Retirement Times

December 2018

Happy Holidays from Partners Wealth Management!

On behalf of everyone at Partners Wealth Management, I want to wish you joy and happiness during this special season. Thank you for choosing us to be your dedicated retirement plan advisor. This year we certainly saw plenty of activity in the retirement plan landscape — the end of the DOL's Fiduciary Rule, new ruling on hardship distribution rules and litigation against plan fiduciaries. We look forward to 2019 and continuing to keep you abreast of current events within the industry. We are extremely proud to be your retirement plan advisor, protecting you as a fiduciary and helping your plan participants prepare for a meaningful retirement. Congratulations for all you accomplished in 2018.

As we do each December, this month's *Retirement Times* highlights excerpts from issues published this year. Please contact us with any questions or feedback; we look forward to serving you in 2019 and beyond!

Warmest Regards,

Karl Cloherty

Karl Cloherty
Financial Advisor

About Karl Cloherty
Karl is a Financial Advisor with Partners Wealth Management and a Registered Representative and an Investment Advisor Representative of Kestra Investment Services, LLC. His clients include individuals and families in every stage of life, as well as small to mid-size businesses. The cornerstone of Karl's philosophy is the recognition that everyone's economic and life situations are different. His years of experience and personalized service allow Karl to assist his clients in developing the right financial strategy. As a Financial Advisor, Karl believes in cultivating long term relationships with his clients and an educational approach to his advising. As he says, "my job is to ensure that my clients understand their unique strategy and how it is going to help them accomplish their goals."
Karl holds his Series 7: FINRA General Securities and Series 66: FINRA Uniform Combined Securities licenses as well as life and health insurance licenses.

Weather or Not, Stay Invested

Kyle Olson, CFA, Senior Investment Advisor
Published February 2018

Last year was one of the strongest years on record for hurricanes in the Atlantic region of the United States and among the costliest of seasons on record, with preliminary estimates totaling over $200 billion. This is the second largest season in damages since 1900, with 2005 having a slightly higher total (Hurricane Katrina).[1] For those not directly affected by the hurricanes or other extreme weather events, some often wonder how it might affect them indirectly, via their investments. Article upon article is quickly spewed out, some with catchy titles that contain minimal factual content (example: “Investors Brace for Hurricane Irma”). While these articles succeed at garnering clicks, they can also lead investors to act irrationally, thinking they can time the markets or shift investments due to pending storm damages.

Thankfully, there exist some helpful studies that show how markets react to these extreme weather events. The first, from Ishuwar Seetharam at Stanford University, shows that natural disasters do have a small effect on companies who are directly exposed.[2] He looked at over 30 years of data, spanning the top 122 natural disasters. From a timing perspective, the largest effect occurs five days preceding the event to 20 days following. Though this may seem like a no-brainer, other variables can surface which help drive this effect in either direction. For example, if a company has different business lines, or is spread around multiple geographies (to name a few), this can add to or mitigate potential losses.

Diving deeper into the markets by industry, Dubravko Lakos-Bujas, from JP Morgan’s U.S. Equity strategy team, claims that distributors and construction materials are the top beneficiaries from hurricanes, while energy and insurance companies fare the worst.[3] He arrived at these conclusions by looking at all of the major hurricane landfalls since 1995. As for the overall market, the losses from hurricane damage tend to revert back to normal levels due to ensuing increases in public and private spending.

Despite a lack of strong evidence from the two studies above, there is another idea that comes from no closer than that of left field, albeit from a highly respected individual. Robert Bruner, dean emeritus and current professor of the University of Virginia’s Darden School of Business, believes that Hurricane Katrina (2005) triggered the 2008-2009 financial crisis.[4] Like a domino effect, Katrina caused significant damage to housing in the Gulf Coast states, which then triggered credit card delinquencies, and then sub-prime mortgages fell after that. He also claims that other market downturns were triggered by natural disasters, notably referencing the Mississippi flood of 1927 eventually triggering the Great Depression.

One major lesson learned in investing is that you cannot immediately discredit an idea, no matter how unusual it might be. Professor Bruner’s claim might sound strange, but perhaps the overarching claim pertains to vulnerability. Some companies, countries and geographic regions are prepared and built to withstand a natural disaster, either physically, financially or some combination of the two. Both studies above show that certain companies and industries can immediately be affected (via-the stock market) if they are not prepared. Also, keep in mind that a particular company’s preparedness (or lack thereof) can already be priced into the market. The long-term effects, though intriguing, are very difficult to assess because they seem tangential (i.e. hindsight is 20/20).

If conducting the research on affected companies and industries while also factoring in investor sentiment seems daunting, we believe it is best to remain diversified and hold for the long-term.

[1]*http://time.com/4952628/hurricane-season-harvey-irma-jose-maria/*
[2]*https://web.stanford.edu/~ishuwar/Disasters_Stocks_Current.pdf*
[3]*https://www.marketwatch.com/story/what-history-says-about-hurricane-irma-and-the-stock-market-2017-09-08*
[4]*http://www.cityam.com/277606/floods-hurricanes-and-earthquakes-triggers-financial-crises*

About the Author, Kyle Olson, CFA

Kyle works as an investment analyst with plan advisors on constructing best-in-class lineups and conducting market and mutual fund research. Kyle is also a member of RPAG’s Investment Committee, where all quantitative and qualitative aspects of the investment due diligence process are vetted and discussed when providing manager recommendations. Kyle graduated with a Bachelor of Arts in economics from the University of Pennsylvania in 2010.

