SARD
WEALTH MANAGEMENT GROUP, LLC

CLIENT NEWSLETTER **BY: JONATHAN SARD, CFP®**

4th QUARTER - 2018

IMPORTANT INFORMATION

The mid-terms are around the corner, but the markets have been pretty steady – all things considered. Our feature article discusses "Sequence of Returns" and how that can affect those taking withdrawals during retirement.

As we do during this time of year, we have attached our Privacy Policy to the end of the newsletter. Please do not hesitate to contact our office should you have any questions or concerns!

The Sequence of Returns

A look at how variable rates of return do (and do not) impact investors over time.

The phrase **"Sequence of Returns"** simply describes the yearly variation in an investment portfolio's rate of return. When looking over a 20 or 30 year period of investing, what kind of impact do these deviations from the average return have on a portfolio's final value? The answer: NO IMPACT AT ALL. However, once an investor retires and begins making withdrawals, these ups and downs can have a major impact on portfolio value and retirement income.

During the accumulation phase, the sequence of returns is ultimately inconsequential. Yearly returns may vary greatly, but in the end, the variance from the mean hardly matters. (Think of "the end" as the moment the investor retires - the time when the emphasis on accumulating assets gives way to the need to withdraw assets.)

An analysis from BlackRock bears this out. Blackrock, one of the world's largest asset managers, compares three model investing scenarios - three investors start portfolios with a lump sum of $1 million, and each of the three portfolios averages a 7% annual return across a 25 year period. In two of these scenarios, annual returns vary from -7% to +22%. In the third scenario, the return is simply 7% every year. In all three scenarios, each investor accumulates $5,434,372 after 25 years. This is because the average annual return is 7% in each case.[1]

Here is another way to look at it. The average annual return of your portfolio is dynamic - it changes year-to-year. You have no idea what the average annual return of your portfolio will be when "it is all said and done," just like a baseball player has no idea what his lifetime batting average will be four seasons into a 13-year playing career. As you save and invest, the sequence of annual portfolio returns influences your average yearly return, but the deviations from the mean will not impact the portfolio's final value. It will be what it will be.[1]

However, when you shift from asset accumulation to asset distribution, the story changes. You must try to protect your invested assets against sequence of returns risk.

This is the risk of your retirement withdrawals coinciding with a bear market (or something close). Even if your portfolio performs well across the duration of your retirement, a bad year or two at the beginning could heighten concerns about outliving your money.

For a classic illustration of the damage done by sequence of returns risk, consider the 2007-2009 bear market. A couple at the start of 2008 with a $1 million portfolio held 60% in equities and 40% in fixed-income investments. They arrange to retire at the end of the year. This will prove a costly decision. The bond market (in shorthand, the S&P U.S. Aggregate Bond Index) gains 5.7% in 2008, but the stock market (in shorthand, the S&P 500) dives 37.0%. As a result, their $1 million portfolio declines to $800,800 in just one year.[2]

If you are about to retire, do not dismiss this risk. If you are far from retirement, keep saving and investing knowing that the sequence of returns will have its greatest implications as you make your retirement transition.

Given this uncertainty, we always stress how important it is to plan. Be sure you are sitting down with us on a regular basis to discuss your entire financial situation. Each quarter we want to remind you to alert us to changes in your financial situation or investment objectives to ensure that we are aware of any situation that might require changes in the management of your accounts. Please remember to contact us to discuss how these changes impact your investment accounts!

Citations.
1 - blackrock.com/pt/literature/investor-education/sequence-of-returns-one-pager-va-us.pdf [6/18]
2 - kiplinger.com/article/retirement/T047-C032-S014-is-your-retirement-income-in-peril-of-this-risk.html [7/3/18]

Financial Tip of the Month

DON'T OVERLOOK THESE 3 REQUIRED MINIMUM DISTRIBUTION RULES

Once you have retired, you may think you have it made, especially if you've managed to save enough money through IRAs and employer-sponsored plans like 401(k)s. However, you still have to meet the tax obligations for required minimum distributions (RMDs).

Basically, you must take a certain amount of money every year from IRAs and qualified plans after reaching age 70½, whether you want to or not. If you do not take the required withdrawals, the IRS can assess a penalty equal to 50 percent of the amount that should have been withdrawn, on top of the regular tax that is due. With this in mind, here are three little-known rules relating to required minimum distributions (RMDs):

1. Starting date: Technically, RMDs don't have to begin until April 1 of the year following the year in which you turn 70½. For example, if you turned 70½ this year on July 15, you don't have to take an RMD for the 2018 tax year until April 1, 2019. However, RMDs are due by Dec. 31 of each subsequent year (after you turn 70½), so you would have to make a "double payment" in 2019 if you don't take an RMD in 2018.

