MALLARD Money Matters

October 2015

NOTICES

Paul shall be at the NAPFA financial planning conference in Indianapolis, October 21-23. He will be at a government conference December 10-11 in Nashville. The legislature returns on January 12.

Susan will be on vacation November 25-27 and December 21-25.

Ryan will be attending the CFA Exam Prep Course on November 6. He will be on vacation November 20-28.

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Maryland Residents

Ed Mink

In May of this year, the U.S. Supreme Court ruled that Maryland's income tax rules that allowed double taxation of some out-of-state income were unconstitutional. If you were a resident of Maryland on or after 2011 and paid income tax to an entity outside of Maryland, you may not have been able to claim a credit on your Maryland income tax return for ALL of the income tax that you paid to other entities on that income. Therefore, you may be eligible to file amended income tax returns and receive a refund. Contact your tax preparer to find out if you are eligible to amend any of your recent Maryland income tax returns.

You can obtain more information from Maryland's tax website, www.marylandtaxes.com, with a search for *Wynne Case*.

Home Inventory

Susan Lehnerd

You have home insurance in the event a disaster hits your home. You've probably only thought about what it would cost to rebuild the house. But, have you ever stopped to think about what it would cost to replace the belongings within your home? While your insurance provides reimbursement for your personal belongings, you'll have to provide the company with an inventory of your possessions.

If you're like most individuals, you don't really stop to think about what's in your home. Could you identify all of your belongings without walking from room to room? Don't forget the attic and the garage and the basement and the drawers and the closets. You've no doubt accumulated things over the years that have been forgotten. So, do yourself a favor and take stock of what you have in your home.

Check your insurance company's website for an inventory checklist. Some companies, like State Farm, have tools to help you record your property. And, you don't have to have a policy with State Farm in order to use these tools. If you create your own checklist, be sure to include the date the item was purchased and its cost. Get even more detailed by providing the make, model, and serial number of an item, where applicable. If a list seems overwhelming to you (not to mention time consuming), consider taking pictures instead or taking video of each room. Don't forget to open drawers and closets. When video taping, narrate as you go around the room, talking about the purchase date, cost and any other details that you can provide.

Once you've created an inventory, store it in a safe location–away from the home. A bank safe deposit box is an option. Or, consider uploading your files to a cloud storage provider. There's also Google which offers storage for pictures and documents.

There are two other benefits to creating an inventory list. The first is that it enables you to review the cost of the contents in your home. With that knowledge, you can then review your insurance policy to ensure there is enough coverage for replacing your belongings. If you're not sure, or in doubt, talk to your insurance agent. The second benefit is for tax purposes. The inventory will provide you documentation for losses not reimbursed by insurance.

Take that step now to inventory the contents of your home. And be sure to update it when a major purchase is made.

Drop and Give Me Five™ — Kenny Beach

A changing market environment calls for changing tactics. Due to the recent sharp market moves, often in the downward direction, we have developed a strategy for our clients to capitalize on this volatility. There is no reason to **drastically** alter our strategy of constructing well-diversified portfolios matched to our clients' risk profile and future financial needs. Such a drastic change would be a reactionary move in the wrong direction. Implementing our long term investment strategy utilizes a technique we have often discussed called **re-balancing,** whereby we purchase lower priced securities to take advantage of cheaper valuations, and sell a portion of our higher priced securities in order to seal in gains. We re-balance the portfolios of our clients on a quarterly basis. This process ensures that we manage their portfolios in a very systematic, objective, unemotional manner.

Since we expect the stock markets to continue their rapid and jerky, often emotion-driven, movements, we are offering our Gold and Platinum clients the opportunity to order us to ***move fast***. Upon the client opting-in we will place a limit-order for a global stock fund that will fire when the fund's price drops 5% below the price it was at the time the client opted-in. How much would we purchase? 5% of the portfolio, as this is designed to get the overall stock level back towards the target level. This action does not alter our long term strategy but is a tactic that enables us to act quickly, if and when the market moves down quickly. If the stock market does decline, and trigger a purchase, the effect will be to adjust the portfolio stock/bond allocation toward the target sooner than waiting for the next quarterly re-balancing. Upon the next re-balancing the portfolio will be adjusted to the targeted allocation as normal.

Clients who would like to see their portfolio managers respond faster to changing market conditions, to benefit from a rebalance **between** reports, will need to call or email, directing us to ***move fast***, and to utilize our **Drop and Give Me Five™** program. For clients who are comfortable with our quarterly re-balancing and see no need to adopt this strategy, there is no need to do anything.

The R Word—What Kind of Relationship Do You Seek? Part II of II — Paul Baumbach

In last quarter's newsletter, I presented three models of doctor-patient relationships and began to draw parallels to the investor-advisor relationship. Let me start with some ground rules. As the investor, you are the customer, and you are in the driver's seat. I suspect that most advisory firms can work in more than one relationship mode, and some can work in all three, based on the investor's selection. Let's explore how each would work.

The traditional approach is the **Advisor Knows Best** approach. I have had clients tell me, "You are the professional advisor, and that is why I have come here. Please make all investment decisions, incorporating my particular circumstances, but don't involve me in the decisions." Some advisors work only in this mode, taking dollars but no input from their clients.

