

Planning for Your Heirs—and Basic Investing for Busy People

A “Set and Forget” Investment Plan — A Plan for All Ages —

No recommendation of any company or investment scenario discussed in this session is intended—only as a starting point for study. What I’ll talk about is a little outside the BI pureview.



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The Ending—then the Beginning

1. What happens after your life ends....
 - Who takes over your investments?
 - Is there a plan?
2. Do you have children/grand children?
 - Do they understand investing?
 - Do they have an investment plan?
 - Do you have a plan for them
3. We’ll discuss a “Set and Forget plan”--
 - A plan for each of you

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The End—then the Beginning

- **OR** – To put it another way—
 - You won’t live forever
 - Your interest may decrease in later years
 - Your skills may decrease in later years
- Is there an heir to take over your portfolio
 - An heir with a burning interest in investing—is learning to use the SSG?
 - No? You need a plan
- The “Preparation” (Step 1)

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Step one of “The Plan”—for after you’re gone—Write ‘em a letter

- What accounts you have – and contact information
 - Investment Portfolio
 - How your bills are paid—list auto pay accounts
 - Insurance – life, health, car, home, liability
 - Bank accounts – Safety Deposit Box (yes/no)
 - Sign “Pay on death” (POD) to transfer bank account
 - Real Estate – (Location and parcel number)
 - Out of State property--Use “Transfer on death”
 - <https://tinyurl.com/33erhvs3> (form)
 - What’s to be done with your body, etc.
 - What kind of service, etc.
- Write your own obituary

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Step one of “The Plan ”—Preparation

Write ‘em a letter – (Continued)

- How to freeze the deceased three credit reports
www.nerdwallet.com/article/finance/how-to-freeze-credit
- Health Care Directive (DNR?) – Doctor
 - Discuss quality of life you find imperative
 - When to pull the plug
- Health Care Power of Attorney
- Financial Power of Attorney
- Will
- Trust (Avoid Probate)
 - Generation Skipping Trust—if needed
 - Washington State tax starts at \$2,193,000

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Sample form: <http://bob-adams.net/class-handouts/>

**Letter to my heirs: (each box will expand to accommodate comments and information)
Attach this form to your letter**

Where a hard copy of records can be found, last three years 1040 income tax forms, Health POA, Financial POA, Trust:

Social Security number and birth date (both if married)

If a veteran—service number and where discharge form is located

ASSETS:

Real Estate and where deeds are located

Automobiles and where titles are located

Jewelry, art, etc. and location

Other assets

LIABILITIES:

Mortgage, how paid, where paid, and contact information

Other debt—with contact information

OTHER INFORMATION:

Life insurance policies, location of policies, and contact information

Bank account, brokerage account, etc., account number, and contact information

Attachment to letter

7 credit cards and contact information

In Other Words: Prepare them

1. Prepare your letter (You get the last word)
2. Prepare the Data form
3. Have a meeting
 - Discuss the Data form
 - Explain where it is located—it will be needed immediately
 - Discuss where records are located
4. Answer Questions
5. Discuss what they will inherit – maybe?
 - Hire a food taster—Metal detector

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Step two: Before you're gone— A “Set and Forget” Investment Plan for them—and for your comfort

- Regardless of age
 - Regardless of energy level
 - Regardless how busy you are
 - Regardless of investing knowledge
- Your portfolio will continue into the future
- A plan for all ages—retired – kids – grandkids...

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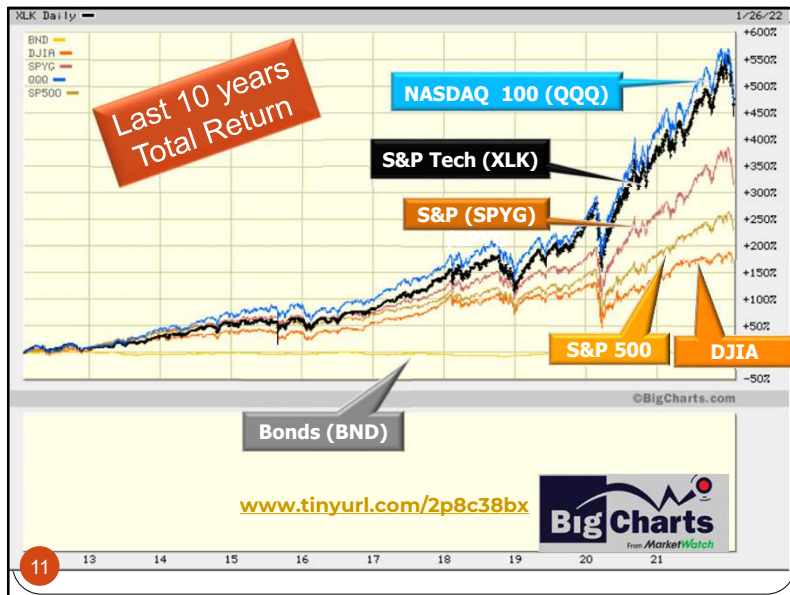
Step two of the Plan—“Set and Forget”

Invest in an Index fund

Warren Buffet agrees with me

- A selected group of companies
 - Represents an average of a market segment
- Index funds: (Stay away from “exotic” funds)
 - S&P 500 Growth (SPYG)
 - Technology Select (XLK) - ETF
 - NASDAQ 100 (QQQ) – ETF
 - Other Sector Indexes – ETF

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Why Invest in an Index Fund?

- **\$10,000** invested in the S&P 500 index became **\$736,000** 1969-2014 (45 years)
 - (Dividends reinvested)
- **\$10,000** invested in the average managed mutual fund became **\$501,000** in 1969-2014 (45 years)
 - (Dividends reinvested)
- Index fund provided a **47%** better return

A Random Walk Down Wall Street
Burton G. Malkiel

Do your heirs have a 401(k) loaded with Mutual Funds?

Tell 'em about Index Funds

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A “Set and Forget” Investment Plan

Simple Plan: (choose one—or more)

- **NASDAQ 100 ETF** (QQQ)
- **Technology Select ETF** (XLK)
- **S&P 500 Growth ETF** (SPYG)
- If comparing funds—only compare total growth (Div)
- You will be well-diversified at low cost
- Reinvest the dividends
 - Buy more shares during market downturns
 - Rate of return?—Out perform the market index

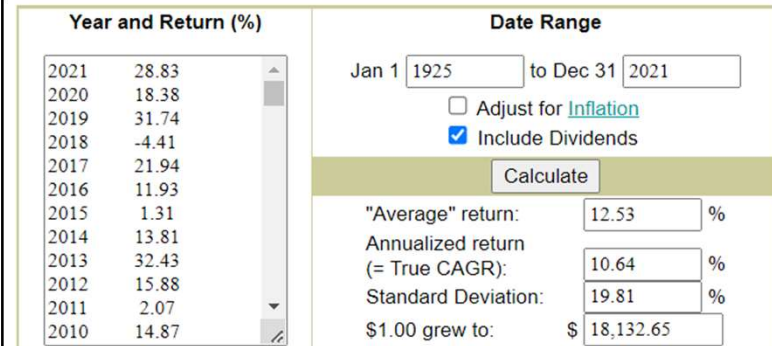
Over the last 80 years:

S&P 500: **12.53%** average total return

http://www.moneychimp.com/features/market_cagr.htm

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How yuh doin’



http://www.moneychimp.com/features/market_cagr.htm

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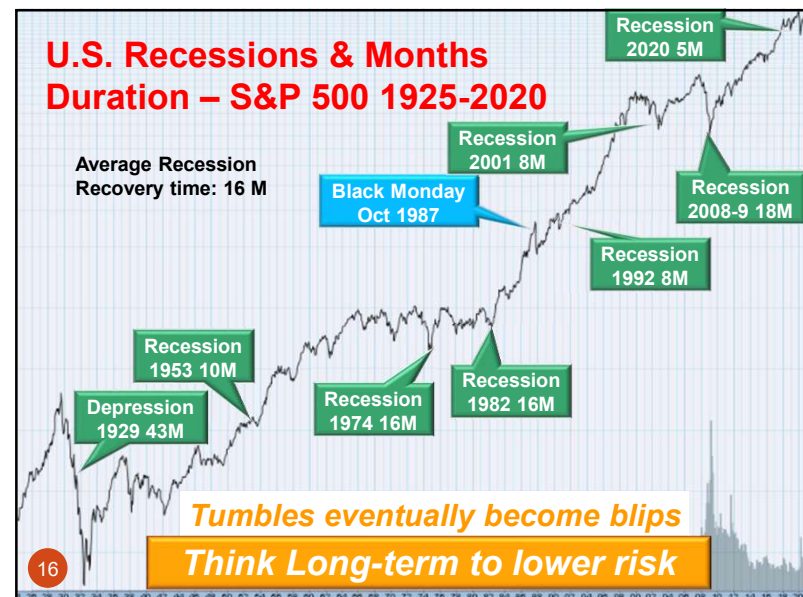
A “Set and Forget” Investment Plan

