MALLARD *Money Matters*

April 2017

College Acceptance Letter Susan Lehnerd

Congratulations! Your child (or grandchild) has just been accepted to college. After the initial period of elation wears off, panic starts to creep in – how am I going to pay for this?

Even if you have been planning for this eventuality, the college savings account may not be prepared for the sticker price of today's college costs. That's where financial aid, in the form of scholarships, grants, and loans, can come into play. If your child is being offered aid or has earned a scholarship, such information will be presented in the acceptance letter. However, be careful that you understand the terminology, so you know what your real expenses for college will be and you are not surprised later. Not all aid is created equal.

<u>Scholarships</u> – Money awarded to a recipient **that is not required to be paid back**. Be sure to understand the terms of the scholarship. Some may be offered for only one year. Others might require that a certain GPA be maintained to keep the scholarship.

<u>Grants</u> – These are typically need-based, **do not require repayment**, and do not come with strings attached such as maintaining a certain GPA.

<u>Work/Study</u> – Offered to students who demonstrate financial need. The school provides part-time jobs on or off campus. Be aware that the student is paid directly. Tuition is not being off-set by the work performed by the student. You can create a plan with your child that the money earned through the program goes towards books and other school supplies.

<u>Student Loans</u> – These can be federal loans (subsidized or unsubsidized) or private loans. And, they **must be paid back, with interest**.

> *Federal PLUS loans* – These unsubsidized loans can be secured by parents, at a higher interest rate.
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> *Federal Subsidized Loans* – Interest doesn't accrue while student is in school. Interest rates are typically lower than private loans. However, there is a maximum dollar amount that can be borrowed each year - $3,500 in 2017.

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Federal Unsubsidized Loans – Interest accrues while the student is in school, making it costlier than subsidized loans. Also, the maximum that can be borrowed in combined federal student loans is currently $5,500.

If your child has to consider loans, carefully consider the type of loan and the amount of debt the student could incur by graduation. A good rule of thumb for a 'reasonable' amount is that the debt should be no greater than the expected salary to be earned the first year out of college. So, for example, a reasonable amount of debt for a teacher might be around $40,000, whereas for an engineer it might be $65,000.

Grandparents wanting to help pay for college have some options. They can write checks directly to the college. These payments are not considered a gift to the grandchild and are ignored for the purpose of the annual gift tax exclusion. They can also contribute to a 529 college savings plan, and then use the contributions for college expenses. Some states offer state income tax benefits for contributions, such as Pennsylvania. Delaware, however, does not offer this benefit. As a result of the new FAFSA (Free Application for Federal Student Aid) rules, grandparents can make college payments from the 529 plan starting in the grandchild's junior year without impacting his or her financial aid.

As you grapple with paying for college, take solace in knowing that an individual with a bachelor's degree earns 70% more than one with a high school diploma, or nearly $1 million more over a lifetime. And, college graduates have experienced greater job security, even during economic downturns.

Taking A Walk

Paul Baumbach

The book Moneyball: The Art of Winning an Unfair Game by Michael Lewis looks at how you can take some lessons from investing, and apply them to professional baseball to obtain superior results. In this article I will turn the book's premise backward, and see what insights this book about baseball can offer for investors.

The book discusses John Henry, who bought the Florida Marlins in January 1999, who had made his money in the stock market. He wrote "*People in both fields operate with beliefs and biases. To the extent you can eliminate both and replace them with data, you gain a clear advantage. Many people think they are smarter than others in the stock market and that the market itself has no intrinsic intelligence—as if it's inert. Many people think they are smarter than others in baseball and that the game on the field is simply what they think it is through their set of images/beliefs. Actual data from the market means more than individual perception/belief. The same is true in baseball.*"

One piece of accepted wisdom that Mr. Henry rejected was that walks were bad. In 1999, walks were disregarded. What you wanted were players with a lot of runs and RBIs. Mr. Henry felt that a player with a consistently high number of walks was, surprisingly, remarkably skilled. First off, he got on base, and prevented his team from more quickly getting three outs. Secondly, he demonstrated discipline, patience, and an eye on which pitches to say "no thanks" to.

Taking A Walk

Paul Baumbach

I am always struck by the chart from a study by Dalbar, Inc, which shows that while US stocks have averaged an 8.2% annual return for 20-years through 2015, bonds 5.3%, and a 60/40 stock/bond portfolio 7.2%, the average investor has earned only 2.1%. How is this possible? Perhaps the average investor is trying for too many home runs and is instead striking out a lot.

We report performance to our clients quarterly, and compare their results to appropriate benchmarks. It is human nature to want to outperform your benchmark. I, however, am pleased to simply come close, given that the Dalbar study concluded that the average investor, over twenty years, underperformed a 60/40 stock/bond portfolio 2.1% versus 7.2%, annualized.

Investors sharply underperform every investment over time due to what Mr. Henry noted, that people operate with beliefs and biases, and investors feel that they are smarter than the stock market. Investors buying internet stocks in 1999 (when stocks were trading at 100 times their earnings), and investors selling stocks in late 2008 and early 2009 (after they had fallen 40%) are two examples where investors let their biases and beliefs (and greed and fear) drive their investment actions.

At Mallard we have advocated a global balance to clients' stocks. This means that we have been advocating a solid amount of foreign stocks along with US stocks. The reasons are solid academically, and yet they violate most US investors' bias that favors local (US) stocks. US stocks have outperformed foreign stocks for the past decade, as the table in this month's **Market Review** shows clearly, +6.48% versus +0.88% annualized. Most (US) investors use this past performance to reinforce their bias, and to continue to hold very low levels of foreign stocks. Is this wise?

The same **Market Review** shows that foreign stocks outperformed US stocks handily during the past quarter. We have no idea whether this will continue, but we do note that 1) global diversification is well supported by research, 2) US stocks outperform foreign stocks at some times, and foreign outperforms US at other times, 3) US stocks are more expensive at this time than foreign stocks, which in the past often leads to periods of US stock under performance.

Several years ago (actually twice I believe), I have written an article with quotes from Charles Ellis' book Winning the Loser's Game. My takeaway from the book is that the best way to lose at investing is to try to win. Taking low-percentage bets, disregarding odds, and following your gut are ways that often lead to painful losses. The best way to do well at investing is to adopt a strategy of seeking moderate results, diversifying so that you are never completely right nor completely wrong. Most importantly, protect yourself from your beliefs and biases, and instead commit yourself to a dispassionate program of maintaining an all-weather portfolio.

Investing articles often encourage you to aim for one home run or another. They rarely point out that such attempts can easily end up with an out. While not sexy, a player can often help their team out better by getting a single, or a walk.

Notices

Paul will be vacationing in St. John April 10-24, and again May 5-8.

Pam will be vacationing in St. John, April 10 through May 21.

Chris will be on vacation April 17-21.

Ed will be on vacation in North Myrtle Beach April 22 thru May 2.

Diana will be on vacation April 24-26.

Joe will be in Chicago attending a Morningstar conference April 25-28.

Susan will be in Seattle attending a NAPFA conference May 14-19.

Jacqie will be in Cambridge, MA taking classes June 17 through July 8.

The **office will be closed** Monday, May 29 for Memorial Day.

From April 25th through June 30th, **Paul** will be in Dover serving in the state legislature on Tuesday, Wednesday, and Thursday afternoons, with the exception of the break during the last two weeks of May.

Working together, building your financial security

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