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DUMONT & BLAKE
INVESTMENT ADVISORS

731 Alexander Road, Suite 301
Princeton, New Jersey 08540

609-514-1899 800-345-3200
609-514-4222 Fax

Money In Motion

www.dumontandblake.com

Tell Your Beneficiaries About Your Accounts and Policies

Will your heirs receive a fair share of your wealth? Will your invested assets go where you want them to when you die? It's important to let your beneficiaries know how they will receive retirement assets and insurance benefits.

If you have a proper will or estate plan in place, you will likely answer "yes" to both of those questions. The beneficiary forms you filled out years ago for your IRA, your workplace retirement plan, and your life insurance policy may give you even more confidence about the eventual transfer of your wealth.

One concern still remains, though. You have to tell your heirs that these documents exist.

That does not mean sharing all the details. If you have decided that some of your heirs will one day get more of your wealth than others, you can keep quiet about that decision as long as you live. You *do* want to tell your heirs the essential details; they should know that you have a will and/or an estate plan, and they should understand that you have named beneficiaries for your retirement accounts, your investment accounts, and your insurance policies.

Over time, you must review your beneficiary decisions. In fact, you may want to revisit them. As an example, say you opened an IRA in 1997. Your life has probably changed quite a bit since 1997. Were you single then, and are you married now? Were you married then, and are you single now? Have you become a parent since then? If you can answer "yes" to any of those three questions, then you need to look at that IRA beneficiary form now. Your choices may need to change.

Here is a quick look at how beneficiary decisions play out for a few of the most popular retirement accounts.

Employer-sponsored retirement plans. These are governed by the Employee Retirement Income Security Act (ERISA), which rules that if the late accountholder was married, the surviving spouse is entitled to at least 50% of the account assets. That applies even if another person has been designated as the primary beneficiary. In such a case, the spouse and the primary beneficiary may split *(continued on page 2)*

Sometimes the Pundits Get It Wrong

Many predictions about Wall Street have misread the market's direction.

Trying to determine how Wall Street will behave next week, next month, or next year is difficult. Some feel it is impossible. To predict the near-term direction of the market, you may also need to predict upcoming earnings seasons, central bank policy moves, and the direction of both the domestic and global economy. You might as well forecast the future of the world.

That is not to say forecasting is useless. You could even argue that it is a necessity. Every month, economists are polled by various news outlets that publish their median forecasts for hiring, inflation, personal spending, and other economic indicators. Those median forecasts are often close to the mark, and sometimes exactly right.

Figuring out what lies ahead for equities, however, is often a guessing game. Looking back, some very bold predictions have been made for the market – some way off the mark.

Dow 30,000! More than a decade ago, a few analysts boldly forecast that the Dow Jones Industrial Average would climb to astonishing heights – heights the index has yet to reach today.

The first was investment manager Harry Dent, who, to his credit, had written a book called *Great Boom Ahead* predicting an amazing run for both the economy and the market starting in the mid-1990s. (Indeed, the S&P 500 averaged a yearly gain of almost 29% during 1995-99.) Dent's 1999 bestseller, *The Roaring 2000s,* posited that the Dow would top 30,000, perhaps 35,000 in the near future as maturing baby boomers poured money into equities. He was wrong. What happened instead was the so-called "lost decade," in which the broad market basically did not advance. As for the Dow 30, it ended the 2000s at 11,497.12.[1,2]

As a money manager, Robert Zuccaro had been part of a team that had realized triple-digit annual returns in the late 1990s. He put out a book soon afterward called *Dow 30,000 by 2008: Why It's Different This Time.* (As the market cratered in 2008, you might say his timing was bad.) Analysts James K. Glassman and Kevin A. Hassett authored a volume called *Dow 36,000: The New Strategy for Profiting from the Coming Rise in the Stock Market.* It came out in 2000, and also proved overly optimistic.[2,3]

Dow 3,300! Harry Dent changed his outlook over time. In 2011, he told *(continued on page 2)*

