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summaries

SIGMA INVESTMENT COUNSELORS

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# Family Advisor

In my 25 plus years as an investment advisor, I have noted a shift in my practice from an overriding dominance of "investing" to an increased focus on "counseling." My role has transformed from primarily crunching numbers, pouring over annual reports, 10K's and 10Q's to being a trusted advisor in all aspects of my clients' financial, and many times emotional, well being.

There are numerous reasons for the evolution of our business, which likely will be a topic of another Sigma Summary. Yet, the overriding reason is time and technology. Technology provides me and my colleagues with additional time in our day which we can spend with our clients.

Early in our careers as portfolio managers, we rarely met with the client's attorney or accountant; we all acted relatively independently. Today, we routinely interact with our clients' accountants to mitigate taxes and to prevent bad surprises in April! We also act as advocates and advisors when our clients meet with their attorneys; we are able to assist in the trust funding process and legacy planning.

Our colleagues and I talk about the evolution of our work lives and why it is so much more rewarding now than in the past. Although we certainly do continue to crunch numbers, it simply does not have to occupy our every waking moment. In the old days, we generally would meet with one member of the household on an annual basis and talk almost exclusively about investments. Today, our days look vastly different and we meet with our clients on a much more frequent basis. We know our clients: their hopes and dreams for the future, what they wish for their children and grandchildren, what motivates them and what keeps them up at night.

I would like to share a few illustrations of our new role that readers may find interesting and instructive. One caveat, the stories are true but the descriptions have changed to protect my clients' privacy.

***Mediator*** - *Jack and Jill are in their mid 50s and are hoping to retire in 2025. Jill would like to buy a retirement home now that they can enjoy as a vacation home until retirement but Jack worries about cash flow. As an advocate of both, I understand their goals and have to craft a plan that will meet both goals - owning a vacation home that possibly will become their retirement home while maintaining their current lifestyle and saving for their future retirement.*

*The solution was to suggest they find a home in the area where they agree they would like to retire but the property must have rental potential. They could then rent the property (made easier with Air BNB and other similar services) to cover expenses, visit it on occasion for vacation, and continue to build toward retirement. The home may not be their dream retirement home, but it could be sold at the time they retire for the purchase of that dream home. At the very least, the property will have inflated in value with the area and the couple will not find themselves inflated out of the market in which they would like to live.*

***Marriage Counselor*** - *Bill and Mary were living a happy and comfortable retirement. Mary was retired from one of the auto companies and several years back was offered a lump sum pension payout. As they were living comfortably on her pension and their Social Security benefits, it was unsettling to take the lump sum in lieu of a monthly pension check. With several months available before they had to make their selection, I presented different scenarios and showed them that statistically 99% of the time they would be "better-off" taking the lump sum payment. My analysis showed them that they could replicate the same cash flow from a lump sum payment and upon their* *deaths; the residual value of the lump sum would go to their children. With a pension, the cash flow stops at death.*

*Bill liked the idea of a lump sum as he wanted to leave more money to the kids. Mary, on the other hand, was risk averse and preferred the assured monthly payments. Their decision was finally made when I asked, "Was it more important their children inherit a tremendous sum, or that they both sleep peacefully at night knowing that the pension payments will not be subject to market fluctuations?" They stayed with the pension payments.*

***Family Advisor/Sibling Referee** - Linda was a widow and had two sons. The sons were three years apart in age and married with two children; John and Mark. John and his wife struggled. They both worked hard but John was an entrepreneur and was building a business. They sacrificed, went without vacations, and lived within their means. Mark and his wife, on the other hand, lived irresponsibly, constantly accruing debt and living well beyond their means. On numerous occasions they went to Linda for help. Mark had a job, but was underemployed and did not have any drive to succeed (he could always ask Mom for more money).*

*Linda came to me and asked for my counsel. After a long conversation, Linda admitted she was disappointed in Mark, felt used by Mark and guilty that John was not being treated fairly. She wanted her two sons to be treated equally. I acknowledged there were three issues: 1) John would not inherit truly half of his mother's estate because Mark was depleting the assets rapidly; 2) Linda may be putting her own financial future at risk if she continued to give to Mark; and 3) Mark would not alter his behavior and reach his full potential unless the spigot was turned off, or at least he was forced to feel some consequences from his actions.*

*Once Linda owned this situation, the next step was for us to meet with her attorney. We crafted a loan document that Mark and his wife were required to sign for the latest fund withdrawal. It required them to make monthly interest and principal payments. I provided a detailed accounting of the funds withdrawn for Mark's benefit and the attorney amended the trust to reduce Mark's inheritance by the amount he had borrowed from Linda. Mark was feeling guilty as well and was actually relieved that there was a formal loan. I worked with Mark and his wife to set a budget and get their finances on track. Moreover, they have made all of the payments and have not borrowed since.*

***Fairy Godmother** - I am not seriously a fairy godmother, but I do get to help my clients live their happily ever after.*

Thirty years ago I would meet with one member of the household and talk exclusively about investments. Today, I am honored to be the family's trusted advisor.

Suzanne M. Antonelli, CFP®