



Managing Your Money

STAN'S WORLD—RESPONDING TO A SECURITY BREACH

Over the past year, it's likely you were mailed at least one letter from a major retailer advising you they were the victim of a security breach, and that your data was likely compromised. What's also likely is either: (a) The letter went unopened because you assumed it was junk; or (b) You read the letter and tossed it into the trash, assuming there was nothing you could do about it. As with almost all things security-related, it's probably time to change that behavior.

A recent article in the Wall Street Journal¹ outlines steps we should all take when we receive one of those security-breach letters. (Hint: The decision to do nothing, or assume there's nothing you can do, should no longer be an option.)

- **Take each data-breach notification seriously.** Start by changing the password for the affected account, and then change any other accounts you have with that same password. As we've previously noted, both John and I use a program called Dashlane to safeguard and store log-in information for all our accounts. One of the features of Dashlane is it tells you when a password has been reused, and for which accounts. Once a hacker learns one of your passwords, that same hacker will try to use it across all other accounts you may have (including bank accounts, Schwab, Amazon, etc.). If you don't change your password, you're daring hackers to find other accounts you have and then attempt to hack into them as well.
- **Find out what kind of breach it is.** If a hacker stole your music playlist, change your password. But if the theft involved a credit card or other personal information, you'll need to step up your response. Hackers will use any information they collect to try to probe deeper into your personal life, including financial accounts. If your playlist, for example, included a lot of Bruce Springsteen music, a hacker program may assume the answer to a security question may be Bruce. Or perhaps a password is Bruce. Assume all points of information will be used against you because the programs hackers use are that good.
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STAN'S WORLD — RESPONDING TO A SECURITY BREACH (CONT'D)

- **Set up push notifications for financial data.** When you're notified of data breaches that involve credit cards or payment information, review the transactions on the affected accounts, going back to the previous payment period." Regardless of whether you receive a letter regarding a security breach or not, you should still sign up now for "mobile push notifications for credit-card transactions." Once enrolled, you'll receive a text every time your credit card is used. It's a great way to monitor your credit card, thereby quickly identifying inappropriate charges. (You can do the same for your checking account.)
- **Use free credit monitoring.** Almost every time there is a security breach, victims are offered security monitoring for a period of a year or more. Sign up! Why wouldn't you want to be notified if a hacker is opening a bank account in your name? Or a credit card? Or applying for a mortgage? In fact, "some credit cards and banking firms . . . provide free monitoring of consumer credit and provide monthly updates of noteworthy events and changes...Using these services is an easy way to identify and report fraudulent activity, as well as protect against identity theft." If your information has been breached, you should routinely review your credit reports.
- **"Enable dual-factor authentication on all of your accounts.** This is a good practice in general but is especially important for anyone affected by data breaches. With dual-factor authentication, you enter your password as usual but then confirm your identity using a personal device, typically a mobile phone. This limits someone from logging into the account with a stolen password."

Security breaches can range from mere inconveniences to far worse. Take the time to take a few simple steps now before you're forced to react to a more untimely and potentially far more costly situation.

YOU'RE MY FINANCIAL ADVISOR; WHAT HAVE YOU DONE FOR ME LATELY?

It's a fair question, so we'll both ask and answer it. While we believe we add value to our clients in excess of managing their portfolios, it's not always easy to quantify the value of the work that we do. In years past, companies like Vanguard have probed this subject. The most recent attempt to value a financial advisor comes from Russell Investments, as published in the 10th edition of their "Value of an Advisor" study².

Their study sorts the services offered by financial advisors into four categories:

- Active rebalancing of investment portfolios
- Behavioral coaching
- Family wealth planning
- Tax-smart planning and investing



YOU'RE MY FINANCIAL ADVISOR; WHAT HAVE YOU DONE FOR ME LATELY? (CONT'D)

1. **Active rebalancing:** When investors fail to actively rebalance portfolios, their allocations tend to drift. This may result in: (a) a more aggressive portfolio over time, and (b) a lower rate of return over the long-term. Bottom line: according to Russell's research, active rebalancing may add an average of 0.27% a year to the return of a portfolio.
2. **Behavioral coaching:** According to the study, this is the area where having a financial advisor can produce the most significant gains. Russell notes that "Investors are ruled by their emotions...Without an advisor's guidance, many investors are likely to buy high and sell low." Fear can impact opportunity; Russell's findings conclude that keeping clients invested in the stock market, especially during downturns, may result in additional portfolio gains that average 2.5% per year. When investors try to chase returns by buying equities when markets are high, or attempt to flee falling markets, they can miss the opportunity for out-sized market gains. Those missed opportunities can be significant.
3. **Family wealth planning:** "Planning is an ongoing process and is different across an investor's lifecycle." Investment needs change based upon: family needs, changes in income, years to retirement, risk tolerance, among other factors. In addition, a financial advisor can help to coordinate an investor's team, which includes an attorney, accountant, insurance agent, et al. It's a complicated, ongoing process, and Russell calculates the average annual gain to clients who have an investment advisor may be as much as 1.1%.
4. **Tax-smart planning and investing:** "Without proper tax management, many investors pay more taxes than they need to every April...Tax aware advisors who structure a portfolio and choose solutions that help minimize investment-related taxes can provide significant value." Do you hold bonds in taxable accounts, or qualified accounts? And what about high-dividend stocks? What about harvesting tax losses? As measured by Russell, the benefits of tax-smart planning and asset location provided by a financial advisor can be worth up to an average of 1.1% per year.