This can be well suited to investors who have very busy lives, and who prefer delegating the investment decision responsibility to the advisor. It can also be a good fit for investors who don't have the background to feel comfortable having much, if any, say in investment decisions. Given that this involves the least interaction between the investor and advisor, this can come with a cost savings. At Mallard, our **RetirementGPS™** program is a form of **Advisor Knows Best** program and has lower initial costs than our other services. In addition, many of our non-RetirementGPS™ clients also prefer the **Advisor Knows Best** approach.

These programs will typically involve very 'high level' reporting, and exclude the reporting of individual investments (whether they be individual securities such as stocks and bonds, or funds). Concise, executive summaries are more common. Importantly, the periodic reports will not seek any decisions from the investor.

The other extreme is the **Equal Partners** approach. Here the investor has the background, time, and investment passion to be quite involved in the investment decisions, which are made jointly with the advisor. Here the investor recognizes that the advisor has greater investment resources and education, but is uncomfortable relinquishing much of the final decision-making.

This format can be challenging. This approach can be difficult for an advisor to follow, as it directly challenges the advisor's position as the investment authority in the relationship. This approach can also be a bit unwieldy, as it can involve additional time between portfolio analysis and final acceptance of changes. We have some 'legacy clients' for whom we execute recommended changes only after they have explicitly approved them, and, in some cases, we go over every single recommended change, typically on the phone.

There can be hybrids of the **Equal Partners** approach. We have a few clients who share the investments that they find interesting (again, stocks or funds) that they have uncovered in the past three months. We then review them and, if we find them worthwhile, build them into that client's recommendations.

The **Equal Partner** approach can be the best first relationship for investors who are lifelong DIYs (do it yourselfers), but who wish to begin working with an advisor, perhaps due to their life becoming more busy, or if they wish to reduce their investment decisions gradually over a period of time. Note that investors who choose an **Equal Partners** approach are accepting greater ownership in results (both good and bad), as the advisor is by design not the sole party in the driver's seat.

A compelling third relationship format is the **Professionally Overseen Collaborative** (**POC**) approach. I do find this to be the most 'evolved' and 'nuanced' of the three. It aims to identify all decisions, and place each decision on the shoulders of the most appropriate party.

Like most advisors, we begin analyzing an investor's portfolio by working with the client to identify their tolerance for investment risk. No amount of investment textbook reading will enable us to uncover how each investor feels when their portfolio gains $10,000 or loses $10,000. This is a question about the investor's emotions, and it makes a lot of sense to ask the investor to make this decision, or at least participate in the decision-making.

In contrast, consider the question about which high-yield (junk) bond fund to purchase. Here the advisor's knowledge and resources (databases) and systems put the advisor in the best position to make this decision. Similarly, the best balance of large versus small companies, US versus foreign companies, quality versus opportunity bonds are decisions most often left to the advisor in **POC** relationships.

Starting last month, we developed a strategy to place a 'limit order' to buy more stocks only once the stock market falls a certain amount. This strategy is well-designed to benefit from the volatility which is intrinsic to stock markets. It is appropriate for the advisor to create this strategy. We have chosen to let the investor decide whether to have us implement this strategy for them. We explain why we designed it, and how it works. Yet we leave it to the investor to determine if they wish to be buying more stocks when they have fallen.

While labels are convenient, they are rarely 100% accurate. I find that most of our client relationships are a combination of these three approaches. Furthermore, many of our client relationships have evolved over time, in some cases due to the investors' growing investment knowledge and comfort, and in some cases due to the investor becoming more comfortable with a 'hands off' approach.

With all relationship work, it is best to begin by looking inward. Determine how involved you want to be with the investment decisions surrounding your portfolio. Then, work together with your advisors to ensure that they build in the 'just right' level of joint decision-making for you. This can help prevent your investment travels from having no driver at all, a backseat driver, or two front-seat drivers. These steps can help smooth your investment trips. Bon voyage!

Compliance Corner — Pam Baumbach

Who is deciding?

At Mallard all client trades are authorized by the client or advisor, but only certain advisors. Advisors that recommend investments to consumers must be registered with SEC using Form U-4.

An excellent resource to verify the background of an advisor is: www.advisorinfo.sec.gov, select "Investment Adviser Search" in the left column. If the advisor is a broker, their background can be reviewed at http://brokercheck.finra.org/.

Available background information can include qualifications, employment history and other business activity.

News and Events

The following Delaware Money School events are being held at the Newark Free Library, 750 Library Avenue, Newark:

Around the World in 80 Minutes

Paul Baumbach

Monday, October 19, 2015 @ 6:30p.m. - 8:30 p.m.

Social Security Benefits

Ed Mink

Monday, October 26, 2015 @ 6:30p.m. - 8:30 p.m.

Register by going to www.dfli.org <http://www.dfli.org> (Sign Up as a Student if not already one). Log In, then go to Class Schedule, Date, and find our course. Walk-ins are also welcome.

Working together, building your financial security

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