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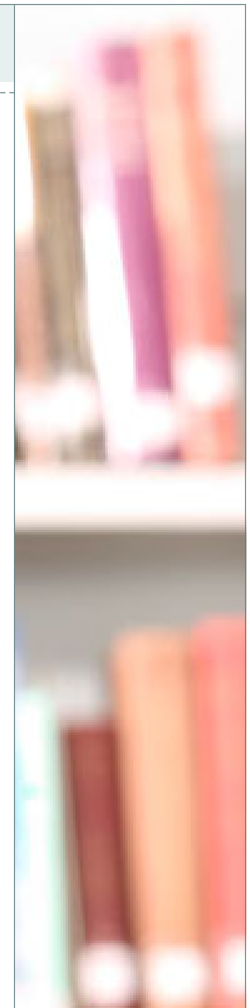

Managing Your Money

STAN'S WORLD—WHO DO YOU TRUST?

Older clients may recall a late 1950s/early 1960s TV show titled; "Who do you trust?" The show host – a task handled by Johnny Carson for a few years - would ask a husband and wife a question. The husband and wife would then decide who among them they trust to answer the question.

Fast forward to 2023, and ask yourself the same question: "Who do you trust?" Except in this instance, the reference is to your money and your wishes. Who would you trust to ensure your assets will either be spent appropriately on your personal care if you're unable to make those decisions or in accordance with your wishes after you pass?

Most people answer the question by saying they'll figure it out when the time comes. Unfortunately, you shouldn't assume you'll have ample opportunity to do that. Dementia, or serious illness, doesn't conform to a pre-determined timeline. The answer to the question: "Who do you trust?" requires careful thought and consideration long before you might need assistance. It's imperative that you make these types of decisions when you're able to do so, thus giving you the appropriate amount of time to implement them.

We've previously written about a few significant legal documents where your decisions can be chronicled. A durable power of attorney (DPOA), for example, allows you to appoint a trusted individual to take all actions on financial matters on your behalf. The power of a DPOA is significant because the powers within the document can be sweeping. In brief, it gives your appointee the ability to do anything with your assets that you can do. Choose your designee wisely.

Similarly, you have the power to appoint an executor of a will (or where appropriate, a trustee of a trust). The goal, of course, is for your appointed individual to understand your wishes and to implement them.

STAN'S WORLD— WHO DO YOU TRUST? (CONT'D)

There is, of course, the potential for your designated individual to disagree with your intentions. The trustee of a trust, for example, may view your decisions as 'controlling from the grave' and deem them inappropriate. Or, that individual may believe that a beneficiary requires more financial assistance than you may have deemed necessary. When you're gone or unable to make those types of decisions, someone has to make them for you. Once again, choose your appointee wisely.

Most people assume that they should place their trust in the hands of a relative, like an adult child. While that may apply to many, it's not appropriate for all. In some instances, families are split along various fault lines. Selecting one individual to make decisions for others, or for you on behalf of others, may only make matters worse. A trusted friend or confidant might be the better option in those instances.

In addition to having all necessary legal documents current, it might make sense to consider drafting letters to be read with their wills or even when a DPOA has to be implemented. A well-crafted letter will explain why you didn't appoint so and so as your executor and why you selected someone else. While there may be hurt feelings, what's most important is that your wishes be fulfilled.

Consider asking the person you would like to select if they will accept the responsibilities being conferred upon them. It's both an honor and a burden to be asked to 'serve,' so allow him/her to ponder your request. Not everyone can manage the required tasks or withstand the pressures imposed upon them by family members.

Finally, all these steps should be taken with the assistance of an attorney, preferably one who focuses specifically on estate planning. These individuals have extensive experience in the issues outlined above that they can draw on to help you navigate the document drafting process.

These are tough decisions. If you have multiple children, for example, you may decide one would be a better executor than another. While a letter would help to explain that, it doesn't make your decision any less stressful. Ultimately, choose the person who will best act on your behalf. Your last wishes are yours and yours alone.

WHY INTERNATIONAL STOCKS ARE STILL A PRUDENT STRATEGY

We often write about the benefits of diversification within a portfolio. Diversification entails building portfolios with multiple asset classes; asset classes that don't all correlate with each other. Sometimes, one asset class, such as fixed income, will lose value while another asset class gains value.

Constructing portfolios with 20- or 30-year (or longer!) time horizons means owning asset classes that may be out of favor for a while. One such example: international stocks. Toward that point, a recent blog by Michael Kitces on Kitces.com[1] explains why this asset class shouldn't be avoided.

The argument for owning only domestic assets is that U.S. markets have outperformed international and emerging markets since 2008. From a behavioral perspective, investors may assume U.S. markets will continue to excel in the future because they have excelled in the recent past. This is known as recency bias, which causes investors to "confuse the familiar with the safe." Of course, as we all know, "past performance does not promise future returns."

A chart showing U.S. equities vs international and emerging markets can prove helpful in making the point that shunning non-U.S. markets can be detrimental to portfolio returns. (Portfolio volatility is a related issue but is a discussion for another day.)