While all these benefits may not apply to every client every year, the bottom line is that there is an opportunity for investment advisors to significantly contribute to an investor's ability to retire in a timely fashion with a higher expectation of success.



DO DOWNTURNS LEAD TO DOWN YEARS?

Market performance over the past two months (the S&P 500 is down approximately 6.3% from July 31, 2023 through September 30, 2023, including dividends) may have you assuming the market is headed for a down year. (For the record, the S&P 500 is still up about 13% year-to-date through September 30, 2023, including dividends.) While how the market will finish the year is still unknown, downturns don't always lead to down years. The reality is downturns are often part of the intra-year market cycle.

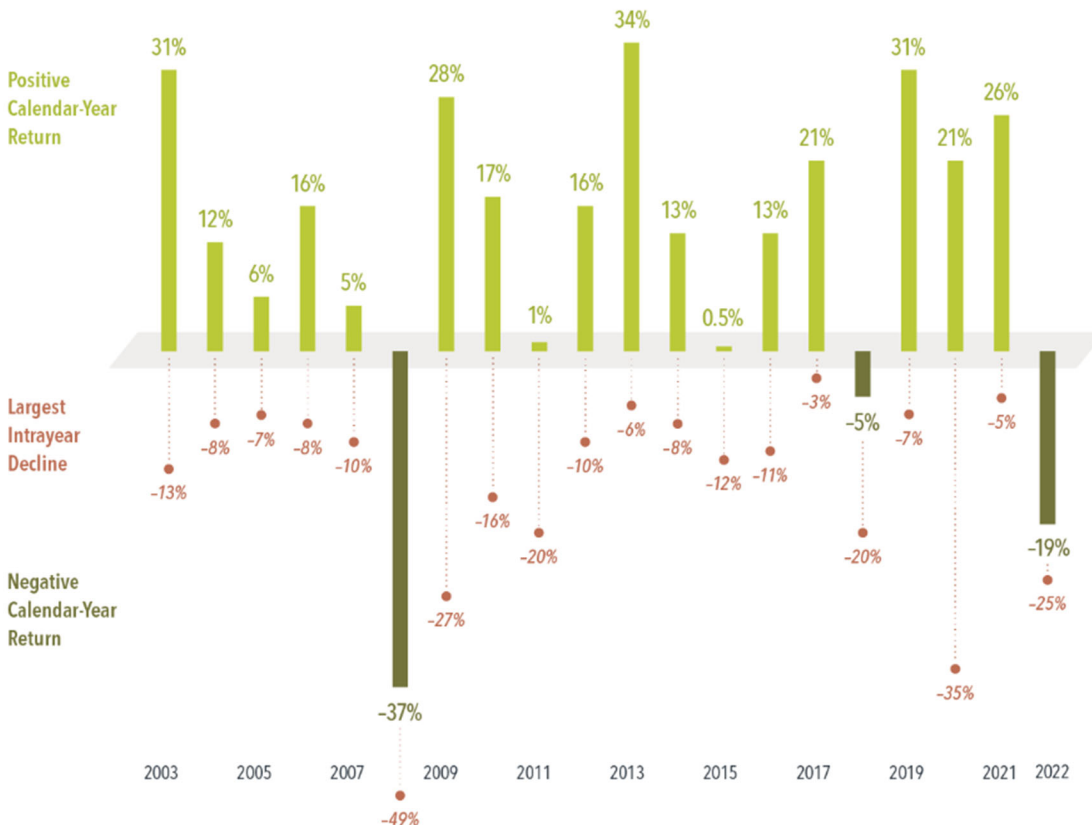
The chart below demonstrates that market dips, including sizeable drops, routinely occur almost every year. The exception is those calendar years when the markets aren't in negative territory for at least a portion of the time.

In a recently released graphic by Dimensional Funds³ that chronicles the past 20 years, the chart below reveals intra-year declines ranging from 3% to 49%. As can be seen, "many years with large intra-year declines saw positive returns." In fact, "In 17 of the last 20 years, US stocks ended up with gains for the year."

To quote Dimensional: "Tumbles may be scary, but they shouldn't be surprising. And a short-term slump needn't mean a full-year fall."

Down but Not Out

Russell 3000 Index returns, with steepest declines within each year, January 2003–December 2022





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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 Murthy, Rajendran. "Your Online Account May Have Been Breached? Don't Just Sit There. Do Something." The Wall Street Journal, 25 Sept. 2023.
- 2 Jung, Brad. "The Value of an Advisor: What We Have Learned in the Past 10 Years." Russell Investments, 9 May 2023.
- 3 "Do Downturns Lead to down Years?" Dimensional, 1 Sept. 2023, www.dimensional.com/us-en/insights/do-downturns-lead-to-down-years.

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