "Secure Your Wealth During COVID-19".

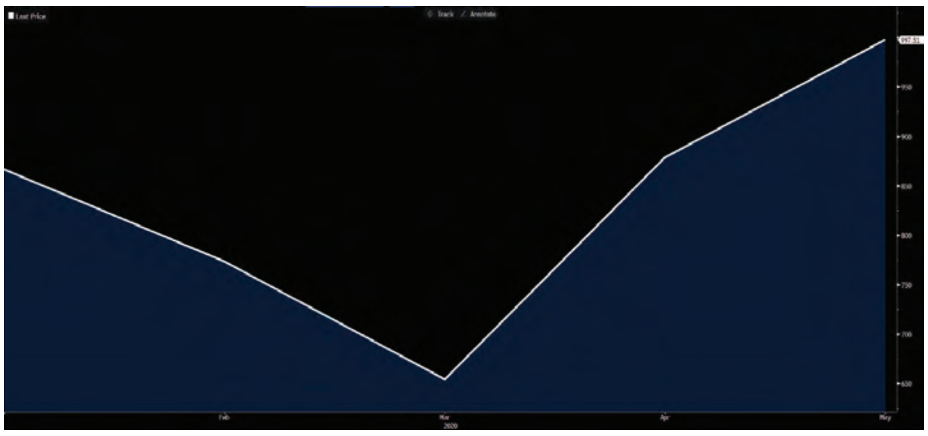
Loreen Gilbert is a registered representative and offers securities through LPL Financial/Member FINRA/SIPC.

apriem ADVISORS

Volatility: In the Eye of the Beholder

Wall Street always likes to use fancy terms and phrases to complicate things. Liquidity, volatility and standard deviation just to name a few. Many of us know their technical definitions, but what do those terms really mean? Let’s start with volatility, one of the most overused phrases in my opinion. How would you define it? If you studied finance in school, I would expect the classical definition, “it’s a measure of dispersion around the mean.” While technically correct, what does it mean and why is it important?





Most of the time I hear the term volatility used when it’s unusually high. Like this headline from CNBC, “Brace for a lot more market volatility”. From that headline I would take it to mean, expect the market to go up and down more than usual. But when CNBC and other market pundits use the term volatility, it is typically in a negative connotation, to describe when markets are falling. That CNBC headline should have read, “Brace for a lot more market declines”. That would have been more simplistic. The unfortunate thing is that no one ever talks about volatility in a positive way. No one ever mentions that market volatility sent their 401k to a record high in 2019.

Let’s take another popular term, liquidity. What does that mean to a Wall Street type and non-Wall Street type? Liquidity is generally thought of as the ability to get in and out of an investment quickly and cheaply. Think of it in terms of your personal investments. Stocks, ETF’s, and index funds are all quite liquid. Selling a hundred shares of Chipotle (currently my favorite COVID takeout place) is simple. . Chipotle’s price is updated constantly, so the price you see is the price you get.

But how about your home? Most people would hire a real estate agent to help price and list the home. Once you find a buyer, you must agree to the price. Since there is no public price for my home, the transaction price is subject to many variables. Then after you agree to the price (if you can agree to the price), there is the traditional inspection process, escrow, and all that good stuff. Clearly homes are much less liquid than your Chipotle shares. But is that good or bad?

Vanguard released an interesting paper the other week discussing the benefits of illiquid investments, specifically, private equity. The paper coincides with Vanguard’s recent decision to move into the private equity space after decades of avoiding them. (Jack Bogle must be rolling over in his grave). One of the many benefits of private equity is its lack of liquidity. Markets are emotional and thus the prices of all stocks like Chipotle can be emotional too. Sometimes TOO emotional. Since shares are constantly changing hands, the value of Chipotle changes too. Often too much during times of stress. In the past few months alone, Chipotle’s stock price has fallen in half and doubled in price. While surely, these are “volatile” times, how can a business like Chipotle be worth $25 billion one day, $12 billion a few weeks later, then almost $30 billion a few weeks after that.

But that’s where the rub is. Volatility is only bad if you act on it. It would be very unfortunate if you had to sell Chipotle at those depressed levels. That is where the liquidity issues come in. Vanguard claims the emotional nature of the liquid market can be a negative thing if you act on it. Investments like private equity and your home aren’t so liquid, so even if you wanted to sell at depressed levels, it’s lack of liquidity is a speedbump to make you think twice. That lack of liquidity is actually a positive thing they claim, “strengths can be weaknesses and weaknesses can be strengths.” The lack of liquidity makes your home seem less volatile, even during crazy times. Not seeing your home change in value second by second makes people believe home values are less volatile and a better investment. Surely owning an investment that doesn’t rise and fall as much as Chipotle, is a good thing, right?

Take a look at the two charts. Which one would you rather own? The one on the top looks pretty volatile. If this was the balance in your 401k, the big swings would be scary. The one on the bottom seems a lot less volatile. A little calmer. What’s the better investment? Well both charts are showing you the same investments. The one on top is a chart of Chipotle using daily prices, while the one on the bottom is also Chipotle, but showing you monthly price data, specifically the end of the month. The starting line and finish line are the same, but that path you took is way different depending on how often you look at it.

