

WHEN IGNORANCE ISN'T BLISS

Missing or incomplete information – it was the undelivered message that Juliet was only faking her death that resulted in Romeo killing himself in Shakespeare's beloved tragedy, making their story one filled with such woe. It was incomplete information which led to Lord Cardigan attacking the wrong artillery battery during the Crimean War, ending with the decimation of the Light Brigade. It is also that which makes it difficult for us as investment advisors to render the most prudent advice. Although some of our clients only rely upon us to act as portfolio managers, for the bulk of our clients for whom we serve as financial "quarterbacks," it is important that we are provided with the full financial picture.

Recently, one of our longstanding clients passed. As we spoke with his widow, we found a disconnect between what we believed was the best course of action for her (taking ownership of all of his assets, held in two IRAs) and what he had expressed to her that he wanted (for their sons to receive one of his accounts). Reviewing the widow's assets and expenses, we worried that she wouldn't be able to maintain her standard of living if she disclaimed one of the IRAs to her sons. This would also require the sons to take annual minimum distributions from the account even though they didn't need the income and would result in piling taxable income on top of their already high income. It wasn't until a third account (which was taxable and previously unknown to both her and us) was discovered that we were able help her correctly distribute his estate. Our

client kept both IRAs which provided her with sufficient assets to live comfortably, and their sons received the after-tax account with no immediate income tax consequences.

When we are evaluating a client's financial health, and working with them to determine the need for insurance, additional retirement savings, the best course of action with regards to stock options, or the most appropriate way of funding large purchases, we are looking at three key pieces of information: dollar value, asset allocation and sources of income.

1) Dollar Amount: The value of a clients' financial assets drives the bulk of our investment and financial advice, whether it's in determining the appropriate asset allocation, whether life insurance or disability insurance is necessary and importantly, if they will be able to meet their financial goals. Knowing about additional assets outside of our management helps us to best steward the assets entrusted to us. It also helps us avoid unnecessary recommendations, such as recommending life insurance to a young client who might have significant assets outside of our purview and therefore, no need for additional coverage.

2) Asset Allocation: The overall asset allocation – that is, the mixture of stocks, bonds, and cash in a portfolio – is the greatest determinant of investment return. Although past returns are no guarantee of future performance, these historical returns help us to estimate how much money our

clients need to save, or how much they can realistically spend in retirement, or on other financial goals. For many clients, we set an overall asset allocation which encompasses all financial assets, and then manage the accounts under our supervision to a complementary target. For example, we may advise that the bulk of fixed income exposure should be in employer sponsored retirement accounts, allowing us to invest more aggressively in taxable accounts. This lets us take advantage of asset location preference, while ensuring that the overall asset allocation is appropriate to each client's circumstances.

3) Sources of Income: Knowing of additional funding sources can help us in two ways:

a. In conjunction with your accountant, we can try to determine the most tax efficient means of generating income in retirement.

b. Looking at all income sources can help us determine the appropriate asset allocation for investments. If a client has pension or annuity income that is sufficient to cover their discretionary spending needs in retirement, we consider this

'fixed income,' meaning we have the ability to be more aggressive in their investment accounts.

We know that some clients view us only as an asset manager, a role which we are grateful to serve. For those clients that are looking to us for holistic planning, we must be entrusted with a complete picture of one's finances, as discussed above, to provide a complete plan.

NEW FACES:

We have many new members in the Sigma family. With the retirement of longtime Sigma team members Barb and Nancy in December, we have some new staff at Sigma. Diana Welshans has joined us as an administrative professional, and Paul Warholak as a paraplanner. Our colleague, Chris Frayne, and his wife Amanda recently welcomed baby Adalyn, and our outstanding administrative professional, Crystal Heard, is expecting in the very near future (more info when baby girl arrives). It's always nice to see the "family" growing!

Amanda E. Lehnert

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives