

## NOTICES

Paul will be in legislative session, in Dover, Tuesday through Thursday afternoons during the weeks of April 12 and 19, May 3, 10, and 17, and June 7, 14, 21 and 28.

Susan will be attending the NAPFA Conference in Phoenix, AZ May 17 - 20.

Paul will be on vacation April 22– May 2 in St. John.

Pam will be on vacation April 22-May 21 in St. John. She will also be visiting Vermont June 25-July 2. She will be available by email.

Alan will be on vacation May 16-20.



750 Barksdale Road  
Suite 3  
Newark, DE 19711  
302.737.4546

## Things to Consider

Susan Lehnerd & Ed Mink

### Tax planning – Do you really want a refund?

Are you getting a tax refund this year? Many people make this a ‘goal’ in their annual tax planning. They do this in spite of hearing the argument that they shouldn’t loan their hard-earned tax dollars to the government interest free. However, such individuals just don’t want to OWE money at tax time, and they certainly don’t want to owe a penalty. They enjoy getting that refund; it’s almost as good as finding free money – and besides, getting one avoids having to do the hard job of regulating withholdings and properly monitoring income throughout the year. But the landscape is changing.

Submission of fraudulent tax returns by identity thieves is on the uptick. This has become even more problematic because of electronic filing. All that is needed to file electronically is a name, date of birth, and Social Security number. If you are due a refund and the thieves file first, they’ll get a refund, and you’ll get a notice from the IRS that a tax return has already been filed under your Social Security number. You can expect a drawn out process for receiving your refund.

To reduce your chances of becoming a victim, file early and don’t develop a tax plan that is intended to result in a large refund.

### ‘File and Suspend’ April Deadline Reminder

As a reminder to those eligible for the Social Security strategy, File and Suspend, the deadline to file is April 29, 2016. After that date, the filing strategy is no longer available. This is a result of the Bipartisan Budget Act of 2015. Eligible individuals are those who were age 65½ or older by October 30, 2015.

The File and Suspend strategy allows one spouse to file for Social Security benefits and then immediately suspend them. Using this strategy allows the filing spouse’s benefits to continue earning delayed retirement credits (8% per year from Full Retirement Age to age 70), while opening the door for the other spouse to be eligible for spousal benefits and possibly filing a Restricted Application for spousal benefits only.

### Using employer-based email

In the past, our correspondence arrived almost exclusively by snail mail. So, after someone passed away, the administrator of the decedent’s estate would be prompted about the decedent’s current matters by simply collecting the person’s mail. Times are changing. In many cases, they already have. Today, much of our correspondence, bills, notices, etc. arrive in our email IN BOX. As a result, this receptacle of information is becoming increasingly important in dealing with decedents’ affairs. If you are using a personal email account through Gmail, Yahoo!, Hotmail, or the like, such information will still be available to your administrator. To avoid having access to this information by your administrator possibly denied, consider avoiding the use of an email address that is connected to your employer. Legal access to these emails may not be available to anyone other than you.

In addition, privacy issues could arise when using a personal email account when accessing it on an employer’s computer. Some privacy advocates have opined that employers have the right to review any content that is processed through the employer’s servers. The actual lay of the land in this area will likely be unfolding in future years. 

It's that time of the year when Berkshire Hathaway issues its annual report which includes Warren Buffett's letter to shareholders. Warren shares his investment perspective, which should be reassuring to all investors. He reminds us that despite all the noise and negativity, which is excessively shrill in this election year, the American economy continues to experience a favorable tailwind that will continue for many years. Even if the new normal is lower growth than in the past, we are destined to a higher level of goods and services than ever before. There will be challenges in how to allocate our prosperity, but everyone will end up a winner.

#### Excerpt from Warren Buffett's 2016 Letter to Shareholders

*It's an election year, and candidates can't stop speaking about our country's problems (which, of course, only they can solve). As a result of this negative drumbeat, many Americans now believe that their children will not live as well as they themselves do.*

*That view is dead wrong: The babies being born in America today are the luckiest crop in history.*

*American GDP per capita is now about \$56,000. As I mentioned last year that – in real terms – is a staggering six times the amount in 1930, the year I was born, a leap far beyond the wildest dreams of my parents or their contemporaries. U.S. citizens are not intrinsically more intelligent today, nor do they work harder than did Americans in 1930. Rather, they work far more efficiently and thereby produce far more. This all-powerful trend is certain to continue: America's economic magic remains alive and well.*