Many of you look at your portfolios every day and some even have maintained elaborate spreadsheets of each accounts’ balances, every day. But the more you stare at your portfolio or 401k balance, the more volatile it appears. Especially in the last few months, watching your investment balance rise and fall dramatically can make you batty. But if you simply look at your investments a little less, they will become less volatile. You can magically simulate some of the best traits of illiquid investment like private equity by just making a few small changes to your routine. And hopefully make you less inclined to make emotional decisions. Most times, the best thing to do is not make any investment decisions based on the crazy day to day moves of the market.

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With two decades of experience, Ben spearheads the firm’s investment management using goals-based asset allocation, proprietary stock selection process, and tax-efficient investing. He has been quoted in top financial publications including the Wall Street Journal, CNBC, and Bloomberg, sharing his views on stock and bond markets, interest rates, behavioral finance, and investment trends.

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Fiduciary Issues and Coronavirus: What Plan Sponsors Should Know

Loreen Gilbert, CIMA®, AIF®, CRC®, CLTC®

Retirement plan fiduciary issues have not stopped during the Coronavirus pandemic. As you sift through what has happened in the last few months, you'll want to pay close attention to fiduciary responsibilities with your 401(k) plan.

So how can you protect the plan and its fiduciaries, whatever the economic climate?

Follow the law and the plan documents
Plan fiduciaries must follow the rules set out in the Employee Retirement Income Security Act of 1974 (ERISA) and the plan. All the time. Even during a pandemic. That's why it's so important not to make rash decisions, but to review the plan document before taking action. If your plan has an investment policy statement, make sure any investment decisions you make align with it. The safest bet is to talk to your ERISA attorney before taking any action that could compromise the plan.

Some investment types present more fiduciary risk than others
As demonstrated in the wake of the 2008 recession, for example, target date funds can lose value. Hopefully you have taken the time to review your selection processes, and memorialized them in an investment policy statement. Remember, just because the U.S. Department of Labor says you can use a target date fund (TDF) as a default investment does not mean that it is considered a fiduciary safe harbor. Fiduciaries must still follow ERISA's prudent person rule, which essentially says they must use a prudent process in selecting and monitoring investment funds.

A careful review of available TDFs reveals differences in glide paths, underlying investments, fees, and management type (active versus passive). The percentage of assets held in stocks may be very different for a participant at a given age in one TDF than another. Your plan's investment professional can help you develop a process to use when comparing the options, making it easier to select appropriate investments.

While there is no sure way to avoid all risk in life, or in the management of a 401(k) plan, certain steps can provide a level of protection. Among them, make sure you have an objective, prudent process for all plan decisions. Keep clear records of all decisions and how you arrived at them. When times are difficult, as they have been recently, it's not a time to relax standards nor avoid communicating. Schedule an extra fiduciary meeting and reach out to participants. Ask for help from service providers. There are many resources available during trying times, so don't hesitate to seek them out.

The following questions are some of the common questions we are being asked at this time:

Q: Our small company has, of course, suffered due to the Coronavirus. A few employees who had to take pay cuts are considering applying early for their Social Security benefits, rather than continuing to work at reduced pay. Where can we point them for information about this decision?

A: SSA.gov has the most up-to-date, accurate and complete information available on the subject of Social Security. There, people can obtain a statement of how much to expect when they begin receiving payments. Whether or not to begin payments is an important decision with lifetime implications, and it is important for those employees to understand that. Taking benefits early will mean a lifelong reduction in monthly payments. Yet, when the economy takes a downturn, the first inclination of people who are eligible may be to start their benefits early; according to the Center for Retirement Research, about 42% of people who were 62 in 2009 — 1 year after the stock market drop in 2008 — signed up for their benefits. That was a nearly 5% increase over the prior year. An April 9, 2020, post on the Squared Away Blog from the Center for Retirement Research at Boston College (https://tinyurl.com/CRRBC-SocSec) reminds readers of the considerable financial cost of starting Social Security benefits early.

Q: Participants seem to need help figuring out the best approach to take with their 401(k) plan investments. How can we help them?

A: Many employers share your concerns, because financial decisions today will undoubtedly have considerable impact on future retirements. Your desire to help is commendable. But it's important that you know the difference between providing financial education and financial advice, and that your service provider does, too. Generally speaking, you or your service providers can provide investment education without fear of triggering a prohibited transaction — an event with serious plan qualification implications. Such education is general in nature. For example, you can explain asset allocation, diversification, and dollar-cost averaging. Investment advice is more specific to an individual. Avoid telling a participant what they "should" invest in, even if it's something you personally do. For more information about this important topic, read the article, "The Difference Between Investment Education and Advice," from Financial Finesse and published on 401khelpcenter.com: https://tinyurl.com/FF-EducVAdvice. Diversification may not protect against market risk. Dollar cost averaging does not guarantee a profit or protect against market loss. This approach relies on an investor's willingness and financial ability to continue making regular investments in both up and down markets.