2. Amount of RMDs: The amount of the RMD is based on your account balance in the prior tax year and special life expectancy tables provided by the IRS. In other words, RMDs for 2018 are generally based on account values as of Dec. 31, 2017, and your life expectancy.

3. "Still working" exception: If you're still working for the employer providing a 401(k) where you're required to take an RMD, you can skip this obligation if you don't own 5 percent or more of the company. However, you still must take RMDs from any other employer plan where you have assets, and from all of your IRAs.

These are just three factors that may affect RMDs this year. The stakes are high, so make sure you comply with all the rules. Call us if you have questions about tax obligations related to your RMDs.

Please keep in mind that this tip is designed to be of help for you, but is not to be relied upon as advice. It is merely a reminder that there are many choices you have available to you, and that planning may be the only way to find the right answers for your situation. As with any financial issues, make sure you get the right information before making a decision. If you have any questions, we'll be glad to help you!

Client Quiz

Question: In order to make a tax-free withdrawal from a 529 plan, the proceeds must be used for post-secondary education? True or False?

We wanted to thank those of you who have participated in our Client Introduction program. As you know, marketing for new clients takes a great deal of money, time, and energy and we would much rather spend our resources improving your financial health. We, like most businesses are looking to grow; however, for the benefit of our existing clients we are only able to take on a limited number of new clients each year. Over the years, we have learned that encouraging you to introduce us to people you know works well for all of us…we help you, and you help us. If you aren't familiar with our friends helping friends program, please call our office or be sure to ask us at your next meeting. The few minutes it takes to learn about how it works will be well worth your time and energy!

Answer: **False**. Under the new tax law, withdrawals up to $10,000 made for private school tuition between kindergarten and 12th grade are permitted to be made tax-free.

If you would like some of your friends, coworkers, relatives, business acquaintances, etc. to receive a FREE subscription to this newsletter, please call our office and we'll add them to the mailing list. We'll also send them a note with their first issue telling them that you had suggested they receive the newsletter, and to contact us if they would like to stop at any time. If you enjoy this newsletter, why not share it for FREE with people you know, with no hassle for you?

This information is solely advisory, and should not be substituted for legal, financial or tax advice. Any and all financial decisions and actions must be effected through the advice and counsel of a qualified attorney, financial advisor and/or CPA. We cannot be held responsible for actions you may take without proper financial, legal, or tax advice!

Sard Wealth Management Group, LLC
Privacy Policy

Your privacy is important to Sard Wealth Management Group, LLC. We understand that the information you provide to us is private. This policy outlines what information we collect, how we use it and how we protect it. We will affirm our Privacy Policy annually in writing with all current Clients.

We collect information about you to provide services and products to help you meet your financial goals and objectives and to allow us to provide high levels of customer service to you. We also gather information in order to help us fulfill our legal and regulatory requirements. Information collected may vary depending on the products and services requested and the scope of your relationship with us.

Information Collected about You: We collect nonpublic personal information about you through account and insurance applications, our financial planning questionnaire, and through our day-to-day meetings, interactions, and the services we provide. The following types of information are maintained:

- Personal Information: name, address, phone number, tax identification number, date of birth, employment, children, wedding anniversary, and hobbies/interests
- Financial Information: income, investment and bank accounts, insurance policies, investment experience, and net worth
- Health Information: personal and family medical history, diagnoses and prescriptions
- Service-oriented information: account balances, payment history, account numbers, and account activity

Disclosure of Personal Information: We train our staff to take caution in handling personal information and keeping it secure. It is our policy <u>not</u> to share any private information with any businesses for marketing purposes. We do not disclose any private information with any outside firm with the exception of those that require specific information in order for a specific account to be established or to execute a specific transaction. The following information is shared by us:

- Personal and financial information: shared with a brokerage firm or investment company to setup and manage investment accounts for you and with insurance companies to initiate an insurance policy on your behalf.
- Health-related information: shared with insurance companies to initiate life, health, disability, or long-term care insurance on your behalf
- All types of information: shared with your accountant or lawyer to allow us to collaborate for your benefit. We may be required by law or regulation to disclose information to third parties such as in response to a subpoena, to prevent fraud, to comply with rules and regulations to which we are subject, in response to inquiries from industry regulators, and in order to comply with our broker/dealer's policies with whom our associated persons may be registered.

From time to time, we may provide via mail, email, or in person, investment reports of all household accounts to members of the same household. Household accounts include those held by spouses (or domestic partners) of the same family, and minor children for which one parent is the custodian and/or owner of the child's account. We may answer general account questions relating to accounts of a member of the household for either spouse.

If you close your account or discontinue your relationship with us, we will continue to treat your information with the same attention to privacy as for active Clients. Former Clients may request a current copy of our privacy policy at any time by calling our office at (404) 843-4483.

If you do NOT wish to have household account reports shared or object to our disclosing your private information as outlined in this policy, please provide us with a written statement clarifying your wishes.