- Is it really that easy?
 - Yes—buy and hold
 - Yes—buy on downturns
 - If already an investor – dollar cost average in
- But “the market is volatile...”
- But “the market is dangerous...”
 - Can we ignore both warnings?

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U.S. Recessions & Months Duration – S&P 500 1925-2020

Average Recession
Recovery time: 16 M



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But there are index fund expenses:

Expenses Are Important Compare Costs

Index fund/ETF expenses: 0.04 - 0.2 percent
Additional expenses in 401(k)

Cost and return comparison tool:
www.finra.org/fundalyzer

Average Managed Mutual Fund total expense:
3.5% (4% - 2007)

The Little Book of Common Sense Investing – John Bogle

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Why Are Expenses Important?

AVERAGE MANAGED MUTUAL FUND:

- **Fee:** Annual Maintenance 1.2%
 - **Taxes:** Mutual Fund investors = 1.43%*
Uncle Sam taxes Mutual Fund Capital Gains
 - **Fee:** 12b(1) Advertising = 0.25% (no load fund)
 - **Fee:** Transaction costs = 1%** (100-300% turnover)
- Result: 3.88% annual cost

* Reported by:  (2006 Study)

** John Bogle – *Common Sense Investing*

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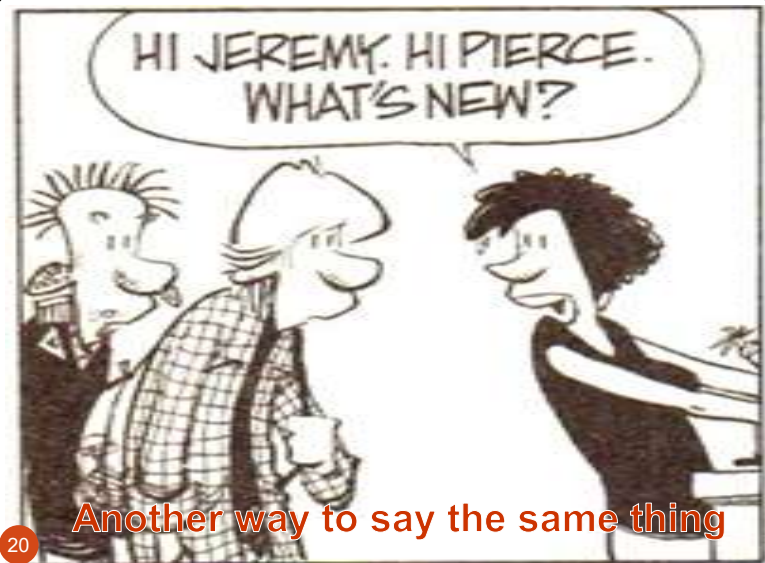
Fees

“We have to wonder what allows the truly expensive funds to exist.”

Answer: “Marketing and hype can be more influential than real data.”

