Summary Edition 2018

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Robert G. Elliott's Financial News

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Investing Before and During Retirement

There are two phases in the life cycle of a retirement portfolio: the time when you're contributing to it and the time when you're using it to cover your living expenses. During each phase, the basic challenge is deciding how to invest your nest egg, and there are three common approaches for that:

Going with your comfort level. Most people have some idea as to what investments appeal to them, either because of the rate of return they associate with them or how much safety they seem to offer. Some people would never put their money anywhere but in an insured savings account, CD, or US Treasury security. Others feel there's no better place than the stock market, commodities, real estate, or tax-free municipal bonds. Whichever it is, people tend to pile their retirement funds in one place – which can cause problems if there is a significant decrease in that investment.

Using a one-size-fits-all formula. There are at least several of these formulas floating around. On the theory that the closer you get to retiring the more conservative you should become, one says you should subtract your age from 100, treat the result as a percentage, and put that portion of your portfolio in stocks and the rest in bonds. Another follows the same method, but suggests you subtract your age from 120. The appeal of this approach is that it's simple and unambiguous. The downside is that the results don't take into account the details of your circumstances (your income, savings, how much your future lifestyle will cost), the state of the economy, and inflation, or the cyclical nature of market returns.

Using a financial plan. A plan includes all details the other two methods leave out. It's by far your best bet for achieving your retirement goals since it takes your circumstances and the state of the economy into account. The plan should be split in two before-retirement and during-retirement strategies.

In This Issue

Before You Retire

The key factor is to determine what rate of growth you need to achieve in your portfolio to retire with a nest egg capable of supporting you for the rest of your life once you no longer earn a paycheck. It's a balancing act between how much you can afford to put aside

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Distributing Personal Possessions

Organizing and planning an estate is not a simple process. After deciding who should receive major assets like your house, business, investments, and retirement accounts, you may need to use a variety of vehicles to distribute those assets, such as wills, gifts, and trusts. Dealing with major assets may be so time consuming that you don't even think about your personal possessions, leaving distribution decisions up to your heirs. But disputes over personal possessions are more apt to cause conflict among heirs than disputes over money. Some items to consider include:

Take time to think about who should receive treasured personal possessions. You might want to detail your wishes in a separate letter to your heirs to prevent disagreements. Indicate why you are distributing possessions in that manner.

Ask your heirs what possessions are important to them. Otherwise, you may inadvertently give a treasured possession to one child without realizing its importance to another child. Children may then try to read motives into your decisions that didn't really exist.

Don't distribute assets based on arbitrary criteria. You don't necessarily have to give your jewelry to your daughter or tools to your son. Your son might want to pass on some of your jewelry to his wife or daughter. Likewise, don't give your most valued possessions to your oldest child without considering younger siblings.

Devise a method. You probably won't want to decide how every personal possession should be distributed. After you have determined how to distribute your most valued possessions, detail a method for heirs to distribute the rest of your possessions. It can be as simple as having heirs take turns selecting items or flipping a coin if more than one person is interested in an item.

Investing Before...

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every year, how much growth will maximize your nest egg, and how much risk you feel comfortable taking.

By analyzing these factors, a good financial plan produces a recommended asset allocation strategy that specifies how much of your portfolio should be invested in stocks, bonds, cash, commodities, and real estate. The mix of your investments aims at a target rate of return and risk level that both meets your goals and makes you comfortable with the year-to-year results.

In general, the younger you are the more risk you can afford to take, since you will have many market and economic cycles to smooth out your returns. It's not unheard of for someone in his/her 30s or 40s to invest up to 70% or 80% of his/her assets in stocks. Conversely, younger people who are risk-averse may be able to take less risk and put more of their assets in CDs and bonds, as long as they have modest retirement goals.

It's generally true that the closer you are to retiring, the more conservative your portfolio should be. But this doesn't suggest the precise proportions to place into each asset class; nor does it take into account the opportunities or challenges presented by current market conditions. Those answers will come only when you get into the details of your current situation and future goals.

After You Retire

Before you retire, your asset allocation strategy is driven largely by the goal of creating the largest possible retirement portfolio within the limits of your tolerance for risk. After you retire, the goal shifts to keeping your retirement portfolio large enough to continue generating the supplemental income you'll need for the rest of your life.

While this shift means your strategy aims for less growth and risk than in the accumulation stage, it's usually a mistake to revert to the most conservative strategy possible. That's because your portfolio gets eroded over time by:

- Inflation, which means the real value of your portfolio (as well as the buying power of the income it generates) gets smaller every year.
- Taxes on income, withdrawals from traditional IRAs, and capital gains in taxable accounts.
- Withdrawals you make to support your lifestyle.

