THE H GROUP, INC. | SALEM

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# Financial Perspective

## Are Equities Overvalued?

*With the Dow index of 30 stocks recently closing above 20,000, we are getting asked if the stock market is too high. Our favorite answer to this and many other questions is "It depends." Just the price of a stock or the level of a market index doesn't tell the whole story.* ***Part of our answer depends upon whether one is looking at the stock market as a value investor or as a growth investor. Both approaches are valid, and both go in and out of favor.***

### Value investing

Value investors look for stocks with share prices that don't fully reflect the value of the company, trading at a discount to their true worth. A stock can have a low valuation for many reasons. The company may be struggling with business challenges such as legal problems, management difficulties, or tough competition. It might be in an industry that is currently out of favor with investors. It may be having difficulty expanding. It may have fallen on hard times. Or it could simply have been oversold or overlooked by other investors.

A value investor believes that eventually the share price will rise to reflect what he or she perceives as the stock's fair value. Value investing takes into account a company's prospects, but is equally focused on whether it's a good buy based on key metrics, like those shown in the table on the next page.

***Value investing faces two challenges.*** The first is determining if a company is undervalued for good reason. Value investors typically comb the company's financial reports, looking for clues about the company's management, operations, products, and services. The other challenge is having the patience to wait for that value to be recognized. Value companies often lag in hot markets—like the one we are currently in—but generally do better in sideways or recovering markets.

### Growth investing

Growth investors prefer companies that are growing quickly and that have the greatest potential for appreciation in share price.

A growth investor would give more weight to increases in a stock's sales per share or earnings per share (EPS) than to its P/E ratio, which may be irrelevant for a company that has yet to produce any meaningful profits. However, some growth investors are more sensitive to a stock's valuation and look for what's called "Growth at a Reasonable Price" (GARP). ***A growth investor's challenge is to avoid overpaying for a stock in anticipation of earnings that eventually prove disappointing.***

### Momentum investing

This style can be applied to either value or growth styles, and it is more closely related to analyzing charts as opposed to company fundamentals. Momentum investors generally seek out the best performing asset classes and ride the wave of popularity over a recent time period. They often buy when a stock is richly valued, assuming that the stock's price will go even higher. If a stock falls, momentum theory suggests that you sell it quickly to prevent further losses, then buy more of what's working. Easier said than done.

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### INSIDE



THE H GROUP INC©
INDEPENDENT WEALTH MANAGEMENT SOLUTIONS™

**Providing Fee-Only Wealth Management and Creative Planning for Your Family, Business and Estate**



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**Are Equities Overvalued?...** *Continued from page 1*

## What's the conclusion?

***Pure company statistics aren't enough. A company and its stock price need to be evaluated in the context of the current environment, especially interest rates and inflation prospects. Now, with the new administration, the possibility of negative consequences from deficit spending, tariffs, and trade wars also complicate the outlook, as do the positive possibilities of infrastructure spending, regulatory reform, and tax cuts.***

It's a mixed message right now for value investors, since they tend to prefer market bottoms and dire conditions for ideal entry points. We're obviously beyond this point. However, growth and momentum investors might be relying too much on the current trends of market strength, ignoring some of the unintended consequences of policy changes. Based on this perspective, conditions for stocks could continue to be modestly favorable, as long as current earnings, inflation, and interest rate trends continue--and the world doesn't get involved in trade and tariff wars.

**Value vs. Growth***

| Value Stocks | Growth Stocks |
|---|---|
| Relatively low P/E ratio | High P/E ratio |
| Low price-to-book ratio | High price-to-book ratio |
| Relatively slow earnings growth | Rapid earnings growth |
| High dividend yield | Low or no dividend yield |
| Sluggish sales growth | Rapid sales growth |
| Typically, more cyclical companies* | Typically, less cyclical companies* |

** Note: these are long-term characteristics, not exactly true at any given point in time*

# Six Ways to Financially Help Adult Children

We have noticed that as time goes by some of our clients are becoming more concerned about their adult children, grandchildren, nieces or nephews. Huge student loan burdens, skyrocketing home prices, and slow wage growth, high day care and college costs, and chemical dependency issues seem to be bigger problems than they were one or two generations ago. Despite the "We're spending our kids' inheritance" bumper stickers occasionally seen on RVs, the desire to help one's own family is strong. Here are our suggestions on how to help adult children and grandchildren.

## 1 | Refinance a high-interest student loan.

Believe it or not some young adults have student loan balances charging 8% or more in interest. If you have a large cash balance in an account paying you less than 2%, you could pay off that balance and sign a contract with your child at a lower interest rate, such as 3% or 4% over a period of five or ten years. It's a win-win: the graduate gets an improvement in cash flow and you earn more interest. This works well if the graduate has a job and the payments are on autopay from a checking account. You should do this only for money you won't need over the time period of the loan.

