



Financial

E-newsletter July 2015

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Old Pros Band Concert

Join us at the Smithfield Plantation on Sunday, September 20, 2015, for a concert by the Old Pros Band featuring our very own Joel Williams on the saxophone. Tickets will be \$15 in advance and \$20 at the door. Proceeds benefit Montgomery Museum and Smithfield Plantation. Tickets will be available in our office one month before the event. More details to follow.

Does Greece Matter?

Click [here](#) to read Ron Madey's (Chief Investment Officer at Wealthcare) summary of the crisis in Greece and how it may impact the markets and your investments.

Good Luck, Jeff!

Join us in wishing Jeff Proctor best of luck as he starts his new venture. Jeff's two-year development contract is drawing to a close and he will be launching his own subscription based market commentary newsletter and model investments recommendation for online investors.

Jeff joined JSW Financial in 2013 after graduating from Virginia Tech with a bachelor's in biochemistry. He has since developed tremendously and sat for two of the three CFA exams, passing the first level on his first try! (scores on the second exam are still out)

As many of you are aware, Jeff's major role in the last six months was transitioning your accounts from VSR to the Wealthcare team. Everyone at JSWF is supporting Jeff in his first entrepreneurial endeavor. Don't be surprised to see more from Jeff as his relationship with JSW Financial shifts from an employee to a consultant.

Investment Insight: iShares Trust – iShares 7-10 Year Treasury Bond ETF (Ticker: IEF)

If you've happened to take a look recently at your investment holdings at JSW Financial, you may have noticed a few new ticker symbols in the lineup. One of those symbols is IEF, which is an exchange traded fund (ETF) that holds a collection of government bonds, specifically, 7-10 year treasury notes. These are debt obligations issued by the US government that pay a fixed interest rate every 6 months and pay the full face value at maturity (7-10 years from the issue date, in this case).

Treasuries can have maturities up to 30 years, which has prompted many clients to ask "How did you decide on using 7-10 year treasuries?" The simplest answer to that question is that the 7-10 year maturity range offers the best hedge against declining stock prices while also having only a moderate level of interest rate risk. David Loeper, the founder of Wealthcare Capital Management (our recent partner), gave an interesting statistic in a 2011 Forbes article:

"Historically, over any twelve month period from 1926 through 2010, stocks produced a negative total return 26.6% of the time, while the 7-10 year Treasury index produced a negative total return 14.8% of the time. But, they simultaneously produced a negative total return only 3.9% of the time. This is one reason why portfolios blending stocks and bonds are more efficient than portfolios made up of just one."

Looking at the chart below at the recent 2008 economic recession, the interaction between the 7-10 year treasuries and the S&P 500 is clear. While stocks were busy falling amid the crisis, these government bonds actually *increased* in value in what is commonly referred to as a "flight to safety"—in uncertain times, investors prefer to move their capital to safer assets.



What makes the 7-10 year an especially attractive diversifier in your portfolio is that, unlike gold or cash, interest is being generated (current yield is about 2% a year), and, unlike corporate or foreign bonds, American treasuries are backed by the full faith and credit of the U.S. government.

With so much uncertainty in today's global markets, being appropriately hedged is as important now as it has ever been. With the increased popularity of ETFs, it's now possible for us to capture very specific asset classes in a simple, low cost method. These are essential pillars in Wealthcare's approach to managing your portfolio in a goals-connected, risk-managed, cost-effective way.

— Jeff Proctor

Estate Planning: The Need for Power of Attorney

With more Americans living into fragility, Power of Attorney (POA) and other advanced directives are becoming more important. Since a POA will have legal authority to act on your behalf, it's very important to choose a person that is trustworthy and will act in your best interest.

Many individuals choose a child or an heir to act in the capacity of POA. We encourage you to include your POA/heirs in your financial planning process. If and when the need for a POA arises, the individual acting on your behalf is comfortable and confident he or she understands your wishes.

What is the point of a POA? A Power of Attorney is a legal instrument that delegates an individual's legal authority to another person. If an individual is incapacitated or mentally incompetent, the POA assigns a trusted party to make decisions on his or her behalf.

There are *nondurable*, *springing* and *durable* Powers of Attorney. A nondurable Power of Attorney often comes into play in real estate transactions, or when someone elects to delegate their financial affairs to an assignee during an extended absence. A springing Power of Attorney "springs" into effect when a specific event occurs (usually an illness or disability affecting an individual).¹

A "durable" Power of Attorney allows an assignee, or Agent, to act on behalf of a second party, or Principal, even after the Principal is not mentally competent or physically able to make decisions. Once

a Principal signs (executes) a durable Power of Attorney, it may be used immediately, until it is either revoked by the Principal or the Principal dies.¹

Of course, even after a POA goes into effect, the Principal can still make financial and legal decisions on his or her own. The Principal can also elect to have the POA take effect immediately, not just at a point in the future when they lose the ability to make these decisions. You can also appoint multiple Agents.²

What the POA allows in financial terms. Financially, a Power of Attorney is a tremendously useful instrument. An Agent can pay bills, write checks, make investment decisions, buy or sell real estate or other hard assets, sign contracts, file taxes, even arrange the distribution of retirement benefits.³

Of course, a POA can stipulate what an Agent can and can't do financially. There are some things that are expressly forbidden, no matter what you stipulate. For example, your Agent can't use your assets on his or her behalf (which often constitutes elder abuse) or change or write a will. But he or she can establish a trust.³

Advanced healthcare directives: HCPOAs and Living Wills. Alzheimer's Disease, Parkinson's Disease, ALS and other maladies can eventually rob people of the ability to articulate their wishes, and this is a major reason why people opt for a Health Care Power of Attorney or a Living Will. There are differences between the two.

