Perspectives
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Why All Generations Should Practice Wise Financial Planning

By Natalie Merrill
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With each new generation comes an even stronger need for family members to understand the importance of legacy – a discussion many of them have likely not had. This establishes a growing necessity for financial professionals who can be trusted to guide these individuals in making wise decisions when it comes to how they invest their money and what they will be leaving behind.

Legacy Planning Activities

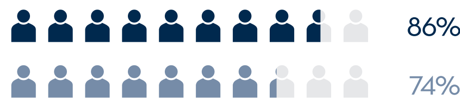
A nationwide Allianz American Legacies Pulse Survey revealed that those in the boomer generation (ages 47-66) are not always taking action in regard to their financial assets, especially compared to their elders. While it appears that the boomers understand the importance of having a will and ensuring their loved ones are taken care of, many aren't following through with legacy planning activities. In fact, roughly 25 percent of this generation hasn't even begun planning distributing their wealth, and only 9 percent have actually begun distributing their assets.[i]

One unintended consequence of technology advances is that younger generations are losing practice of practical ways of understanding finances – such as something as simple as balancing a checkbook. However, these topics still need to be addressed, particularly in terms of how they invest their money to prepare for their futures, and the sooner the better. These individuals need assistance in planning financially for what's ahead, and there is currently an especially high need for it.

The study also concluded that, while more than 75 percent of the elder generation had sought out help from a financial professional, less than half of those in the boomer generation did so. Should this trend continue, even less of the younger generations will obtain such support, but they are the ones who will need it most. The elder generation will be leaving trillions of dollars to the boomers, and those individuals need to know how to protect and preserve that legacy so that they can pass it along to their loved ones.

Legacy planning is about more than material possessions.
What ranked highest in importance?

Family Stories



Personal Possessions

Financial Inheritance

Boomers ages 47–66
Elders ages 72+

Source:
The Allianz American Legacies Pulse Survey, 2012.

Bridging the Generational Gap

Lack of skills and experience in financial planning does not necessarily indicate that the younger members of the workforce are not concerned with their finances. In fact, a study by Fidelity found that many members of the millennial generation are taking initiatives to save and plan for the future, but they are still in need of assistance in some areas, such as the importance of a 401(k).[ii] Their interest in wise financial practices proves even further how essential it is for experts in the field to advise them along the way. This is why there is an increase in the need for financial professionals – ones whom these younger generation members can trust – to come alongside and offer that guidance and assurance that are required.

Your trusted advisor understands that financial planning should be a priority in all stages of life and can serve as a stable bridge between family members of different generations. Contact your advisor to start the conversation and ensure all generations practice wise financial planning.

Key Takeaways

1. Baby boomers are not properly planning for what they will leave behind to their loved ones
2. Having a sound financial plan is important for each individual's future, regardless of age
3. Estate planning benefits an individual as well as his or her family members and helps ensure his or her wishes are fulfilled
4. There is a significant need for younger generations to work with financial professionals they can trust

[i] *Allianz American Legacies Pulse Survey: Exploring the impact of the financial crisis on legacy strategies*
[ii] *Fidelity, Fidelity Millennials & Money Study Reveals 39 Percent Worry About Finances and One in Four Don't Know Who to Trust*

Stay the Course, Despite Recent U.S. Stock Market Volatility

By Leo M. Zerilli, CIMA
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As we approach the end of summer, the U.S. stock market has been trending significantly downward, and volatility has been spiking up. What do these recent movements mean, and how is this a divergence from the past six-plus years? In our view, the best way to frame this activity is to put it into context with previous movements in order to give some perspective of the current market.

Recent Market Pullbacks

While the S&P 500 Index is down more than 10 percent from its May highs, the drop is fairly common compared with other declines over the past five years. Keep in mind that it has been four years since we have had a price correction of at least 10 percent in the markets, and the norm is about once every eighteen months. There have been seven pullbacks of this magnitude since 2011 alone, with four of the most severe drops of 17.9 percent, 9.9 percent, 9.8 percent and 7.7 percent occurring in 2011 and 2012. In fact, the average of the drops over the past five years is 9.2 percent, so the recent pullback is nothing new in comparison to recent downward movements. There have only been four pullbacks of greater than 2 percent since 2012, including the most recent drop, and we believe that this correction may be long overdue based on our network's view of stocks being at the upper end of their valuation range.

Leading Indicators

In terms of the U.S. economic backdrop as it pertains to present market conditions, while the leading economic indicators (LEI) fell in July after four months of gains, the overall reading was still encouraging. Out of the 10 leading economic indicators, seven indicators were positive, the weekly manufacturing hours reading was neutral, and only building permits and stock prices were negative.

We believe the United States is relatively insulated from non-U.S. factors, and our network has stated that we are not likely to go into a recession. Factors such as the strengthening housing market and improved consumer spending are likely to keep the U.S. expansion intact.

Headwinds Persist

While the U.S. Federal Reserve has been hinting at an interest-rate hike this year, we can point to strong non-U.S. economic headwinds that could potentially affect the U.S. stock market. Continued debt concerns in Greece have been joined by worries over the declining health of the Chinese economy; China's manufacturing sector recently shrank at its fastest pace since 2009, fueling concerns of further deceleration of the world's second-largest economy.

Although China's economy expanded 7.4 percent in 2014, that was its weakest advance since 1990, and it has slowed further this year, growing 7 percent in each of the first two quarters with the prospect of further pullback in the remainder of the year.

The central bank in China has cut interest rates four times since November, among other initiatives to stimulate growth, including a recent devaluation of its currency, the yuan — an intervention that only delayed the biggest drop in its stock market since 2009.

Potential for More Attractive Valuations and Alternatives

Still, rather than receiving this summer's stock market slide with panic, we view the moment as a buying opportunity for savvy long-term investors to seize. One of our U.S. value managers shared that the flow of new ideas at his firm has risen in recent days; the correction has afforded a chance to accumulate shares of select companies with strong balance sheets at suddenly on-sale prices.

We agree with those in our network who suggest you stay the course with U.S. equities, as long-term investors should use market pullbacks such as this to reallocate assets to stocks with attractive valuations. Before the correction, most valuations across asset classes were at or near 10-year highs, producing a narrower playing field of potential opportunities. The consensus from our network is that investors should expect more muted returns and higher volatility for stocks going forward. For the past 60 years, when stocks reached valuations similar to today, they went on to return 4 percent on average over the subsequent decade.

Another way to respond to this correction is by reviewing the use of alternatives as a potential way to reduce risk. A well-constructed asset allocation strategy has historically helped reduce portfolio volatility and mitigate the risk of significant losses. In addition, absolute return strategies can offer a more targeted approach by pursuing positive returns independent of markets and traditional benchmarks.

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The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

Large company stocks could fall out of favor. The stock prices of midsize and small companies can change more frequently and dramatically than those of large companies. Foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability. Hedging and other strategic transactions may increase volatility and result in losses if not successful.

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