## 2 | Make an annual exclusion gift.

This is perhaps the most common method we have seen over the years. You and your spouse can each make a gift of $14,000 per year to as many beneficiaries as you wish without needing to file a gift tax return. Thus, Bob and Betty could give son Dick and daughter-in-law Jane a total of $56,000. We have seen these gifts evolve into an annual expectation/entitlement in some families. However, we've also seen beneficiaries use their gifts to fund Roth IRAs or their own children's 529 college savings plans. Unless you have more money than you'll ever need, it's best to save these for specific or one-time special circumstances.

## 3 | Help them purchase a home.

This is the most common need we hear today. The simplest way is to make a gift—not a formal loan—for the down payment. There are a few other ways to do this, and each situation is different. Due to legal issues and lender restrictions, it's probably best to discuss this with us and your attorney in person.

## 4 | Cosign on a loan or credit card or jointly own a vehicle.

***These are strategies that we do <u>not</u> recommend.*** Co-signing a loan or jointly owning property are serious. The fact that your family members need a loan co-signer means that the lender considers them too great of a risk for the bank to take alone. If the bank isn't sure they'll repay the loan, what guarantees do you have that they will? It could affect your own credit score. A jointly owned vehicle could expose all of your assets following a major accident.

## 5 | Sometimes the non-financial things you can offer may be the best way to help.

Help them develop a budget and restructure debts, rather than simply bail them out. Then teach them how to avoid new debt. One option is to match debt-reduction payments, with the understanding that they put away credit cards and live within their means. Encourage them to seek the advice of financial planners like us.

**Six Ways to Financially Help Adult Children...** *Continued from page 2*

## 6 Just Say "No."

It's no big deal if your adult children are turning to you for help for the first time because of a financial emergency. Hey, stuff happens. But it becomes problematic when they repeatedly line up for gifts or loans (that in most cases end up being gifts). It's hard to say "no" to your child and see them experience some of the hardships you may have experienced. We know, because most of us are also parents who have always wanted the best for our children. But we also know that many of the challenges and delayed gratification we experienced over the years have helped to make us who we are today. It's a fine line between needs and wants; between helping and enabling. If you decide to help them, ask:

***1. Are you setting a precedent?***

***2. Are you empowering or enabling?*** It's one thing to help them start a business or get their first home. It's quite another to continuously bail them out.

***3. Will the other siblings expect to be treated equally?*** In our opinion, fair isn't always equal, and equal isn't always fair.

***4. Have you set clear expectations?*** The more seriously you take the situation, the more likely your child will, too. If you decide you can afford to help, establish whether you are giving your child a gift or making a loan. If it's a loan, set a realistic repayment schedule and put it in writing. Also, discuss what will happen if your child doesn't repay the loan as agreed.

***5. Can your future afford it?*** Do you have sufficient savings to retire comfortably? We can help you answer those questions. Your financial stability is just as important as your child's. The only difference is that you'll have less time to make up for any hit to your savings that may come if you put your child's needs ahead of your own. As the flight attendants say, "Always put on your own oxygen mask before helping others." You certainly don't want to be a burden to them in the future.

## 'Tis the Season for Community Support

We were proud to be the title "Pay it Forward" sponsor for the Rotary Club of Salem's annual fundraiser. This year the proceeds will support the building of a playground at St. Francis Shelter which provides housing for those who are temporarily homeless. In addition, monies raised also fund the international water and sanitation projects we support in Haiti.

Community involvement is important to us, both as individuals and as a firm. In the next three months we are sponsors of the Salem Area Chamber of Commerce First Citizen Banquet (March 3), the Liberty House Child Abuse Assessment Center's Chefs for Kids (March 18), the Medical Foundation of Marion & Polk Counties annual speaker series featuring Laila Ali (April 21), and the Chemeketa STARS Scholarship Award Banquet (May 12).

Larry Hanslits, Brenna Baucum, Katherine Suchan, and Ron Kelemen are independent CERTIFIED FINANCIAL PLANNER™ certificants. They jointly serve their clients as a team with over 100 years of combined experience. As fiduciaries, they work on a fee-only basis and do not accept any third party compensation or finder's fees. Their practice focuses on wealth planning and investment management for professionals, business owners, and retirees. They are advisory associates of The H Group, Inc., an independent fee-only registered investment advisory firm with 10 professionals in five offices with over $700 million under active management. For more information about us go to the Who We Are tab at TheHGroup-Salem.com.

