The Double Whammy: Rising Interest Rates, and Less Robust Stock Market Performance

By Sarah Ruef-Lindquist, JD, CTFA

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Over the past weeks, my colleagues and I have been having many conversations with our clients who are investors. Yes, the stock market performance has been recently negative – 2018 could be flat compared to 2017, which was a post-recession 'banner year'. Many are wondering whether they will lose more value in their portfolios, be flat, or just see a slower rate of growth in the coming months and years as compared to the impressive run-up that began almost 10 years ago and lasted through early 2018. Many got accustomed to double-digit returns, even if income was not what it had been before the 2008/2009 Great Recession.

Even more surprised, however, have been the investors whose portfolios are more modestly allocated in the stock market, and have generally between 60 and 80 percent in the 'fixed income' area of mostly bonds and bond funds. What those investors expected is that the majority of their portfolios would be insulated from a market downturn. What they did not expect is that as interest rates rise, the value of their existing bonds and bond funds would go down, at least on paper. When bond rates

rise, the value of existing bonds with lower yields goes down.
Of course, holding a bond until maturity, while you collect the income it pays through yield, generally means you will recover your investment, plus the interest paid over time. However, it requires patience to wait for those maturities to occur, and in the meantime, your statement shows a lower value of those bonds, until you are able to redeploy their proceeds into higher yielding, and higher valued, bonds.

What these investors feel is the reduction – at least on paper – of the value of their fixed income assets, as well as the loss in value (or lack of growth) of their smaller allocation of stocks. The combination comes as a bit of a surprise to those who otherwise consider themselves (at least relative to those with higher stock allocations) conservative investors.

What's an investor to do? The best advice might be "as little as possible, for as long as possible." In other words, if you don't need those funds in the short term, wait for those bonds to mature and allow your portfolio to redeploy their proceeds into higher yields and values. Don't overlook that the bonds are producing some yield in the meantime, while you're waiting for them to mature. Eventually, the fixed-income portion of the portfolio should recover its value and while it does, pay yields for income while you wait.

As always, consult your financial and tax advisors before making any decisions concerning your investments or financial plans to be sure they fit within your overall, long-term financial and estate planning goals.

Secure Holiday Shopping: New Tips for 2018

Although the holiday season is known for gift giving and good cheer, it's also known for an increase in cybercrime and identity theft. Before you get a jump start on your holiday shopping, follow these four tips to ensure that you're protecting yourself this season.

1. Watch out for gift card scams.

Lately, there's been an increase in gift card phishing scams. Typically, an attacker pretends to be someone you know and asks you to purchase a gift card on his or her behalf and e-mail back the redemption code. Don't fall for this common scam.

2. Make smart decisions about your smart device.

Internet-connected home devices (e.g., smart security cameras, smart light bulbs, smart speakers, Amazon Echo, Google Home) are all the rage this year, but they may not be as secure as your typical "up-to-date" computer, potentially leaving them vulnerable to attacks. When setting up your new device, be sure to check out the settings or manual to enable any helpful security features it comes with.

3. Check your online accounts manually—without clicking on links.

Holiday season is peak time for fake delivery notifications, order confirmations, and password reset e-mails. Rather than clicking on links from within the confirmation e-mail, open a new browser window and log in to your accounts that way.

4. Consider freezing your credit.

Don't let identity theft ruin your holidays. Now that credit freezes are free, it may be worth placing a freeze on your credit file to prevent any unauthorized accounts from being opened.

What Will 2018 Charitable Giving Look Like?

By Sarah Ruef-Lindquist, JD, CTFA

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In June 2018, the Chronicle of Philanthropy, in an article by Megan O’Neil, predicted a $16.3 billion drop in charitable giving due to the tax laws enacted in late 2017. That prediction was echoed throughout the news media, sending chills down the spines of executive and development directors in the non-profit sector.

Nine out of 10 wealthy households gave to charity in 2017, according to the 2018 Study of US High Net Worth Philanthropy conducted in partnership with the Indiana University Lilly Family School of Philanthropy by US Trust/Bank of America Private Wealth Management, released October 24, 2018. (link for reference, new window) The average amount given to charity by these households was slightly more than $29,000, an increase of 15% over 2015.

The biennial report is in its seventh edition since the series began in 2006.

There has been much concern expressed about the impact on philanthropy of the 2017 tax law changes, specifically a predicted negative impact on charitable donations because of the increase in the standard deduction to $12,000 per person and reduced reliance on itemized deductions.

However, as we've opined previously about the degree to which tax benefits drive charitable give, the fear among this demographic cohort is likely unfounded. The vast majority of wealthy households expect to maintain (84 percent) or increase (4 percent) the amount they give to charity in 2018 under the new federal tax law passed late in 2017.

Receiving tax benefits is generally not a prime motivation for giving. Just 17% of those surveyed said this was always a motivation, and 51% indicated it sometimes did…which means for 49% it doesn't and for the 51 % who indicated it did sometimes, that would imply that for 51% it doesn't always.

The important take-away here is that for high net worth individuals, those often making the largest charitable gifts, charitable intent motivates their giving more than any tax benefit, which is good news in an era of decreasing tax benefit.

What we've discussed above is charitable support to operating or annual budgets of organizations that would often appear on an itemized income tax return of the donor. These gifts are often given from income, as contrasted with gifts from wealth, which are often deemed "planned gifts" through estates.

Indeed, even the elimination of estate taxes would cause only 5% of HNW individuals to reduce their planned giving according to the US Trust Study of the Philanthropic Conversation, examining the perspective that advisors have compared to their HNW clients on charitable giving. (link for reference, PDF, new window)

This study, released earlier in 2018 done in conjunction with The Philanthropic Initiative, also found that just 42% of high net worth individuals would reduce their charitable giving if income tax benefit was removed.

The sampling for the study was of approximately 1,600 households with net income of over $200,000 and/or assets of $1M or more, not including principal residence.

So perhaps this is some “good news” that organizations from which to gain hope for our society, as philanthropy continues to address some of the critical issues of our time through the work of the non-profit sector.

As always, consult your financial and tax advisors before making any significant gifts or changes to your financial plans to be sure they fit within your overall, long-term financial and estate planning goals.