Because of this constant shrinkage, some portion of your portfolio needs to be invested in stocks, which is a riskier asset class but the one that typically stays ahead of inflation, taxes, and reasonable withdrawals.

Please call if you'd like to discuss your situation.

Give us a call!
(615) 255-6431

Personal Note

I don't know about you, but sometimes it would be nice to take a break from the constant drumbeat of "news" that hits us every day. *Who Tweeted What?! North Korea and China?! The Fed raised interest rates?!* ***WHAT DOES THAT MEAN FOR MY PORTFOLIO?!*** You get the picture. With the flow of information hitting us it can be difficult maintaining a focus on the important things in life. What I like to call **"The Basics"**.

With "The Basics" in mind I would like to give you a quick update on my kids. (There is relevancy, I assure you.) Sarah, my oldest daughter recently graduated college as a bio-medical engineer. As an engineer her curriculum was very focused, but she did find time to take courses as diverse *as Country Music, Anthropology, and Terrorism/Counter-Terrorism: A European Perspective..* My wife, Cassie, and I are **VERY PROUD** of her for not only finishing her degree in four years, but selecting courses outside of her major to become a well-rounded member of society. Sarah's future career path may be of interest to any one reading this newsletter. I won't provide too much detail on her plans yet, but pay close attention to the next mailing related to Sarah!

My younger daughter, Tate, just finished her freshman year in college and is currently studying Macroeconomics at a summer session in Taos, New Mexico. She began her college career taking classes focused on education and psychology, but now appears to be tacking towards business and possibly economics. As a former Econ major myself I believe she is on a solid path, but I am most grateful that she is broadening her scope of learning. In essence, she is diversifying her base of knowledge.

As an advisor, I believe strongly in diversifying. But I have found the term **"diversification"** gets thrown around a lot and some investors hear or read about **"asset allocation"** without much explanation about what it truly means and why it is helpful. (What I am about to explain may be overly simplistic for some readers, but the information might be helpful to kids/grandkids you are trying to educate about the investment process.) Improper asset allocation is one of the most common mistakes an investor can make. Why is this so important? Look at it this way: If you were to eat only one food every day for your entire life, your body would be very unhealthy. If you were to exercise only one group of muscles for your entire life, your body as a whole would be very weak. And when you invest all your money in the same way, the same could be true of your finances.

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Personal...

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Asset allocation is basically a strategy that spreads your investments across different "asset classes." The three main classes are equities (stocks), fixed income (bonds), and cash. There are other classes, of course, like commodities and real estate. And there are sub-classes as well. For example, "stocks" can be divided up into many different classes, like international stocks, small, mid, and large-cap stocks, etc.

The thinking behind asset allocation is that by mixing your investments within these different classes, you take on less risk. That's because if one class goes down in value, the other classes you own can compensate. Here's an example of why asset allocation is important. Let's say that in Year 1, the stock market goes through the roof. So you put all your money into stocks. But in Year 2, the stock market performs poorly. It's possible you could end up losing a lot of money.

Now let's say that instead of putting all of your money into stocks, you put 50% into the bond market. When the stock market went down, investors started pouring their money into bonds, causing bond prices to go up. That means that even though your stock holdings decreased in value, your bond holdings increased, meaning you could still break even or possibly come out ahead.

As I mentioned earlier, this is a very general and simplistic example. **I'm certainly not recommending you do anything like that.** (I would never recommend any particular investment or strategy to anyone without first sitting down and learning more about their goals, needs, challenges, and fears.) But hopefully it illustrates a point: Putting all your eggs in one basket is rarely a good idea. The concept of diversification is important whether it's related to courses my kids take in college to broaden their learning experience, or implementing an asset allocation strategy for your money. My hope is that the explanation of asset allocation transforms the arcane jargon thrown around by Wall Street into a simple process. I believe the more that you see investing as a process based on rules and logic and "**The Basics**", rather than something based on emotions (Tweets, China, North Korea, etc.), the more likely you will find success.

Municipal Bonds

We offer the following bonds subject to prior sale or change in price as of June 15, 2018.

