INFORMED INVESTOR

CARROLL FINANCIAL

News, Ideas & Strategy | Summer Issue ~ 2019

Thinking In Probabilities…

By Larry W. Carroll, CFP®

President & CEO

We live in an uncertain, risky world and as investors we invest with uncertainty as well. Markets move up and down and we are never certain of the outcome, yet we long for certainty and for precision. We want the comfort of knowing 100% how things will turn out. Unfortunately, deep down we know that isn't the case. After the recent run up in stocks, investors started to expect high returns. We call this recency bias, which is the tendency to believe that the most recent outcome is the most likely outcome. We know the good times won't last and we know markets go up and down, but we don't always act on that knowledge.

I want my clients to embrace uncertainty and be extremely skeptical of anyone's forecasts (yes, even mine). Before you believe that email predicting the impending collapse of the Federal Reserve, ask yourself: What is the track record of the person making this prediction? Is there some unique information that this person has that the rest of the market has not accounted for? Do you really want to change your portfolio and disrupt your long-term plan based on this prediction?

Let's say that there is a 10% chance that at some point during your retirement there will be a 60-80% decline in stock prices. How does that feel? How would you deal with that? Would your plan survive that kind of correction? Notice that I did not predict that correction. In fact, I said that 90% of the time, you would never experience it. Yet the idea of that uncertainly is powerful. I am not trying to worry you, but I am saying that there may be a good reason to reduce risk.

William Bernstein said, "When you've won the game, stop playing." That doesn't mean that once you have enough money to fund retirement, you should take the cash and bury it in the back yard. It does mean that you need to talk with your advisor about how much risk is really appropriate, especially as the game changes during retirement. It is not all about getting rich. It is about never being poor.

> "WE KNOW THE GOOD TIMES WON'T LAST AND WE KNOW MARKETS GO UP AND DOWN, BUT WE DON'T ALWAYS ACT ON THAT KNOWLEDGE."

Determining risk in a portfolio can be a challenge. Investors tend to underestimate negative probabilities and their consequences, particularly after the long bull market we have witnessed since 2009. We are all emotional beings, we all have biases that we develop over the years and we will all make our share of mistakes. Controlling risk should mean that none of those mistakes lead to consequences we cannot accept.

Trying to measure risk tolerance is a difficult job. I have never been a big believer that any questionnaire could assess a person's true risk profile. It is our obligation as advisors to point out the probabilities and to react quickly when circumstances change… and hopefully to tell you when to stop playing.

It's Your Money

Planning For Incapacity

By Denis R. Curcio, CFP®

Planning for incapacity can be difficult and uncomfortable. The idea that you may become incapacitated for any reason is not pleasant. However, ignoring the possibility of incapacity will not make it go away. I find many families are unprepared to deal with a serious illness, particularly one that may cause declining mental and physical health. There are steps you can take now to help your family deal with the variety of issues that come with incapacity.

1. **Legal Documents** – These can be split into two categories: healthcare and financial documents. Healthcare documents communicate the healthcare wishes of someone who may no longer be able to make decisions on his or her own. These include living wills, durable health care powers and do not resuscitate (DNR) orders. Financial documents communicate the financial management of assets while living and after death. These documents include wills, durable financial powers and living trusts. It is important to make clear who you would like to make decisions on your behalf should you become incapacitated. Any financial powers should be shared with your advisor as soon as they are executed in order for action to be taken without delay in the event of sudden incapacity.

> "Ignoring the possibility of incapacity will not make it go away."

2. **Living Arrangements** – Take time to discuss possible living arrangements and caretakers with your family. Are your current living arrangements suitable as you age? Does your family have a contingency plan should you require additional ongoing care? Do you have long-term care insurance and what type of care does it cover (home care, adult daycare, skilled nursing, memory care facilities)? Understand your options and develop a plan with your family to ease the transition in the event of incapacity.

3. **Health Care Plan** – Do you have supplemental insurance through a previous employer or a separately funded policy? Understand what insurance coverages are in place and how those policies will coordinate with a potential escalation in care requirements. Additionally, make a list of current doctors and medications and give permission in advance to medical providers to speak with your family members.

Start discussions early and make your family aware of your wishes. Keep copies of your important documents in one place so they are easily accessible to family members should they need to reference them. Also, be sure to review these plans over time as family dynamics can change. Incapacity is always traumatic, but you can help your loved ones by mitigating confusion, emotional stress and pain through proper planning. If you are not sure where to begin, contact your advisor to help you through the planning process.

Don't Quote Me!

"If you get, give. If you learn, teach."

– Maya Angelou

"There's only one problem with market timing: It doesn't work."

– Ric Edelman

"The crickets felt it was their duty to warn everybody that summertime cannot last forever."

– E.B. White

"The longer I live, the more beautiful life becomes."

– Frank Lloyd Wright

In And About The Office

Congratulations: **Carroll Financial** was recently included on Advisory HQ's 2019 ranking of the Top 10 "Best Financial Advisors in Charlotte & Asheville, North Carolina."

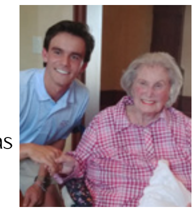
Congratulations: **Christine and Michael Neese** are proud to share that their daughter **Della** was admitted to the South Carolina Governor's School of Science and Mathematics in Hartsville! The school is one of only 12 specialized, residential high schools in the nation that seeks out and advances the state's most talented and motivated students, offering a transformative education in science, mathematics and engineering.

Carroll Financial hosted its first-ever CFA Wellness Week for employees. The week was dedicated to the wellness of our employees and supported some local companies that are devoted to promoting a healthy lifestyle. Some of the businesses included Rico's Acai, Apothic Spa, Lenny Boy Brewing Co., Green Brothers Juice Co., Yafo Kitchen and Fruit of the Spirit Nutrition and Wellness. Yoga One also offered a yoga class to the CFAers below.

Newsworthy

Carroll Financial proudly sponsored the 10th Annual Joedance Film Festival in August at the Charlotte Ballet Center for Dance. The Joedance Film Festival raises funds and awareness for pediatric cancer research at Atrium Health Levine Children's Hospital through an annual film festival featuring directors, producers, writers and actors who share a North Carolina or South Carolina connection. They support research and clinical trials for pediatric sarcomas, blastomas and brain tumors.

Mark Dillon's son **Mark Jr.** recently visited Mrs. Mary Cain Driscoll in the North Carolina mountains to personally thank her for the Morehead-Cain Scholarship he received. Mark will enter UNC-Chapel Hill as a freshman this fall.



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Market News

By Kris Carroll
CFA®, CFP®

The second quarter of 2019 ended up looking a great deal like the first quarter. Equity markets overall were up, although each quarter did contain one difficult month. Interest rates continued to fall, which led to higher prices in bonds as well. Inflation remained low, employment remained strong and the overall economy appears to be doing well.

The Federal Reserve is now looking to lower interest rates, a reversal from its stance over the past two years. Raising interest rates acts to slow the economy and employment, but it is an effective way to counter inflation. We continue to see low inflation, but the economy and employment picture seem fine. Ongoing tariffs and trade war risks have added some volatility to equity markets and uncertainty about economic growth.

Lower interest rates will stimulate the economy and lower rates on long-term bonds indicate that the market expects the Fed to cut rates several times over the next 12 to 18 months. This could potentially extend what has already been a long bull market. Most bear markets historically coincide with interest rates being too high. You might have heard the saying "most bull markets are killed by the Fed." We continue to watch inflation numbers as we do believe they represent a significant risk. However, we are not predicting high inflation in the short term.

The markets continue to be led by technology, biotech and fast growing companies. International markets have not performed as well as those in the U.S., but prices are higher across the board. We are hearing a lot of concerns about the risk of this market with stock prices at all-time highs. We are not expecting the second half of 2019 to be as strong as the first half, but we do believe that markets could continue to go higher with the Fed lowering rates.

As always, if you have questions about markets, the economy or your portfolio, please reach out to us and in the meantime enjoy the rest of your summer!

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Advice For College Graduates

By Mark Dillon, CFP®

Many of my clients, not to mention myself, have children who recently graduated from college and just entered the working world. It has been a great pleasure to meet with some of these graduates seeking guidance about how to handle their finances as they begin to earn an income. I think I can speak on behalf of the other advisors in our office that it is our fiduciary responsibility to boost financial literacy and help our clients' children and grandchildren get off on the right foot.

The good news is that financial literacy is not complicated. Listed below are ten principles young graduates should consider. If they seem obvious, congratulations on your financial savvy. Please do your part by passing this on to any recent graduates. It may be the most valuable gift they receive.

1. **Cash is king:** The first goal for any graduate is to accumulate some emergency savings. A minimum of six months of living expenses while working is a good start.

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2. **Know how much is coming in and going out:** Keep track of how much money you spend and what you spend it on. This is called budgeting.
3. **Avoid bad debt:** The only step here that requires you to not do something is often the hardest. Credit card debt is your worst enemy. If you use a credit card, pay it off in full each month.
4. **Save systematically:** Once you have a sufficient emergency cash fund, put savings in the same category as your electric bill, which is mandatory and automatic.
5. **Maximize your 401(k) or your equivalent retirement plan:** While you are at an entry-level income and thus a lower tax bracket, choose the Roth 401(k) option if available. Your ultimate goal is to make the maximum annual contribution of $19,000. If you can't afford to maximize it, start out with the minimum amount that your employer will match.
6. **Take advantage of your HSA plan if available:** Health Savings Accounts allow you to pay for medical expenses with before-tax dollars, some employers will contribute on your behalf and if you don't use it now, you can use it in retirement.
7. **Don't overspend:** If all you can afford is a $2,000 car, buy a $2,000 car. You can buy a more expensive one after you have saved more.
8. **Plan for surprises with insurance:** You most likely do not need life insurance at this point, but protect yourself with renter's insurance, sufficient auto coverage and an umbrella policy.
9. **Change your mindset:** You are saving for emergencies and you are investing for retirement. Your allocation in your retirement accounts should be heavily weighted in equities for the long term.
10. **Set Goals:** Identify your short, medium and long-term goals and plan or save appropriately for them.

Of course if you have questions about any of these, feel free to contact your advisor. Good luck!

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