Sometimes the Pundits Get It Wrong *(continued from page 1)*

the *Tampa Bay Times* that the blue chips would plunge to that dismal level by 2014 or earlier. The Dow finished 2014 at 17,823.07. For the record, Dent now sees a "bubble collapse" starting in 2016 or 2017, soon breeding "widespread civil unrest" in America.[2,4]

Sell your shares now! In "Bearish on America," a 1993 *Forbes* cover story, Morgan Stanley analyst Barton Biggs urged investors to dump their domestic shares *en masse* in light of the economic policies favored by a new presidential administration. The compound return of the S&P 500 over the next seven years: 18.5%.[5]

The market is done, no one believes in it! Perhaps the most famous doomsday call of all time occurred in 1979 when *Business Week* published a cover story entitled "The Death of Equities." Wall Street was emerging from its second awful bear market in less than seven years. The article cited a widespread loss of faith among investors, asserting that "the death of equities is a near permanent condition." Equities, so to speak, soon proved very much alive: the S&P 500 returned 21.55% in 1982, 22.56% in 1983, 6.27% in 1984, 31.73% in 1985, and 18.67% in 1986.[5,6]

Recession ahead, the market points the way! Can the behavior of the market foretell a recession? Is there a causal relationship between a down or sideways market and an oncoming economic slump? Some analysts see little or no link. Fifty years ago in *Newsweek*, the noted economist Paul Samuelson wrote that the equity markets had "forecast nine of the past five recessions." He was being sardonic, but he had a point. Looking back from 2016 to 1945, Wall Street has seen 13 bear markets, only seven of which (53%) have seen a recession begin within about a year of their onset.[7,8]

Take the words of the pundits with a grain of salt. Some have been right, but many have been wrong. While the most radical market predictions may make good copy, they may also lead investors to take bad advice.[5]

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the assets 50/50. (The spouse can actually waive his or her right to that 50% of the invested assets through a Spousal Waiver form. A spouse usually has to be older than 35 for this to be allowed.) These rules also apply for other types of ERISA-governed retirement assets, such as pension plan accounts and corporate-owned life insurance.[1,2]

The Supreme Court has decided that these rules take priority over state laws *(Egelhoff v. Egelhoff, 2001; Hillman v. Maretta, 2013)* and divorce agreements *(Kennedy Estate v. Plan Administrator for the DuPont Saving and Investment Plan, 2008).*[3,4]

If a participant in one of these retirement accounts remarries, the new husband or wife is entitled to 50% of those assets at death. While a plan participant may name a child as the beneficiary of a retirement account after a divorce, remarriage will leave only 50% of those assets with that child when the accountholder dies, rather than 100%, unless the new spouse waives his or her right to receiving 50% of the assets. The new spouse will be in line to receive that 50% of the account even if unnamed on the beneficiary form.[1]

IRA Accounts. Unlike an employer-sponsored retirement plan, a spouse does not have automatic beneficiary rights with an IRA. That is because IRAs are governed under state laws rather than ERISA. One interesting estate planning aspect of an IRA rollover is that the

owner of the new IRA has the freedom to name anyone as the primary beneficiary.[1]

Life insurance policies. The death proceeds go to the named beneficiary; occasionally, a beneficiary may not know a policy exists.

Recently, *60 Minutes* did an expose on the insurance industry. Major insurers had withheld more than $7.5 billion in life insurance death proceeds from beneficiaries. They had a contractual reason for doing so: the beneficiaries had never stepped forward to file claims.[5]

While many of the policies involved were valued at $10,000 or less, others were worth over $1 million. The deceased policyholders had either failed to tell their heirs about the policies or misplaced the copies and the paperwork. Their heirs did not know (or know how) to claim the money. As a result, the insurance proceeds lay unclaimed for years, and the insurers only now feel pressure to pay out the benefits.[5]

Update your beneficiaries; let your heirs know how vital these forms are. Make sure that your beneficiary decisions on retirement, brokerage and bank accounts, college savings plans, and life insurance policies suit your wealth transfer objectives.

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