Ref No	Issuer	Maturity Date	Coupon	Yield to Maturity	Yield to Call	Call Date	Rating	Price
1	Anderson Cnty TN Ref-Rural Elem Sch	05/01/26	5.000	2.390	2.390	N/A	Aa2	118.613
2	Tennessee St Sch Bond Auth	11/01/27	5.000	2.450	2.450	N/A	Aa1/AA+	121.224
3	Met Govt Nashville & Davidson Cnty Vanderbilt Uni Med	07/01/31	5.000	3.659	3.050	07/01/26	A3	113.799
4	Tri-Cities TN Arpt Auth Rev	05/01/36	3.500	3.750	3.982	05/01/26	Aa2	96.768
5	Knoxville TN Wtr Revenue	03/01/39	3.000	3.202	3.514	03/01/25	Aa1	96.952

Callable at 100% beginning of the call date above and every call date thereafter with 30 days notice.

In addition to the bonds listed, we have several other corporate bonds available. If you are looking for a specific bond or maturity, please feel free to contact me with your requests.

We are also interested in buying corporate bonds. If you have bonds for sale, please call me for a bid and details on how you can convert your present bonds to cash or alternative investments.

Finally, new bonds are coming to market every day. If you give me a call, I will be more than happy to go over current market offerings and conditions with you.

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Estate Planning for Complicated Family Situations

In our modern and increasingly complex society, planning for the future is not always straightforward. Divorce and remarriage, blended families, children with disabilities, or even a financially irresponsible child can complicate estate planning to the point where procrastination is tempting. If any of these situations apply to you, the reality is you should have a well-thought-out estate plan in place. While accommodating all of your loved ones is a delicate balancing act with many variables to consider, the reward is peace of mind in knowing your spouse and children will be cared for in the best possible way following your death.

If You Are Divorced

Your top priorities are updating your beneficiaries, last will, trusts (along with the executor/trustee), durable power of attorney, and healthcare proxy. Likewise, because you no longer have the benefit of combining your estate and inheritance tax exemptions with a spouse, you may need to consider more strategic estate planning to avoid estate taxes.

If there are children involved, you have even more decisions, including guardians of any minor children. Typically you will not want your former spouse or his/her new blended family to receive any of your assets.

While you can name anyone as your beneficiary on life insurance policies, annuities, retirement accounts (if permitted by your plan), IRAs, and health savings accounts, your children typically cannot receive these funds until they turn 18. In the meantime, your children's appointed guardian, such as their surviving parent, could be designated by the court to manage these monies until they reach adulthood. Proper estate planning can avoid any mishandling of those funds and provide you with the reassurance that your children will be financially protected.

One way to ensure this outcome is to set up a trust with an appointed trustee, such as a grandparent, aunt, or godparent.

If You Have Remarried

While remarrying is a beautiful reminder that second changes really do exist, this can often complicate estate planning – particularly when at least one spouse has children from another marriage. The first step is to sit down with your spouse and discuss what you both feel is fair for each other and your children, perhaps categorizing what is yours, mine, and ours to reach a decision.

Because of state martial estate laws, unless you have a prenuptial agreement in place, your current spouse has legal entitlement of up to half of your estate, regardless of what your will may designate.

Assuring that your surviving spouse is provided for while leaving a legacy for your children can be a frail matter; it's important to have a plan intact that assures both your spouse and children receive what you intend. You might consider a trust, such as a marital trust, qualified terminable interested property trust (QTIP), or irrevocable life trust (ILIT), which can provide lifetime income to your surviving spouse while simultaneously ensuring that your heirs receive the remaining proceeds.

If You Have a Special-Needs Child

Understandably, parents of a special-needs child are often so distracted with accommodating the child's immediate needs that important financial matters are sometimes overlooked. The consequences of putting off estate planning are far worse in these situations.

The two most important factors to consider are preserving your child's eligibility for Medicaid and other essential benefits while continuing to provide the best possible lifestyle for them. However, without a proper action plan, an inheritance could disqualify your special-needs child from vital benefits.

To avoid this situation, parents often leave special-needs children out of the inheritance equation, listing other siblings or a designated guardian as heirs with the intention that their special-needs child will be provided for as he/she continues to receive necessary medical benefits. The truth is, misuse of intended funds is always a possibility, as intentions and reality often do not mesh. A much more reassuring path is to consider a special-needs trust, which can assure your child continues to qualify for medical benefits while providing a sound financial future that can include special trips, therapeutic lessons, and life enhancing activities.

An Irresponsible Adult Child

It's quite common for parents to worry that a child could get into serious trouble when presented with a large sum of money. This depends on a variety of factors, such as age at the time of inheritance, lifestyle, or even addiction issues. Consider establishing a trust – such as a spendthrift trust or incentive trust – where the appointed trustee can limit your child's inheritance to several installments throughout the course of his/her lifetime (even on an annual basis if you so wish), place conditions such as good behavior on the disbursements, or even appropriate the funds for something as specific as college tuition.

Please call to discuss this topic in more detail.

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