### About Larry Hanslits, CFP®

In practice since 1985, Larry merged his practice with Ron's in 2011. He sits on the investment policy committee of The H Group, Inc., provides advanced estate planning case writing services to attorneys nationwide, is an adjunct professor of financial planning at Oregon State University, and a member of the Rotary Club of Salem.

### About Brenna Baucum, CFP®

Brenna joined the practice in 2013 and focuses her attention on Social Security and the grey areas of retirement planning. She is a member of the Rotary Club of Salem, the Women's Leadership Group, Salem Young Professionals, the FPA Mid-Winter Conference Committee Chair, and is Treasurer of the Chemeketa Community College Foundation.

### About Katherine Suchan, CLU, CFP®

Katherine joined the practice in 2016, following 20 years of experience in Eugene and five in Portland. With the Chartered Life Underwriter (CLU) designation, she has additional expertise in life insurance planning for individuals and businesses. She Is active In Habitat for Humanity.

### About Ron Kelemen, CFP®

In practice since 1981, Ron is the author of The Confident Retirement Journey--Your Personal & Financial Road Map. He is a Past President of the Willamette Valley Estate Planning Council, active in Rotary, and serves as a board member for Capital Manor and the Capital Manor Foundation.

# Team Update

We started our new year off with our annual day-long retreat, a tradition that goes back to 1998. As with past retreats we reviewed the previous year and set goals for the current one. Our big goal this year—very close to completion—is to roll out our client vault whereby client documents can be securely uploaded and exchanged. This is also the season for continuing education and conferences.

**Michelle** keeps us organized and on schedule. As a non-Rotarian volunteer, she secured numerous baskets for the Rotary Club of Salem's Pay It Forward fundraiser. Her free days included a short trip to Colorado and several visits to the coast to visit family.

**Debbie** has been busy processing RMD requests and with the usual work that surrounds tax season and IRA deposits. She rarely misses an opportunity to visit her new grandson in Portland.

**Katherine** is finishing up our client vault project, getting ready for the rollout. She joined the board of Leave a Legacy® Mid-Willamette Valley, rolled up her sleeves at Marion-Polk Food Share, and helped at a Habitat for Humanity work site. Even though she loves being involved in the leadership of local non-profits, she really enjoys working side-by-side with volunteers in hands-on projects.

**Brenna** chaired The FPA Mid-Winter Conference and it went off beautifully with a sold-out crowd and several big-name speakers. She has spent the past few months organizing her schedule of client meetings and volunteer commitments in preparation for her maternity leave. Baby girl is due mid-March and Brenna will be home, learning to be a mom for a couple of months.

**Larry** has been up to his neck in client meetings and research. He and Laurie just returned from a two-week stay in Maui. This was the first extended vacation they have had together in 20 years, and he said he could get used to the idea of having one like that every year. They caught the whale watching at the perfect time.

**Ron** continues to make good progress in recovering from last October's stomach surgery, but "patience" is not his middle name. In January he and Kathy flew to New Orleans, then drove the Gulf Coast to Key West and Miami. They said it was nice, but that they are Oregonians at heart. You can read about it in Ron & Kathy's Mid-Life Adventures blog at www.rwk777.blogspot.com.

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# New Advisor Rules Coming for IRAs and Retirement Plans

Last June we wrote about the Department of Labor's (DOL) new Fiduciary Rule. At that time, it had been in the works for many months, but it finally takes effect on April 10 this year with a few remaining details coming January 2018.

The thrust of the 1,000-page rule, years in the making, is to require anyone who provides advice regarding IRAs and 401-k rollovers to adhere to the Fiduciary Standard. Previously, this standard applied only to employer-sponsored retirement plans, such as defined benefit pensions and 401-k plans. The rule does not affect non retirement account business.

**Fiduciary–(adj) Involving confidence or trust; (n) held or holding in trust for another.**

In the financial world to be a fiduciary means putting the clients' interests first. The duty is to the client, not the company.

The rule will make it difficult for many in the insurance and brokerage business to sell products in the IRA marketplace, especially when propriety products and variable compensation are involved. Most of the financial services lobbies have worked hard to delay or stop the rule from taking effect. Legislation has already been introduced to repeal it, and President Trump signed an executive directive on February 3 that directs the Department of Labor to postpone the effective date until it could review the impact on the rule. On February 9 a Texas circuit judge blocked an industry suit to stop the rule. Perhaps the rule may eventually be altered or repealed, but as things stand now, the rule goes into effect April 10.

***As fee-only advisors regulated by the Securities and Exchange Commission (SEC), we already operate as fiduciaries to all clients,*** not just retirement accounts. Although we will have some additional disclosures, paperwork, and minor operational tweaks required by the rule, we don't see any major changes in the way we operate and provide advice to our clients. ***Our duty is to you, the client. Always has been, always will be.***