A Health Care Power of Attorney (also called a "healthcare proxy") allows an Agent to make medical decisions for a Principal, should that loved one become incapacitated or mentally incompetent. A person does not have to be facing death for a HCPOA to be put into effect.

A Living Will gives an assignee similar powers of decision, but this advanced directive usually only applies when someone faces certain death. It may articulate whether the loved one wants to be hospitalized at the end of life, or have surgery, blood transfusions, resuscitation, or other medical procedures administered. The assignee has the authority to carry out the wishes of the incapacitated party.

It is a wise move to draft these documents and have them in place before a diagnosis of some degenerative or crippling disease, or at least immediately after one. A HCPOA or Living Will must comply with state laws.

Who should have copies of these healthcare directives? You, your attorney, our office, any doctors treating your loved one, and any hospital, assisted living facility, or nursing home involved in his or her care. Assuming you are the assignee, another copy should be in the hands of a family member or friend you trust in case anything debilitating happens to you.

A hitch: the HIPAA Privacy Rule. In 2003, the Health Insurance Portability and Accountability Act (HIPAA) became law, and it stated that an employee's confidential health records must be protected from unauthorized dissemination. So today, a Health Care Power of Attorney should include an "Authorization for Disclosure of Protected Health Information". This permits a health care provider to transmit PHI to doctors and hospitals under the HIPAA Privacy Rule. Without it, you could have a problem in a medical emergency, because most health care providers won't provide PHI without the

express written authorization of the patient (a HIPAA medical release form). In fact, doctors and hospitals can face fines and sanctions for violating the HIPAA Privacy Rule.⁴

No power without a signature. Please remember: no Power of Attorney, HCPOA, or Living Will is valid unless it is signed and notarized and/or properly witnessed. It seems unthinkable that some people would draft these documents and never sign them ... but to borrow an analogy, some smoke detectors are bought but never installed.

Would you like to learn more? Now is the best time to understand your options and talk to us about your estate plan. If you do not have a POA or Living Will established, we will work with you and an estate planning attorney to design a plan that matches your goals. If you already have these documents in place, please make sure our office has a copy on file and current contact information for your POA.

– **Andrew Cialek**

Joel's Corner: Don't Let Fear Win

Suggestion: Click [here](#) to re-read Joel's May newsletter article "Let's Focus on What We Can Control!"

July 5, 2015

My opinion on the current market:

- The Fed may not raise interest rates this fall, as many predict. For interest rates to go up a significant amount (i.e. 1-2% in six months), wage rates would have to improve...not simply just an increase in low paying jobs.

Even if the Fed does raise rates, it will be at a painlessly slow pace so that earning on our Treasuries (2% currently) can offset part of the risk over a long time.

But keep in mind the treasuries in our portfolios are to reduce risk in our stock portfolios by as much as 70%, not to avoid bond volatility. The 2% yield we are receiving helps to offset bond risk and fees, while the stock market continues to trade in a pretty tight range and the can continues to be kicked down the street on multiple geo-political and domestic issues.

To be sure, there is still risk in the short term, thus the need for our clients to plan cash flow one, three and five years out.

- Greece: Regardless of the vote, this will continue to be a can-kicking exercise for some time, not unlike it has been in the U.S. In my opinion, Greece will continue to be part of the EU with negotiations on austerity measures for some time. I do not believe Greece, in or out, will derail the market.
- Iran: The second biggest threat to the U.S., after Russia, in my opinion. The only thing one can do is vote and voice your opinion. Otherwise, focus on accurately documenting your cash flow needs.

Also understand that markets can behave violently in short periods, but ultimately must go back up because there are simply more goods and services consumed by an increasing world population.

- ISIS: Notice we haven't heard much in the past week about ISIS; Greece overshadowed the news. Next week it will be some other issue that will cause the Apocalypse according to the cable channels' talking heads.

Pick your story; any one could trigger a correction for which we have been looking for some time. Your portfolio allocation should be allocated on your personal behavioral needs and a gradual rebalancing.

It is OK to discuss the possibilities: In my opinion, these are key fundamentals on which to keep an eye:

- Average wage rates need to increase. Simply more low paying jobs will not help our economy enough for young people to form households and consume items for the family.
- Until we see wage rates increasing it will be difficult for any inflation rate to be sustained. From this level, a little inflation could be good for the economy.
- Unless there is evidence of some level of sustained inflation, it will be difficult for the Fed to raise interest rates, other than a symbolic olive branch to businesses. I personally cannot see interest rates going up at more than a ¼% per raise. And that may be only every other quarter?

Once again, we will manage through these times. Be thankful for the challenges with which we have to deal. Turn off the TV and stay focused on your plan, not your monthly statements.

Remain vigilant as we get through the summer and fall months. As we enter the election season by February, the waters should calm some.

Until next time,

Joel

Some content provided in part by MarketingPro, Inc.

Citations.

¹ oag.state.ny.us/seniors/pwrat.html

² scselfservice.org/probate/finan/powersatty.htm

³ scselfservice.org/probate/finan/powersatty.htm

⁴ hawaiielderlaw.com/estate-planning/hipaa-critical-new-law.html