# MALLARD *Money Matters*

January 2017

## NOTICES

Paul will be in Dover for legislative session the afternoons of Tuesday through Thursday from January 10-26, March 14-30, and April 4-6. On these days he will typically be in the office each morning until 11 a.m. or noon.

Kenny will be on vacation from January to April.

Joe will attend the TD Ameritrade Conference in San Diego, February 1-4.

Pam and Paul will be vacationing in St. John, February 9-21.


MALLARD
Financial Partners INC

750 Barksdale Road
Suite 3
Newark, DE 19711
302.737.4546

www.mallardfinancial.com


## Budgeting Doesn't Have to be a Chore

Susan Lehnerd

Budgeting - a word that gets a bad rap. It is often viewed negatively and associated with drudgery. People hear the word and tune out. But, budgeting is so important to your financial health. It's really more about tracking income and spending, and making decisions about where to allocate income, than about creating restrictions. It's an important step to reaching your goal of financial well-being. It can help you stay out of debt, a situation that can seriously undermine your goals.

If the term 'budget' sends you running, trying using 'cash flow' instead. This phrase sounds a little less intimidating. Whatever term you use, it's important to face the task head on. Stop putting it off. Fortunately, some websites (also in mobile app form) make the task less painful. The following tools are considered to be among the best available.  Each tool targets a different style of user. None of them are 'one size fits all'. Some trial and error on your part may be needed to find the tool that best suits you.

Probably the best known and most widely used budgeting and expense tracking tool is *Mint* (www.mint.com). It provides a free and easy way to see what you're spending your money on. You can see your financials in one place by linking your various accounts through *Mint*. These financials could include your investment accounts. Transactions that take place in your accounts are pulled into *Mint* where they can be categorized, making tracking expenses by category easier. Budgets can be created. Spending limits can be set. And, you can monitor your progress towards one or more savings goals. Not to mention, your credit score is provided and updated every few months.

A much more hands-on budgeting tool is *You Need a Budget* (www.ynab.com). After a 34-day free trial period, the tool costs $5 per month, or $50 per year. This tool does not track investments. It does allow you to either link your accounts or manually input transactions. You can create a thorough plan on your own, or you can use the support that is available to help create a budget. It also offers online workshops.

For those who have used the envelope system, but are ready to go digital, *Mvelopes* (www.mvelopes.com) may be your answer. The basic service level is free and gives you the ability to link four bank accounts and create 25 envelopes. At a cost of $95 a year, you get unlimited envelopes and access to more resources.

## Budgeting Doesn't Have to be a Chore — Susan Lehnerd

*Personal Capital* (www.personalcapital.com) is a robust tool for individual investors who want the big picture. While you can track your bank and credit card accounts, *Personal Capital's* focus is on investments, not spending. This is evident in some of the tools available to you – Investment Checkup Tool, Retirement Fee Analyzer, and Asset Allocation Tool. Together, these tools can help you put together a long-term investment plan. A free version is available, as well as a premium service level.

Mallard clients have access to *eMoney*. Unfortunately, it is available only through an advisor. *eMoney* is quite similar to *Mint*. You can link your accounts held outside of Mallard and view all of your accounts (including Mallard managed accounts) on one site. You have the ability to track your spending, as well. This information is not shared with Mallard, unless you permit it.

Hopefully, given the vast array of budgeting tools available on the internet or through mobile apps, you can find a solution that helps you manage your goals, while simplifying the process.

## Asset Allocation: Have Your Pie and Eat It Too — Joe Daigle

When I was first asked to contribute an article for this newsletter, I immediately considered around a dozen subjects that I enjoy discussing and that I have seen to be very valuable to clients in my past practice. Once I read through the last few years of Mallard newsletters and perused my bookshelves, I realized that the best concept to discuss for a debut article is Asset Allocation. Like any important concept for a professional field of study, Asset Allocation can become very involved and complicated, but the principle is not complicated, and it can be a wonderful way to visualize investments, market influences, and growth.

After repeated studies, it is generally accepted that Asset Allocation can explain over 90% of the variation in a portfolio's return. But what does that mean? First, let's understand that Asset Allocation is dividing a portfolio's assets across different asset categories, such as stocks and bonds. If you think that sounds like 'diversification,' you would be correct; but even more than that, the return of a portfolio can be better explained by the mix of assets (Asset Allocation) than stock picking or market timing (components traditionally thought to be critical for portfolio returns).

Think of your investment portfolio as a pie chart, one slice of pie is large US companies, another slice is small US companies, a third slice is foreign stocks, a fourth slice is bonds, and a small fifth slice is cash. The exact size of each slice relative to the size of the other slices predominantly explains the risk and reward profiles of the overall pie. Because both risk and return are inextricably linked, investment professionals guide clients to different allocations to meet the needs of an individual's risk tolerance and **then** to maximize anticipated returns.

Much of the reason Asset Allocation is central to a portfolio's risk and return properties is the use of diversification. By being diversified between asset classes *and* within each asset class, an investor can protect against significant losses. Returning to our pie analogy, picture the market conditions from mid-November to mid-December 2016. In this time period, U.S stocks grew significantly while foreign stocks and bonds both had a large decline, and cash was largely unchanged.

## Asset Allocation: Have Your Pie and Eat It Too

Joe Daigle

So our pie had the first two slices grow larger, the second two slices shrink, and the fifth slice remains unchanged, relative to one another. By having our assets allocated across diverse categories, our pie was insulated from the large losses from foreign and bond markets by capturing some of the rally in the U.S. markets. If our pie started out primarily U.S. stocks, the whole pie would have grown in this short timeframe; if our pie started out primarily bonds, the whole pie would have shrunk in this short timeframe. As future changes in market conditions are unknown, when we maintain our asset allocation, we avoid possible significant losses in the short term to maximize returns in the long term.

## Embracing the Unknown

Paul Baumbach

When I Googled "Embracing the Unknown", I pulled up an article with that title in the periodical *The Scientists*, with the subtitle, "*Researchers are showing that ambiguity can be essential to brain development*." I have to admit that investing in 2016 and preparing for 2017 has left my brain hurting.

The unknown is a fundamental part of investing. While very frustrating, this is the reason that investing has paid off over time. In the past decade the Fidelity Government money market fund has returned less than 1% on an annual basis, while the average balanced fund with 30-50% stocks has averaged just over 4%. Brain pain is fortunately rewarded, and is worth embracing.

What will the coming quarters and year bring? We don't know. And that is exactly as it has been every January for a century, and beyond. There is always some cause for caution and for optimism. The actual path forward is most often between the two extremes, but can be worse than feared or better than hoped.

Investors have faced uncertainty during the Great Depression, World War II, the Cold War, the Cuban Missile Crisis, the inflation spiral of the 1970s, the market crash of 1987, the fall of the Berlin Wall, the dot-com boom and bust, the attacks of 9/11, and the financial crisis of 2007-2008. Today's investors are dealing with two parallel universes of predictions—the incoming Trump Administration will jump-start the lukewarm US economy or will start a trade war. There are of course more optimistic predictions and more dire. What is an investor to do?

We feel that the best approach is to adopt a calm, thorough perspective. Recognize what you do know and what you don't, and pay particular attention to your level of certainty, including the possibility that issues that you feel certain about could unfold in the opposite direction. Consider 'what if I am wrong?'

Next apply these insights into your portfolio. Place the majority of your portfolio into a mix of investments designed to benefit the most from the future path you determine is most likely. Just as importantly, also place some of your portfolio into investments which will benefit if the future path is far different from your expectation. This is called a hedge, or hedging your bets. Hedging helps to reduce the brain pain during periods of high uncertainty.

It is never clear what the US and global economy will bring in the coming quarters and years. The outlook is even hazier than common, which makes it hard for investors to embrace the unknown future. Yet embrace it investors must, and if done well, the rewards will follow.

## Compliance Corner

Pam Baumbach

### Passwords and Traffic Lights

Everyone seems to have an opinion about passwords. As Mallard's cybersecurity person, I have spent a lot of time managing passwords and educating staff about passwords. I like to think of passwords like traffic lights. They inconvenience us, annoy us and delay us from getting where we want to go. BUT, they help to protect us.

Two aspects to password management are what passwords to use and how to keep track of them.

Ways to make your password more complicated are to use upper and lower case letters, numbers, symbols, and sentences. You should not repeat characters nor should you use sequential letters or numbers.

You can test the strength of a password at: http://www.passwordmeter.com/. It also provides hints on how to improve it. To test how long it will take a computer to guess your password, go to https://howsecureismypassword.net.

There are programs and apps that will manage your passwords, and they can have a master password to limit access. On my smartphone, I use the *Keeper® Password and Digital Vault* app, which is secured with my fingerprint. And, on my work computer I use *RoboForm*.

## News and Events

In November, **Joe Daigle** joined Mallard's Investment Division as an Investment Analyst.

A **Delaware Money School** presentation will be made by Ed Mink at the Newark Free Library:

Monday, February 27, 2017 - 6:30pm to 8:30pm

Social Security Benefits

*Working together, building your financial security*

750 Barksdale Road, Suite 3
Newark, DE 19711-3245

MALLARD Financial Partners INC