Wealth Builder

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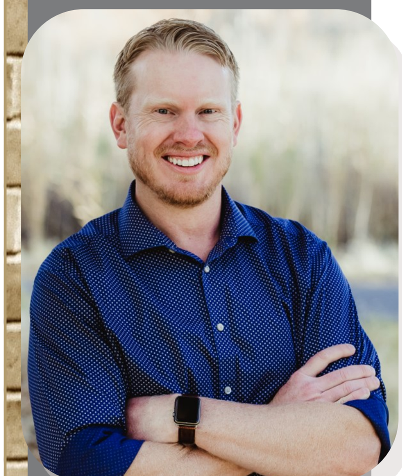
LEGACY WEALTH MANAGEMENT, LLC

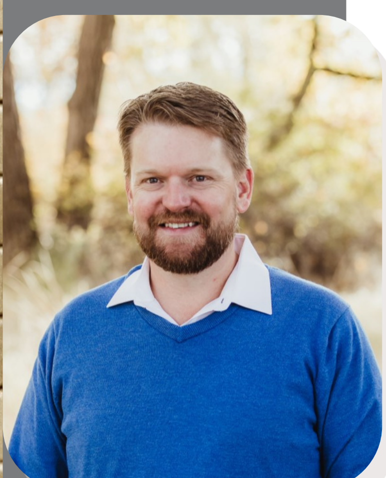
In this Issue:



Shirtsleeves to Shirtsleeves By Dan Funderburk, CFP®, CKA®

"Shirtsleeves to shirtsleeves in three generations" is a saying that gets tossed around a bit in my line of work. The adage implies that family wealth gained in one generation will be gone by the third generation (i.e., when the grandkids get control of it). Think of a business founder who passes the business down to the kids. The kids saw the blood, sweat, and tears that it took to build the business, so they feel a sense of responsibility to maintain what their mom or dad created. Then, they pass the business down to their kids, who have only seen the fruits from the business, but not the grind it took to get it there. It's not uncommon for these kids (the founder's grandkids) to either sell the business or deviate from the founding principles that made it successful, and therefore see it decline during their stewardship.

Continued on page 2



Realistic or Optimistic? By Jeff Funderburk, CFP®

Imagine an environment where we are all paying non-inflated prices for things, and at that same time are actually making a decent return on our savings. Is that scenario even realistic? Maybe. But it sure isn't our current reality.

Pent-up consumer demand, fueled by the pandemic lockdowns, and unprecedented government stimulus coupled with supply chain disruptions have combined to push inflation over 7% — levels we haven't experienced since the early 1980s. Consumers are seeing their purchasing power eroded as prices for goods and services increase faster than interest earned on savings (which we all know is effectively 0%).

Continued on page 4

Shirtsleeves to Shirtsleeves *Continued from p. 1*

There's also the example of trust fund babies, who live their entire lives with the expectation of inheriting their parent's (and grandparent's) vast sums of wealth. Often, when the wealth is finally transferred down to the grandkids, a spending spree ensues, and the wealth is squandered. A similar phenomenon often occurs when people come into an unexpected windfall like winning the lottery. There are TV shows dedicated to telling the stories of lottery winners who go bankrupt a few years after winning.

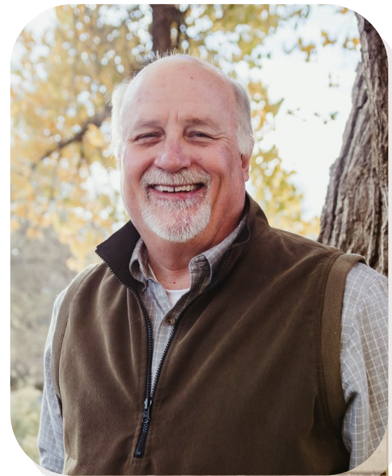
There are a lot of factors and variables that determine whether the family wealth will have staying power. Do the heirs have the education required to handle it? Have they been trained in the business enough to lead it as well as the founders? Is a proper estate plan established? Are the right advisors in place to help the heirs? However, I believe the primary driver of sustainable wealth is whether or not the patriarchs and matriarchs passed down their values before they passed down their wealth. Often the family values were a key reason the family acquired as much wealth as it has, so it only makes sense to transition those values through generations as well.

"…you never want to transfer wealth before transferring wisdom."

Unfortunately, values are one of those things that are caught, not taught. We can't teach our kids to be better people by telling them to be honest when they see us lying to our friends. We need to model the value of honesty so our kids can see the benefit of always telling the truth, even when it costs us something. Values need to be lived out day-to-day, so our kids have the chance to pick up on them. I often tell clients that you never want to transfer wealth before transferring wisdom. That way the beneficiaries of our wealth will be able to maintain the sound stewardship that led to the wealth in the first place.

While "shirtsleeves to shirtsleeves" typically refers to families with massive amounts of wealth, I think the principles to be learned apply to everyone. We should all be intentional to live out our values in front of our kids daily. And as they get older, we can have conversations naming those values and explain why we live the way we do. If we do this, hopefully we'll be able to pass down a legacy of family values as well as wealth.♦

Are They Ready? By Mike Berry, CFP®



In our Fall newsletter, Jeff wrote a great article on the importance of estate planning and I'd like to add another concept to estate planning and that is preparing the next generation so that when the torch passes, they are ready.