*Some commentators bemoan our current 2% per year growth in real GDP – and, yes, we would all like to see a higher rate. But let's do some simple math using the much-lamented 2% figure. That rate, we will see, delivers astounding gains.*

*America's population is growing about 0.8% per year (0.5% from births minus deaths and 0.3% from net migration). Thus 2.0% of overall growth produces about 1.2% of per capita growth. That may not sound impressive. But in a single generation of, say, 25 years, that rate of growth leads to a gain of 34.4% in real GDP per capita. (Compounding's effects produce the excess over the percentage that would result by simply multiplying 25 x 1.2%.) In turn, that 34.4% gain will produce a staggering \$19,000 increase in real GDP per capita for the next generation. Were that to be distributed equally, the gain would be \$76,000 annually for a family of four. Today's politicians need not shed tears for tomorrow's children.*

*Indeed, most of today's children are doing well. All families in my upper middle-class neighborhood regularly enjoy a living standard better than that achieved by John D. Rockefeller Sr. at the time of my birth. His unparalleled fortune couldn't buy what we now take for granted, whether the field is – to name just a few – transportation, entertainment, communication or medical services. Rockefeller certainly had power and fame; he could not, however, live as well as my neighbors now do.*

*Though the pie to be shared by the next generation will be far larger than today's, how it will be divided will remain fiercely contentious. Just as is now the case, there will be struggles for the increased output of goods and services between those people in their productive years and retirees, between the healthy and the infirm, between the inheritors and the Horatio Algers, between investors and workers and, in particular, between those with talents that are valued highly by the marketplace and the equally decent hard-working Americans who lack the skills the market prizes. Clashes of that sort have forever been with us – and will forever continue. Congress will be the battlefield; money and votes will be the weapons. Lobbying will remain a growth industry.*

*The good news, however, is that even members of the "losing" sides will almost certainly enjoy – as they should – far more goods and services in the future than they have in the past. The quality of their increased bounty will also dramatically improve. Nothing rivals the market system in producing what people want – nor, even more so, in delivering what people don't yet know they want. My parents, when young, could not envision a television set, nor did I, in my 50s, think I needed a personal computer. Both products, once people saw what they could do, quickly revolutionized their lives. I*

*now spend ten hours a week playing bridge online. And, as I write this letter, “search” is invaluable to me. (I’m not ready for Tinder, however.)*

*For 240 years it’s been a terrible mistake to bet against America, and now is no time to start. America’s golden goose of commerce and innovation will continue to lay more and larger eggs. America’s social security promises will be honored and perhaps made more generous. And, yes, America’s kids will live far better than their parents did.*

It is Mallard’s continued belief that by investors allocating capital to those companies best able to provide the desired goods and services, investors will be rewarded by rising stock prices and/or dividend payouts. How much to allocate to stocks is fundamental to the success of your investment plan. Two recent articles in the *New York Times* by David A. Levine sought to answer that question. Mr. Levine is a former chief economist at Sanford C. Bernstein & Company, now a unit of AllianceBernstein, who also founded and ran the firm’s fixed-income (bond) department. With many years of his career devoted exclusively to bonds, you might expect him to recommend a heavy weighting towards bonds.

His first article, **Why Your Portfolio Needs Plenty of Stocks, Whatever Your Age**, argues that the time horizon for your portfolio is always that – on the horizon. “Just as a sailor never reaches the horizon, the same is true for nearly all investors.” Since we don’t really know our life expectancy, we should plan for a longer time horizon than we expect -- hence the horizon we never reach. I am not sure this is the situation for “nearly all investors,” but it may apply to some. Do you live exclusively on Social Security and hardly ever take withdrawals from your investments? Is your retirement amply funded and you are drawing 3% or less annually for living expenses? Are you 40 years old or less and don’t think you’ll ever reach retirement? If these scenarios fit your situation, maybe spending your savings really is on the distant horizon.

His second article is titled **“How Much of Your Nest Egg to Put Into Stocks? All of It.”** Remember this is advice from a bond guy. He cites **Warren Buffett**, who established a trust for his wife that is 90% invested in a broad-based stock index fund and 10% in short-term government bonds. Using his editorial interpretation, Levine laments that Buffett would really prefer a 100% stock portfolio. What about investors who can’t stand the volatility of 100% stocks? Mr. Levine advises to hold as much stock as you can stand and for the most risk averse, this is at least 75% stocks. Not exactly the Mallard position but follow along. This may be suitable for some.