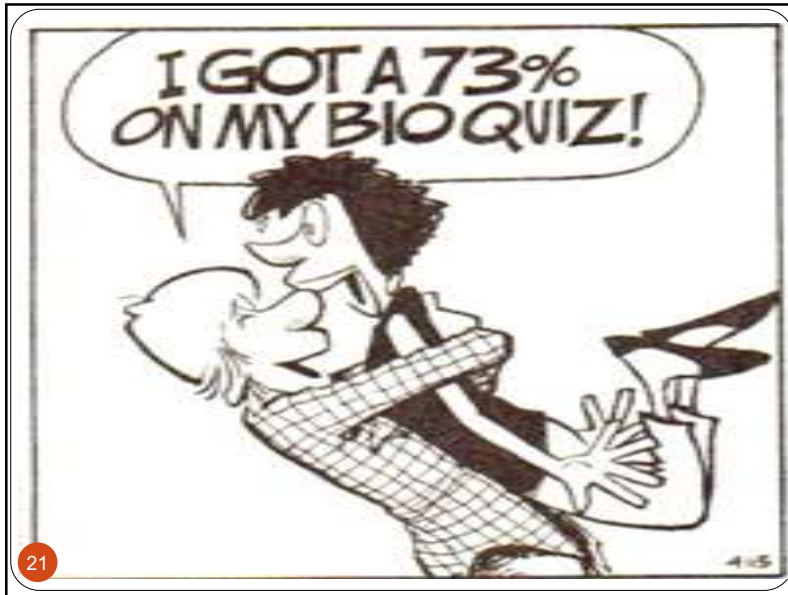
Scott Burns – syndicated columnist

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Another way to say the same thing



I'm convinced – what now?

Advice for your kids, grandkids

- If in a company 401(k) retirement plan –
 - Look at what index funds are available
 - If none—Ask they be added
 - More than 93% of 401(k)s offer Index Funds –
 - Morningstar 2017
 - Set up automatic deposit from each paycheck
 - 10-15% minimum (More if older)

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I'm convinced – what now?

- If in an individual retirement account –
 - Open a Roth IRA
 - Set up automatic deposit from each paycheck
 - 10-15% minimum (More if older)
 - Index fund – or two – or three

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I'm convinced – some specifics
Not a recommendation – It's simply what I do

- 20% PowerShares NASDAQ 100 (QQQ)
- 60% S&P 500 Growth (SPYG)
- 20% Technology Select (XLK)

Collect dividends in a cash account
Buy on dips in the market—and beat the Index

- NOTE: You can do better by investing in quality growth companies—the Better-Investing method.

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We now have a plan—now—
how much will I or my Heirs need?

- **Plan for 35-40 years in retirement**

Amount needed in 401(k), Roth IRA

At age 35 – 1 X current gross income

At age 45 – 4 X current gross income

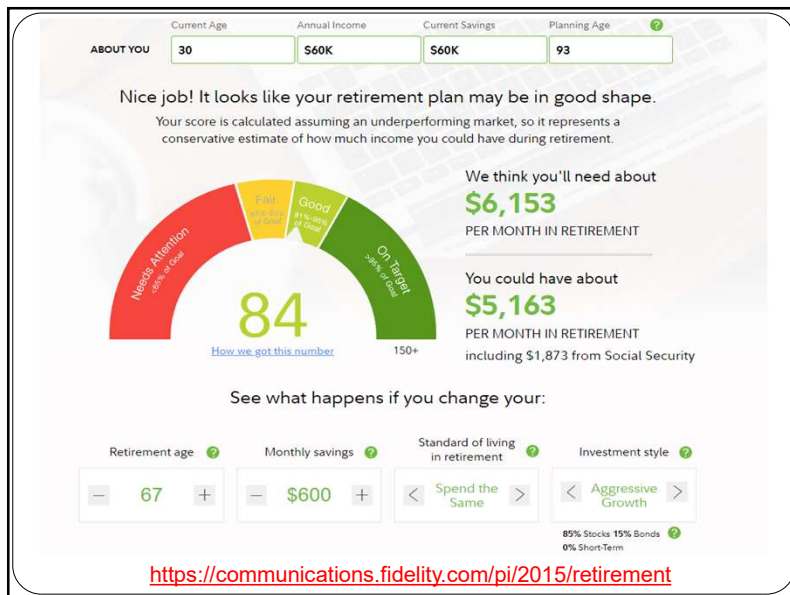
At age 55 – 7 X current gross income

At age 67 - 10 X current gross income

An excellent retirement calculator

Fidelity.com

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Questions? ~ A Plan for All Ages ~

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Good reading:
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— John Bogle