Anymore, it doesn't take much to have a million dollar estate. Your home and your retirement accounts can easily add up to that number. Most people seem to adopt the attitude of, "when I'm gone, they (heirs) can do what they want with what's left." Simple, but is it right?

I contend that we have the responsibility to our heirs to prepare them for the assets that will pass and to pass the assets in a beneficial way to the heirs. One thing I've heard quite a number of times in my career are beneficiaries who come in and are surprised by the amount of money being inherited. "I never knew they had that much money." At some point there needs to be a family discussion about the investments and potential inheritance. Yes, amounts need to be discussed but so do other things. Things like our own philosophy on money and the assets we have gained. Is generosity important? What is our feeling about debt? How would we like to see the inheritance used?

I think that some people have a resistance to having this type of conversation because once the kids know how much money they have, they will be constantly asked for some of it. If that's the case, then it's better to find that out early and work to correct the problem than to have an inheritance frittered away later.

We need to take an honest look at, and evaluate our heirs as to their abilities to handle money and set up a distribution of the wealth that matches those abilities. If I have an adult child that can't seem to hold a job or live within their means, a large lump sum of money left to them is likely to be gone through quickly and in ways that I would not have wanted. Same thing with an adult child that has addiction problems. In these cases it is much more responsible of us to set up their distribution in some type of controlled trust versus just dropping it in their laps.

I think it makes a lot of sense to have your financial advisor or estate attorney in on this type of conversation. They can add some perspective and support.

Since we can't take it with us, with a little planning, honest evaluation and family conversations, we can responsibly pass our estates to our heirs knowing that it will likely be used as we had hoped.♦

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Realistic or Optimistic? *Continued from p. 1*

One of the most powerful tools for managing inflation is the Fed Funds rate. This is the reference rate upon which financial institutions (banks, mortgage lenders, credit card companies, etc.) base the interest rates they charge for debt and/or pay on savings deposits.

During periods of higher inflation, the Fed will raise the rate which makes borrowing for consumers and businesses more expensive. In turn, that should slow economic growth and put a lid on inflationary pressure. This anticipated slower growth is why the stock market doesn’t react well to higher inflation numbers and news of anticipated interest rate hikes. We’ve seen that play out this year in the market.

But, other than the stock market, how does inflation and rising rates impact personal household finances? Well, it depends on if you’re a saver or a borrower.

If you’re a saver (like most retirees looking for a steady income and not looking to take on new debt), then you’re in the “short-term pain, long-term gain” camp. Things cost more now, and you’re not making anything on your savings. But as rates increase, eventually the rate you get on your savings will increase too. There is a lag between when the Fed raises the benchmark rate and when banks will start to raise savings interest rates. Savers shouldn’t anticipate a large windfall in the near-term, but over the longer-term they can expect better returns on savings. That, coupled with (hopefully) reduced inflationary pressure, should be a net positive for savers’ household finances.

If you’re a borrower, it really depends on the type of debt you have or are looking to take on. Fixed rate debt isn’t impacted by rising interest rates. On the other hand, adjustable-rate debt (think ARMs, HELOCs, certain auto loans, and especially credit cards) very much is. Borrowers can expect debt service expenses to increase on those types of debts. Borrowers will benefit from higher savings rates as well, but usually not enough to offset the increased cost of servicing the debt. It’s wise to retire or restructure adjustable-rate debt when anticipating higher interest rates.

Whether saver, borrower, or a bit of both — we’re all paying more for things now. Hopefully, as we slog through the interest rate “normalization” process, inflation is indeed kept in check, and we start seeing better returns on our savings. Is it realistic? I’m optimistic. But time will tell.♦

Riley's Corner

Riley is a dog, not a registered advisor. Views expressed on Riley's Corner are of the creative expression of owner, Mike Berry, CFP®

Winter Frisbee by Riley, dog

I think I hate my owner. I love the "Mrs." because she feeds me and pets me and let's me lick out the muffin pan when she makes muffins. Pumpkin muffins are my favorite… but back to the "Mr."

Every night around 5:45pm he goes and grabs his heavy coat, gloves and stocking cap and says, "Come on Riley, it's frisbee time!" Does he not realize that it is DARK outside and the temperature on good nights is hovering in the 20's? He doesn't care. He has a big light that he grabs and hangs on a tree branch to provide additional light in the backyard. He even purchased a high powered flashlight that he holds in one hand while throwing the frisbee in the other.

Even when it snows, we're out there. Back a few weeks, I was having to run through 8 inches of fresh snow to chase down his stupid frisbee. Have you tried running through eight inches of snow? I was gassed! He laughed at me when I would come back with the frisbee and a snow-covered face. I'd like to put some snow up his snout and see how much fun he thinks it is. He seems to draw great satisfaction in throwing the frisbee into the now frozen pond and watching me slide on my belly across it trying to retrieve one of his throws.

The "Mr." isn't dumb. He's got it figured out that I don't get my supper until AFTER we play. Honestly, that is my only motivation to play winter frisbee. Going in afterwards and having the "Mrs." set down my supper dish. Then I get to stretch out on a nice soft rug in front of the warm fireplace, a chew bone for dessert. Even the "Mr." looks better now.

I hope we get to do this again tomorrow night.♦

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