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YOU ARE WHAT YOU EAT: WHAT THAT MEANS FOR YOUR DIET AND HOW YOU INVEST

My dear and lovely wife thinks I spend too many of my waking hours thinking about capital markets and how to best capture the returns that markets produce. Admittedly, it's become pervasive and all-encompassing to the point that it affects how I view other, seemingly unrelated events throughout my day. For example, I recently watched a popular documentary on Netflix called *You Are What You Eat*. The documentary covers an interesting study done with 21 sets of identical twins over eight weeks and compares the results of a healthy omnivore diet vs. a healthy vegan diet on a broad set of metrics.

I'm not going to get into a food debate here—I'll just leave it that the results were a bit surprising, and the program was very interesting and thought-provoking. But the capital markets part that got me going that I really found interesting was a parallel that we run into every day here at Northstar. In the documentary, one underlying thesis was how our diet is influenced by what we've been told is good for our bodies, even though there is little to no scientific evidence to back up the claim. The growing body of evidence strongly points to the idea that what we've been told in the past is more about supporting highly profitable industry than good health.

Now, it's true that supporting highly profitable industry is at the heart of capitalism. But the parallel that hit me as I watched the program was how an investment strategy (assuming there even is a strategy) is often fueled by what an investor reads and sees coming from the financial media. Little of it is influenced by solid scientific evidence.

Back in the Stone Age (aka the 1990s) when I was a fledgling advisor, I had no idea that the investment strategy I was taught was more about selling investment products like annuities, high-cost mutual funds, and life insurance than it was about finding the most efficient way to capture the returns that global capital markets produce. That investment strategy marched in lockstep with what the mainstream financial media told the public about investing and further in step with what the big financial product manufacturers (life insurance companies, investment companies, and brokerage houses) most wanted to sell.

It wasn't until I happened upon a *Fortune* magazine article (I think it was in 1998?) that profiled six academics, two of whom had already won Nobel Prizes, that I was exposed to the idea that there were actual scientists out there looking to find the most efficient way to capture returns in global capital markets. The story they told in that article was the first time I heard that expected return doesn't come from someone's ability to pick good stocks over bad stocks or their ability to time markets— that the real difference maker was what asset classes were represented in an investment portfolio. And they had the data to support their conclusions.

It almost ruined my young career. I bought in 100% for one basic reason: These scientists weren't selling anything! They only wanted to know: "What is the most efficient way to capture the long-term return capital markets produce?" How was I now supposed to operate going forward, deeply entrenched in a world that firmly believed you could identify successful stock pickers and market timers?

It took me a year, but I eventually realized I couldn't. I could no longer deliver financial advice that was first and foremost rooted in the sale of investment products and that put efficiency, cost, and highest probability of achieving goals second. I had to leave.

And that, my friends, is how Northstar Financial Planners was born. We're coming up on 24 years this summer, and I've never looked back. That body of science around modern portfolio theory that we so closely follow has grown and gradually become more the norm than the outlier it used to be.

I sometimes play a mental game where I ask myself, "What would you do differently if you could do it all over again?" In this case, I'd have founded Northstar much earlier—if I had only known. The other thing I'd do differently is try not to spend so many waking hours thinking about capital markets. That would make my wife very happy.

—Allen Giese, CLU®, ChFC®, ChSNC®

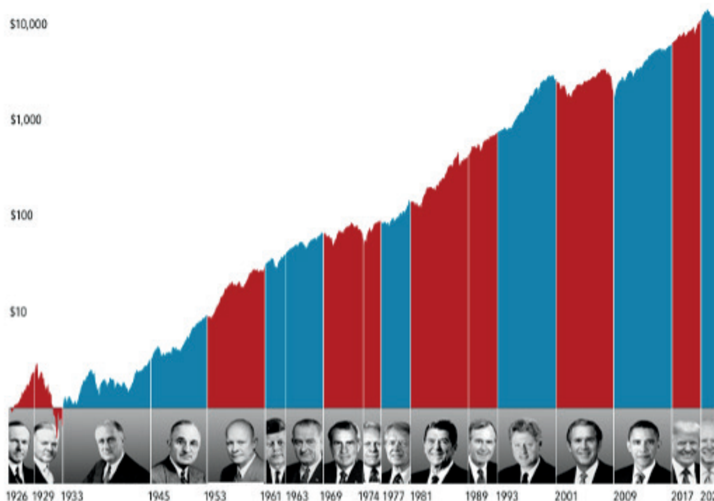
HOW MUCH IMPACT DOES THE PRESIDENT HAVE ON MARKETS?

