MALLARD *Money Matters*

October 2016

NOTICES

Paul will be attending the NAPFA national financial planning conference in Arlington, VA , October 13-15.

Ed will be on vacation November 7-14.

Susan will be on vacation December 19-26.

The office will be closed November 24th & 25th.

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Celebrating 20 Years

Susan Lehnerd

In November, Mallard will be celebrating 20 years of business. Much has happened in those 20 years. Not only has our client base grown, but Mallard has grown as well. We have moved from our initial home on the 2^{nd} floor of the mayor's office on Tyre Avenue – oh those steps leading to the 2^{nd} floor—to Barksdale Road where stairs are no longer a concern. We are comfortably settled on one level where we have managed to expand, in a very short time, from two suites to four – with our eye on the fifth and final suite in our building. The latest expansion, completed in January of this year, now provides a client dedicated space.

Over the years, Mallard's staff has grown from one person (Paul) to twelve. We are no longer primarily investment focused with a little financial planning. We are now Investments *and* Financial Planning, focusing on the broad range of client concerns either through an on-going relationship, or project and hourly work.

We have seen the families of our clients grow, with some of their children becoming clients. In a different setting, we might say that makes us feel old. Instead, we are proud and honored to be able to help the next generation navigate the world of finances. We hope serving multiple generations will become part of Mallard's legacy.

Mallard has also gone through two name changes. In 1996, we opened our doors under the name Mallard Asset Management Corp. Then in 2003, we became Mallard Advisors LLC, and then Mallard Financial Partners Inc in 2014.

If anyone remembers Mallard Asset Management Corp, we thank you! Without you taking what some may call a leap of faith and entrusting Mallard with your assets, we would not have been able to grow as quickly as we have. Your continued support has allowed Mallard to increase its services to you, which adds value to our relationship. We also thank all of you – our friends, our clients, our families and our newsletter readers, for trusting in Mallard and continuing to be with us on this journey. All of us at Mallard look forward to (at least) another great 20 years, and the opportunity to continue serving you and growing with you.

Donor Advised Funds

Susan Lehnerd

Last year, the Protecting Americans from Tax Hikes Act of 2015 made permanent the rules for completing tax-free Qualified Charitable Distributions (QCDs) from an IRA. This provision allows individuals over age 70½ to make contributions directly from an IRA to a qualified charity. The distribution has a two-fold benefit. First, it can be used to satisfy the individual’s required minimum distribution (RMD) for the year. And second, it is not includable in taxable income. For most people, the use of QCDs can achieve tax benefits in a very simplistic and straight-forward way. For others, the benefits of a donor advised fund may be more appealing.

A donor advised fund’s primary benefit is to allow an individual to donate assets for charitable giving today and receive a tax deduction now, even though the funds may not be distributed to a charity until later. The donor advised fund acts as a conduit. So, basically, 1) money is placed in the donor advised fund , 2) a tax deduction is allowed, 3) the donor uses discretion as to when funds leave the donor advised fund to a charity of the donor’s choosing, and 4) assets in the fund grow tax-free until they leave the donor advised fund. The contribution to the donor advised fund is treated as a gift to a 501(c)(3) public charity. This means the charitable deduction is limited to 50% of the year’s adjusted gross income (AGI) for cash gifts, and 30% of AGI for appreciated securities.

Additional benefits of donor advised funds are:

1) Can receive appreciated stock – Not all charities have the ability to receive donations other than cash. And, donating appreciated assets is often more beneficial than making a QCD. With the use of a donor advised fund, appreciated stocks could be transferred in, liquidated, and part or all of the proceeds can be donated to a chosen charity.

2) Allow for anonymous gifting – Such gifting can be difficult to execute on one’s own, partly because of the need for acknowledgement of the donation for tax purposes. A donor advised fund can facilitate an anonymous donation.

3) Create an ‘In Memoriam’ fund – A donor advised fund can receive donations from multiple sources making it possible to be the recipient of ‘gifts in lieu of flowers,’ for example.

Mallard can assist individuals in establishing a donor advised fund, as well as help facilitate contributions to the fund, and distributions from the fund to charities. While many financial institutions such as Vanguard, Fidelity, and Schwab maintain donor advised funds, Mallard primarily uses Fidelity Charitable. It has one of the lower initial contribution requirements ($5,000), and has no minimum for further contributions. Its administrative fees are comparable to the others. And, we find it easy to work with from beginning to end.

Although donor advised funds offer many benefits, they are not necessarily the best solution in all cases for charitable giving. Review your giving goals with a financial advisor to find a gifting solution that best meets your goals.

Columbus Day has passed. However, it is worth noting that Christopher Columbus did not fall off the edge of the world—because he never reached the horizon. That's the funny thing about horizons, you never get there. But what does that have to do with investing?

A few weeks ago, a client shared an article by David Levine that she had read, "**Why Your Portfolio Needs Plenty of Stocks, Whatever Your Age**." The article notes that 'there is an insufficient appreciation of just how apt the metaphor of the "investment horizon" is. Just as a sailor sees but never reaches the horizon, the same is true for nearly all investors.' This is a significant deviation from the conventional wisdom.

I must admit that I love hearing challenges to conventional wisdom—learning counterintuitive information. One common rule of thumb for investing is that retirees should invest in bonds matching their age, so a 75 year old should have 75% of their portfolio in bonds (and the other 25% in stocks). Levine notes 'it wasn't very good advice back then, and it's still poor advice today.' At Mallard, we have noted that this rule of thumb is no better than a guideline, and that it serves best solely as the beginning of an important discussion.

As we complete our 20th year serving individuals, Mallard has helped a good number of individuals and couples sail towards their investment horizons, and, indeed, we never reach the horizon. We find that due to the uncertainty of life, because you don't know how long you will live, you should be prepared to live a long life. Statistically, at least one member of a 65-year old couple is likely to live to at least 90 years of age. This uncertainty requires that the horizon be a bit further than you might initially expect.

We also find that family often becomes even more important as you age. Assisting in funding college education for grandchildren, and great-grandchildren, can become a priority. Yet again, that horizon keeps shifting away from us. For other retirees, contributions to charitable causes becomes more important, which also shifts the horizon further out.

Think about the squirrel who has saved acorns all summer and fall in the oak tree. What happens when the first snow hits? She doesn't eat every acorn right then, she only eats the first acorn. Similarly, in your first year of retirement, you will likely withdraw about 4% of your portfolio, and leave 96% untouched. You are essentially no nearer to your horizon. While most people who are about to retire feel they must make major changes to their portfolio, to make it more conservative, we advise that no such dramatic changes be made.

Retirees often feel that they need to 'shift to bonds' to protect themselves from bad (bear) markets. Our **Firewall Investing™** program to protect portfolios during sharply falling stock markets relies on several factors. One is that falling markets eventually stop falling, and then eventually turn into rising markets. As bad as the 2008-2009 market meltdown was, the S&P 500 began to set new record highs less than four years later. Patient investors are rewarded.

A second factor that **Firewall Investing™** relies on is that retirees are taking only a small amount of withdrawals each year. For those in their 60s and 70s, annual withdrawals could be in the 4-5½% range. In your 80s, your annual withdrawals could reach 8%. This is a critical factor.

Those who are about to retire are not reaching the horizon, or the end of the earth. They are also not eating their last acorn—they are just beginning. Balanced portfolios are designed to handle the bear markets, while continuing to focus on the horizon. Instead of focusing on the level of stocks, investors should focus on the level of withdrawals. With properly set withdrawal levels, and investing discipline, portfolios can handle the worst of bear markets.

Investors should reject viewing their investment horizon as shrinking. It just isn't how it works. Ask Christopher Columbus.

News and Events

Ryan Flurie, who joined Mallard last summer, left Mallard in August. Mallard has hired a new investment professional who will begin work in November. If you attend our 20th Anniversary Gala on November 12th, you will have the opportunity to meet him in person.

Mallard's Quarterly Conference Call
Monday, October 17 at 4 pm (Eastern time)

Delaware Money School presentations will be made by Ed Mink in October at the Newark Free Library:

<u>Monday, October 17, 2016 - 6:30pm</u>

Pt 1 - How Much to Withdraw from Retirement Savings

<u>Monday, October 24, 2016 - 6:30pm</u>

Pt 2 - How to Withdraw Retirement Savings

Compliance Corner — Pam Baumbach

Safe Sharing - Client Portals

In a never-ending attempt to keep your personal information secure, we at Mallard are always trying to improve the way we transfer information to our clients. In the coming months, we will be moving from our current information transfer system of attaching passworded files to emails and using data transfer software like You-Send-It and Sharefile to a new client portal system. Implementation of this new system will entail setting up a file depository that can be used to pass files from us to you and vice versa. When we deposit a file into the system, we will notify you that it is available for you to retrieve. Once you log into your portal using your secure credentials, you can retrieve the file and make any necessary changes. This process allows us to share files back and forth quickly and securely and limits the risk of corruption.

I look forward to working with each of you as we bring our new client portal system on board!

Working together, building your financial security

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