Historically, stocks have outperformed bonds by 4.4%. This spread is not likely to continue in today’s low interest rate, slow-growth environment, but I would suggest that the outperformance is likely to continue, albeit, by a lesser amount. Over 30-year rolling periods, stocks have nearly always outperformed bonds. Over 5-year rolling periods, stocks have outperformed more than 70% of the time.

There is plenty of historical data to support the “stocks-will-outperform” argument, but that absolutely does not mean that it will continue. Levine further supports his position based on the logic that our economic potential never drops, because **knowledge, the main source of per capita growth, always rises**. Better machines always replace inferior machines. The capability of workers is continually rising due continual training and rising education. Of course, this is a simplification of our complex economic system, but these improvements in productivity are the source of the **1.2% of per capita growth** that Buffett refers to above. Our economic potential is continually rising even though economic growth does not follow a smooth flight path. Stocks may follow an even more uneven path, but over long time horizons, they are very likely to continue to outperform the alternatives.

This approach, while unconventional, and scary for some, does have merit for the most disciplined and risk-tolerant investors. One of the reasons to hold bonds is to stabilize your portfolio and reduce your risk in the hope that you won’t engage in bad behavior, such as selling your stocks at a market bottom. The beauty of this strategy is that you have only one decision to make and then maintain your faith in that decision no matter what happens. If you can hold the course and don’t worry about the gyrations of the stock market, you can sleep very well at night knowing that if you ever do reach that distant horizon, your investment strategy will likely produce very pleasing investment results. 🌱

Kenny's article touches on horizons, which reminds me of one of my favorite metaphors for investing and portfolio management: an epic Transatlantic sailing trip. What do you require before you undertake such a journey? You need a starting location, destination, craft, crew, and a course.

As an investor, your starting location incorporates your existing portfolio, and the expected flows into and out of the portfolio (say bi-weekly additions to your 401k account). Your destination describes your goals—likely a dependable, growing retirement income starting at age 65 and continuing for at least 30 years, perhaps the purchase of a vacation home in your 60s and 70s, perhaps selling your house and buying into a retirement community in your late 70s.

An investor's craft is the portfolio. Its length, shape, material, rudder, masts, sails, and keel correspond to what investment vehicles you will use: stocks, bonds, CDs, mutual funds, subfunds in variable annuities and 401k/403b, etc. The crew relates to your investment temperament. An inexperienced crew will seek a less risky path that will likely take more time, while a more experienced crew will consider some challenging maneuvers that usually work, but which could produce setbacks.

The course is your investment plan. We recommend that investors develop written Investment Policy Statements to document all of these elements, and how you plan to use them to move from starting location to destination. You wouldn't sail from NY to London without a written course, and you shouldn't invest for your retirement without a written plan.

What will a journey entail? Winds, waves, tides, storms, doldrums, maybe even pirates?

Let's begin with the pirates. There are pirates seeking to take advantage of investors. The burden is on you, the investor, to review the information you receive, to ask all questions that you can, and to refuse to invest with someone or in something that you don't understand. The Bernie Madoff scandal has reinforced the importance of having your assets custodied at a firm that is independent of your advisor. You should also know what you are paying, directly and indirectly, for financial services. Failing to do this introduces the risk of a skull and crossbones flag being raised on your mast.

**What do you do on a long sailing journey when you face shifting winds, waves, tides, and storms? You adjust.** That is why you have your rudder, keel, masts, sails, and crew. When stock and bond markets toss and turn, you adjust. We recommend regular rebalancing, which is another way to regularly recalibrate your course. You may have caught a strong northward wind, a wind that enables you to pick up speed. While that sounds good, if your ultimate destination is to the east, sooner or later you will have to turn out of the wind. Speed is only your friend if the direction is true.

When you drive a car, you are constantly making adjustments of the steering wheel, the accelerator and brake. Sailing is even more dynamic, as the ground beneath you is liquid, not solid. Investing is yet more dynamic, with global economic and global investor forces at work, and thus investing, too, requires regular adjustments. **We are often asked why we are adding to one fund during one quarter, only to cut it back the next.** When you are sailing and you are veering a little too far north, you shift the rudder to point a bit south, to true your course. If a wind kicks up pushing you further south, you will then nudge the rudder to point back northward. One calendar quarter technology stocks may have done well, so we will cut them back as part of the rebalance. If technology stocks falter over the coming three months, at the next rebalance we are quite likely to be shifting dollars back into technology stocks. In many cases this accomplishes the golden rule of investing—buying low and selling high. These adjustments also help sailors accomplish their golden rule—staying on course.