It's election year in the U.S. once again. Whether it's viewed as good, bad, or otherwise, it comes around every four years. While the outcome may be uncertain, one thing we can count on is that plenty of opinions and predictions will be floated in the days and months leading to the vote. In financial circles, this will inevitably include discussions of the potential impact on markets. But should elections influence long-term investment decisions?

It's natural for investors to look for a connection between who wins the White House and which way the stock market will trend. Regardless of who wins, nearly a century's worth of returns shows that the stock market has trended upwards. As shareholders, we are investing in companies, not a political party. Companies focus on serving their customers and growing their business, regardless of who is in the White House.

Many factors impact the stock market besides who the President is, such as changes in interest rates, technological advances, and actions of foreign leaders, just to name a few. A good way to think about it is that a president doesn't sit in the Oval Office and run the economy. Each president serves for four to eight years, which is a relatively short period of time when it comes to investing. What is long-term is America's ingenuity to create products and services that solve our problems. Over the decades, American innovation succeeds, no matter what politicians do.

The stock market has rewarded disciplined investors for decades, through both Democratic and Republican administrations. Making investment decisions based on the outcome of elections, or how investors think they might unfold, is unlikely to result in excess returns. On the contrary, it may lead to costly mistakes. This is why there is a strong case for investors to rely on a consistent investment plan—making a long-term plan and sticking to it.



— Dimensional Fund Advisors

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NAMING A REVOCABLE TRUST AS BENEFICIARY TO AN IRA

Is it a good idea to name a revocable trust as a beneficiary to an IRA? The answer, like so many questions in our world of financial planning, is … it depends. Naming a trust as the beneficiary to an individual retirement account (IRA) can have both advantages and disadvantages, and the decision to do so should be carefully considered based on individual circumstances and goals. Let's dive into some of the pros and cons.

ADVANTAGES

• **Control.** Let's say you have a son or daughter who, well … it just wouldn't be a great idea to have them receive a large amount of money all at once. The hard reality is that sometimes our kids don't make the best choices with their money, or perhaps they have special needs with negative implications around government benefits if they receive assets in their name, or maybe they find themselves in the world of addiction or even have shown themselves to be spendthrifts. Listing them as a direct beneficiary for your IRA, especially a large IRA, could be disastrous, even life-threatening. Having the trust as the beneficiary could literally be lifesaving, as the trust document can specify how, when, and for what purposes beneficiaries receive distributions, ensuring that the funds are managed and disbursed according to your wishes as the grantor.

• **Asset protection.** Suppose the beneficiary of an IRA has a gambling problem and loses heavily on a bet or is a doctor and becomes exposed to a malpractice judgment. Trusts can provide a layer of asset protection for the beneficiary, safeguarding the IRA proceeds from creditors or legal judgments.

DISADVANTAGES

• **Complexity and cost.** Establishing and maintaining a trust involves legal and administrative complexities. Creating a trust document, selecting a trustee, and adhering to the legal requirements can be time-consuming and may incur additional costs. You will want to weigh these complexities against the potential benefits.
• **New Secure Act rules.** Per IRA Retirement Expert Ed Slott, "because of the new rules under the 2019 retirement plan law (the SECURE Act), naming a trust as your IRA beneficiary is not necessarily a good idea. That's because, in most cases, either the trust beneficiaries or the trust itself will need to pay taxes on the entire IRA balance after 10 years following death." That could be compounded as trust tax rates tend to be higher than personal rates.

Ed Slott lists a few alternatives to naming your trust as beneficiary in his book Retirement Decisions Guide that you may want to consider:

• **Name a spouse.** Simply naming your spouse as the beneficiary can be an option (assuming it is an option) since spouses can have longer payout periods than an adult child or grandchild.
• **Convert to a Roth IRA.** Roth conversions are now especially important to reduce or eliminate the tax your heirs must pay within 10 years of your death.
• **Set up charitable trusts.** If you are charitably inclined and have a very large IRA, talk to your Northstar Financial Planners advisor and your attorney about charitable remainder trusts (CRTs). A CRT generates an income stream for you as the donor, with the remainder going to your favorite charity or charities.

Naming a trust as the beneficiary of an IRA offers advantages and disadvantages. It may well be the right thing to do, based on your situation. But the decision should be made only after careful consideration of your circumstances and with the guidance of professionals well-versed in estate planning and taxation. Would you like to open the discussion? Let's talk!

—Allen Giese, CLU®, ChFC®, ChSNC®

Disclaimer: Hey, some of this article was researched by, and even some of the words were written by, ChatGPT. But fear not, I vetted every sentence, edited a fair amount of it so it reflects how I want to say it, and even added a few thoughts of my own. Embracing the tech!

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