"While these cycles of out- and underperformance are predictable at a high level, there are no crystal balls allowing us to foresee exactly when each shift will occur. The logical conclusion, then, is that investors should be diversified internationally – i.e., holding a mix of both US and international asset classes rather than betting on one to outperform the other – in order to capture the swings in valuation whenever they occur. In reality, however, many investors instead tend to simply buy what has performed best in the most recent period (at higher valuations and thus lower expected returns) and sell what has underperformed (at lower valuations and thus higher expected returns) – the exact opposite of the Investing 101 motto of 'buy low, sell high.' For investors, weighing recent results over historical evidence would have resulted in overweighting international stocks in 1990, US stocks in 2000, international stocks again in 2008 (all at the wrong time, when each asset class was about to enter a period of underperformance)…and once again, US stocks today."

Further, "Beyond the faulty logic of buying after outperformance and selling after underperformance, investing only in a single country or region goes against the basic economic principle that diversification is the only 'free lunch' in investing – in other words, that a globally diversified portfolio can be expected to produce better risk-adjusted returns than any one country."

WHY INTERNATIONAL STOCKS ARE STILL A PRUDENT STRATEGY (CONT'D)

Regarding market capitalization, U.S. equity markets comprise more than half of the value of world stock markets, so domestic stocks will almost always comprise the majority of a portfolio's equity investments. But no single country, including the U.S., should comprise all of a portfolio's equity exposure.

Yet, that's exactly what so-called 'home' bias does to many investors; it leads them to put all their eggs into the U.S. stock basket. Unfortunately, investing in what you know, whether it's the country where you reside or the company where you work, tends to add risk to portfolios, and increased risk is not the friend of long-term investors.

U.S. Equities Versus International And Emerging Markets 1970–2022

U.S. Versus International Equities

	S&P 500 Annualized Return (%)	MSCI EAFE Annualized Return (%)	U.S. Outperformance/ Underperformance (Percentage Points)
1970-1988	10.6	16.6	-6.6
1989-1999	19.4	7.7	+11.7
2000-2007	1.7	5.6	-3.9
2008-2022	8.8	2.3	+6.5

U.S. Versus Emerging Markets Equities

	S&P 500 Annualized Return (%)	MSCI Emerging Markets Annualized Return (%)	U.S. Outperformance/ Underperformance (Percentage Points)
1989-1999	19.4	15.1	+4.3
2000-2007	1.7	15.3	-13.6
2008-2022	8.8	1.0	+7.8

**MSCI Emerging Markets Index data is only available back to its inception date of 12/31/1987*

HOW SECURE IS YOUR SMARTPHONE?

Not only should you ask yourself that question, but you should also wonder about the security of the phones owned by those you love (especially seniors). An article in The Wall Street Journal[2] provides a few useful questions you can ask when the opportunity for a conversation presents itself:

- **Password protection:** While inconvenient at times, a password makes it harder for someone else to get into a phone. Passwords should be as complex as possible (but also easy enough to remember). Even a simple password, while easy for a hacker to crack, is better than no password at all.
- **Software updates:** Security patches close loopholes so hackers can't get into a phone. When a smartphone provider offers updates, make sure to download them.
- **Spam filters:** Smartphones often have software to protect against calls from scammers. Telephone carriers (e.g., Verizon, AT&T, T-Mobile) can offer additional protection.
- **Bank alerts:** Many banks offer text alerts when funds are deposited or withdrawn from accounts. Not only do these alerts inform the account holder when funds flow in and out of accounts, but they can also help quickly detect fraud.
- **Credit card alerts:** Similar to bank alerts, credit card notifications can tell the cardholder when their charge card has been used. These alerts may also ask the account holder to verify suspicious activity, such as a charge in an out-of-state (or country) location.
- **Trusted contacts:** iPhones, for example, allow a second party to serve as a trusted contact, such as for a senior parent. If the iPhone owner, for example, were to get locked out of the device, the trusted contact could validate the owner's identity to allow him/her to regain access to the phone. (Similar services are also offered for Google accounts.)
- **Password Organization:** "For some, pencil-and-paper records stored somewhere safe can be the best option, but password managers can also help." The problem with paper records, of course, is that they have to be carried around if someone needs a password outside their own home. Another option is using an online password manager, such as Dashlane, but those programs can be more difficult for seniors to learn.

Anything else? Ask your senior relatives if they have noticed more unwanted pop-ups or phone calls recently. There are ways to help reduce the number of unwanted contacts, so long as they're open to either learning something new or accepting your assistance.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if: a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

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1 Swedroe, Larry. "International Diversification Is Still the Prudent Strategy." Nerd's Eye View | Kitces.Com, 17 Aug. 2023, www.kitces.com/blog/international-diversification-equities-economic-theory-risk-management/.

2 Brown, Dalvin. "Questions to Ask Seniors about Their Phones." The Wall Street Journal, 7 Dec. 2022.