Q: We were considering doing a re-enrollment in our 401(k) plan before the pandemic hit. Should we go ahead this fall as planned, or wait?

A: We don't know for sure what challenges may lie ahead. But the fundamental reason to do an investment re-enrollment has not really changed: some participants may be keeping their account balance in a fund that is ultraconservative or even in cash or an equivalent fund. They are therefore not able to benefit from a target date fund or your other carefully-selected qualified default investment account (QDIA). Re-enrollment may actually provide some fiduciary protection, because these cash or ultraconservative fund investors may suffer in the long run from low returns. By re-enrolling, you can move them into the QDIA, giving them the opportunity to affirmatively opt out if they so choose. Most probably won't. When you do decide to go forward with the re-enrollment, be sure to communicate with participants to let them know why you are re-enrolling, and that they do have the opportunity to choose not to change investments.

For more information, www.wealthwisefinancial.com or (949) 748-1177.
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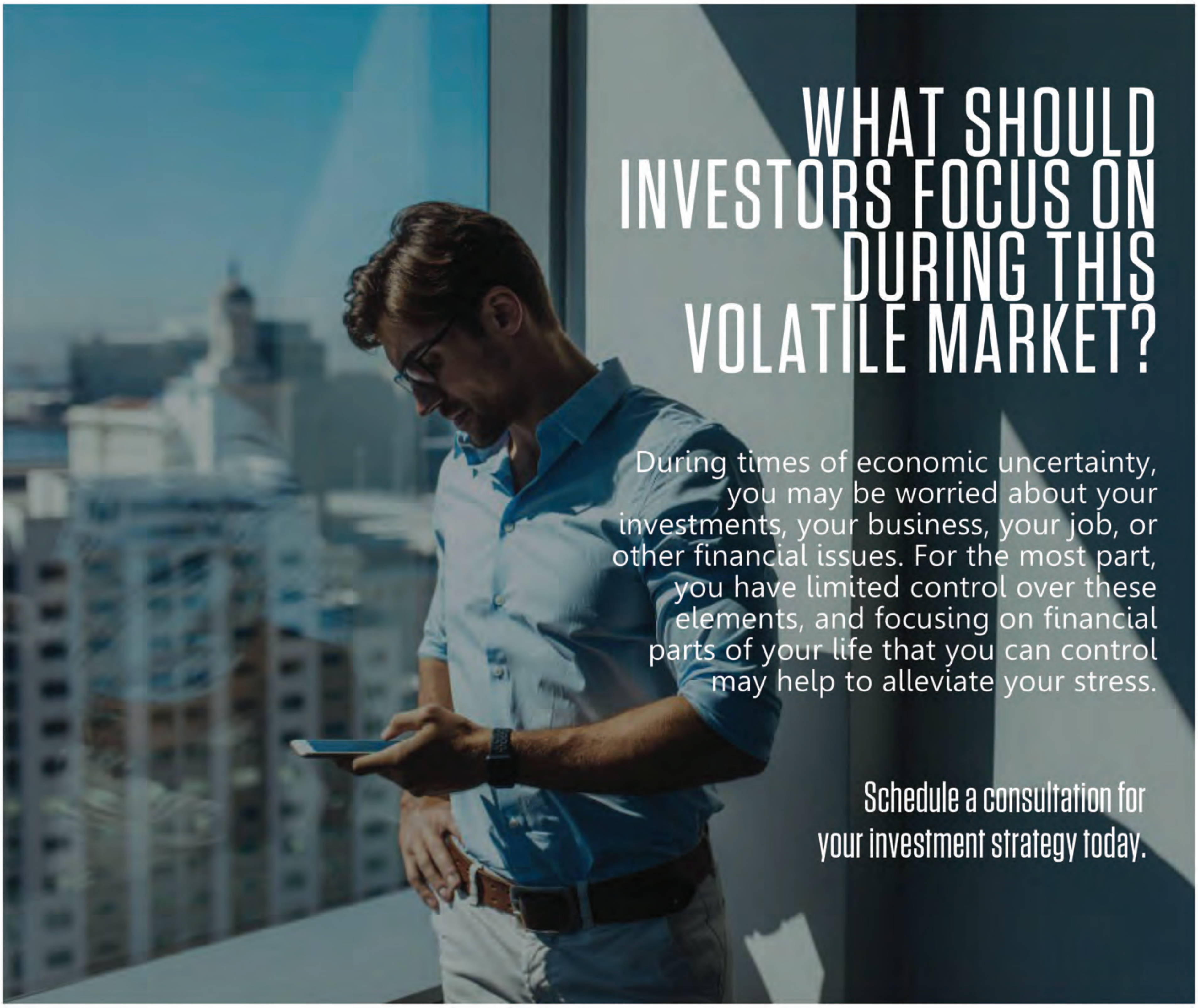
Loreen Gilbert has a focus on working with business owners and key executives. She believes that hard-working Americans have the right to pursue financial security by legally reducing their income and estate tax obligations through investment and financial planning strategies. Gilbert has been featured on CNBC, Fox, Bloomberg, Reuters, Yahoo Finance and recently made the Forbes Top 1000 Female Advisor List for 2020.



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