**“Set and forget” doesn't work in sailing, or in investing.** Different sailing conditions require different equipment and different strategies. You adjust your sails with high seas, and you tack through a headwind. Similarly, different eco-



economic and market conditions require different investment mixes and approaches. The current low growth, low interest-rate environment calls for a very different approach to bonds than in times of higher growth, and higher interest-rates. Tactics such as the **Drop and Give Me Five™** program we developed last year are well-suited for periods of investor pessimism, but aren't useful in times of exuberance.

For a journey from New York City to London, a fairly inexperienced captain and crew will want and need to 'hug the coast,' always remaining in sight of land and in reach of a safe harbor whenever stormy weather is predicted. That plan, while effective, will inherently be very slow and tedious. For investors, this could involve a portfolio with only bank CDs—reliable but slow, especially with the very low CD rates we have endured in recent years, and this is unlikely to enable you to reach your destination/goal in the time you seek.

A more experienced captain and crew can chart a course that is more direct, which takes advantage of the Gulf Stream and seasonal winds, but is prepared for both normal and really bad weather patterns. The more direct path will be much more challenging on your stomach, body, and mind.



What do you do when you reach a nasty storm, with no harbor in sight? You lower your sails, batten down the hatches, and hold on, with an eye for the storm's eventual end, and the fine sailing that will follow. As the storm has mostly passed, the winds remain strong and, coupled with the right sails, can enable you to make up time lost to the storm. **The strongest investment returns often come after the worst of a market crash, while most investors have fled to cash.** We saw this after the market bottomed in March 2009.

When experienced sailors face nasty storms, they don't jump in their life rafts; they sail through the storm. Experienced investors hold onto their stocks during stormy markets, knowing that the storm will end, and investors who sell into a storm inevitably regret it. When the storm is over, would you prefer to have your life preserver on, and be sitting in a life raft in the middle of the Atlantic, or would you like to be on your battered but beautiful sailboat under full sail? We have developed our **Firewall Investing™** strategy to batten down the hatches, to avoid leaping into your money market life rafts, to limit the worst of these stormy times, while ensuring that the portfolio is ready to recover and return to its long-term course as soon as the storm dies down. It is not storms that you need to avoid—it is encountering a storm without a plan which is the most dangerous.

As Vince Lombardi noted, "Plan your play and play your plan." Crossing oceans is indeed daunting, and there are a multitude of paths that may be taken. Similarly, there are many appropriate investment plans. Ensure that yours matches your goals and resources, and keep your eyes on the horizon. 🌿

**What comes before April showers and why should you care?????**

The Form ADV annual amendment deadline! Most SEC registered advisory firms are required to make an annual submission that details their business. Along with statistics about their firm, it includes business principals, disciplinary actions, and most importantly to consumers, Part 2A of Form ADV – the firm “Brochure”. In an attempt to assist the average consumer in understanding an advisory firm, SEC registered firms are required to submit a Brochure (PDF file) that describes relevant areas of their businesses (1) in Narrative Format and (2) in Plain English, including (3) Disclosure of Obligations as a Fiduciary, that is a (4) Full and Truthful Disclosure and (5) Filed through the IARD system. The Brochure is filed annually at a minimum and can be very helpful to consumers in researching firms

You can find filed Form ADVs by going to [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and typing in a name or zip

code. For any listed firm, you can see Form ADV Part 1 (the grueling details- highlighted in red for easier reading), Part 2A (the Brochure), any Accountant Surprise Examination Reports and the current Registration/Reporting Status. Most firms regulated by the SEC, typically any firm managing more than \$100 million, should be on this site. Researching a firm on this site can help you develop an understanding of the firm and formulate questions as an informed consumer. 

**News and Events****Mallard’s Quarterly Conference Call**

Friday, April 15 at 4p.m. (East coast time).

If interested, please call the toll free # **888-617-3400** and enter Passcode: **391648** The call is usually 30 minutes and can be joined at any time during its duration. If you cannot join the live discussion, you can hear a recording of the call by phoning (not toll free) 641-715-3456 after it is completed. The passcode is needed for this call as well.

*Working together, building your financial security*