Exchange Your Old Retirement Solutions for New Ones

Jonathan Coombs, Investment Analyst

Published July 2018

What is an Exchange?

An exchange is a turnkey solution for businesses that allows you to provide the benefit of a retirement plan while offloading some of the administrative and fiduciary responsibilities at a potential cost reduction. A team of professionals work together on your behalf so you can focus on running your business, not your retirement plan.

Retirement Readiness

An exchange is a great way to help your employees reach retirement readiness by providing them with a savings vehicle like a 401(k) plan, but with less administrative burden and by transferring certain risks.

Fiduciary Risk Mitigation

The fiduciary has a legal obligation to carry out its plan responsibilities with prudence, good faith, honesty, integrity, service and undivided loyalty to beneficiary interests – in this case, retirement plan participants. When joining an exchange, a fair amount of fiduciary responsibility is taken off your hands.

Administrative Relief

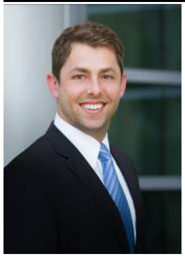
Employers oftentimes don't have the resources to effectively manage the complex requirement of administering a qualified retirement plan. With an exchange all plan administrative duties can be outsourced – a benefit typically only available to very large companies.

Cost Effectiveness

There's strength in numbers. By teaming up with other businesses in an exchange, you can benefit from economies of scale and seamless processing that help reduce the costs associated with operating and maintaining a retirement plan.

For more information on exchanges, please contact your plan advisor.

About the Author, Jonathan Coombs



Jonathan provides guidance to plan sponsors across the country on retirement best practices regarding fee benchmarking, investment analysis, plan design, fiduciary compliance and participant outcomes. As an asset allocation specialist, Jonathan project manages key business development initiatives in the custom solution arena. He also serves as a fixed income analyst. Jonathan attended The Julliard School, where he obtained a Bachelor of Science in music and a Master of Music.

Hey Joel!

Hey Joel! – *Answers from a recovering former practicing ERISA attorney*
Published May 2018

Welcome to *Hey Joel*! This forum answers plan sponsor questions from all over the country by our in-house former practicing ERISA attorney.

Hey Joel,

Should I distribute the Fiduciary Investment Review to plan participants?

- *Generous in Georgia*

Dear Generous,

I appreciate your desire to provide detailed information to your plan participants, but hold your horses. While there is nothing legally preventing the sharing of the Fiduciary Investment Review (FIR) with participants, we do not recommend it and, in fact, strongly discourage it. The FIR is designed for delivery to fiduciaries, not participants. This is not only because the fiduciaries are more sophisticated but because the report is better understood (I would even say, only understood) when presented/explained by an advisor that knows the data. The average participant may be alarmed by watchlisted funds and take inappropriate action (i.e., remove them from his/her portfolio when that's not the recommendation.) Further, we fear that participants will move all their money into the funds scoring 9 or 10 and as you can imagine, doing so would ignore the critical strategy of diversification. Instead of sharing the report itself, I always recommend an employee communication from the plan sponsor. Something like – "Hey employees, the company has met with our plan advisor to review the plan investments and all is doing great. We take the monitoring seriously, we do it regularly and will let you know when/if a change is needed… Until then, don't forget to join, increase your deferral, diversify, etc, etc." No need to create alarm unnecessarily.

Always here to ***give*** advice,

Joel Shapiro

<u>*About Joel Shapiro, JD, LLM*</u>

As a former practicing ERISA attorney Joel works to ensure that plan sponsors stay fully informed on all legislative and regulatory matters. Joel earned his Bachelor of Arts from Tufts University and his Juris Doctor from Washington College of Law at the American University.

If you have a question for Joel, please send it to your plan advisor. It may be featured in a future issue!

Participant Corner: Holiday Budgeting

This month's employee flyer gives participants tips for budgeting during the holiday season. Download the flyer from your Fiduciary Briefcase at fiduciarybriefcase.com. Please see an excerpt below.

The holidays are a time for giving, but often people can be a little overgenerous during this time of year and later find themselves in financial trouble. Consumer counseling agencies see a 25 percent increase in the number of people seeking help in January and February, mostly by people suffering from an influx of holiday bills.[1]

Here are our top tips for saving money during the holiday season:

1. **Create a Holiday Budget**
   Monthly Income – Monthly Expenses = Your Holiday Budget
   Make a list of everyone you will buy for and how much you will spend on each person, then stick to it!

2. **Pay with Cash**
   When you pay with cash, you can get a better handle on how much you're spending. You're forced to stick to your budget, because you can't spend cash you don't have!

3. Pay with Gift Cards

There are websites and stores where you can purchase gift cards at a discounted price. Shop with them and you're automatically saving money. Shop for items on sale or at a discount store and save even more money!

[1]ABC News. Lingering Christmas Bills Can Lead to Debt Woes. March 7. https://abcnews.go.com/Business/story?id=88539&page=1

To remove yourself from this list, or to add a colleague, please email us at info@partnerswealth.com or call 630-778-8088.

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For assistance with budgeting during the holidays or any time of year contact our retirement plan advisor, Karl Cloherty, at (630) 778-8088 or email at karl@partnerswealth.com.

[1]ABC News. Lingering Christmas Bills Can Lead to Debt Woes. March 7. https://abcnews.go.com/Business/story?id=88539&page=1