

FINANCIAL PLANNING NOTES

CLIENT NEWSLETTER

“The most costly of follies is to believe passionately in the palpably not true.”

—H.L. Mencken

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VALUE JUDGMENTS: VIEWING THE PREMIUM'S PERFORMANCE THROUGH HISTORY'S LENS

There's a misconception in the markets: Value stocks have lost their vigor. Value stocks have underperformed growth stocks over the past decade. In the U.S., the annualized compound return has been 12.9% for value stocks, or those trading at a low price relative to their book value. That contrasts with 16.3% annualized compound return for growth stocks, or those with a high relative price.¹

Lessons of the Past

Value underperforming growth by 3.4 percentage points a year over a decade is indeed disappointing. But one question investors might ask themselves is, how do the returns for value and growth stocks over the past decade compare with their long-term averages?

Looking at returns for the U.S. value and growth indices separately in **Exhibit 1**, we see that growth's annualized compound return of 16.3% over the 10-year period ending June 2019 was much higher than its return since July 1926, at 9.7%.

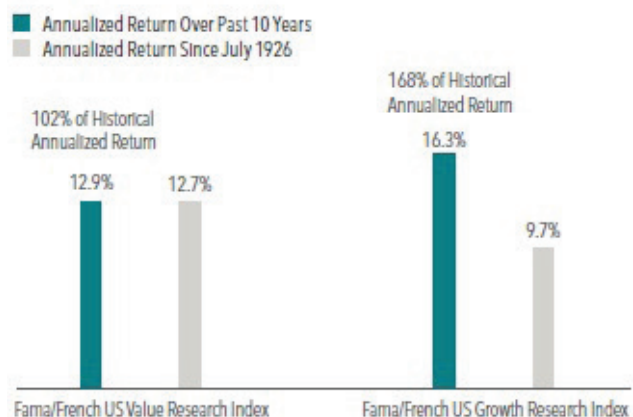
On the other hand, value performance over the past decade has been more or less in line with its historical

average: 12.9% vs. 12.7%. We can see value has performed similarly to how it has historically behaved.

It is growth stocks that have had very good recent returns relative to the long-term history. Investors maintaining an emphasis on growth stocks may be hoping this departure from the trend will endure, despite the historical long-term averages.

Exhibit 1: Outlier Detector

Performance of US value stocks in past 10 years and since 1926, and performance of US growth stocks over the same periods



As of June 30, 2019. In US dollars. Fama/French indices provided by Ken French. See Index Descriptions in the appendix for descriptions of Fama/French index data. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors L.P. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.



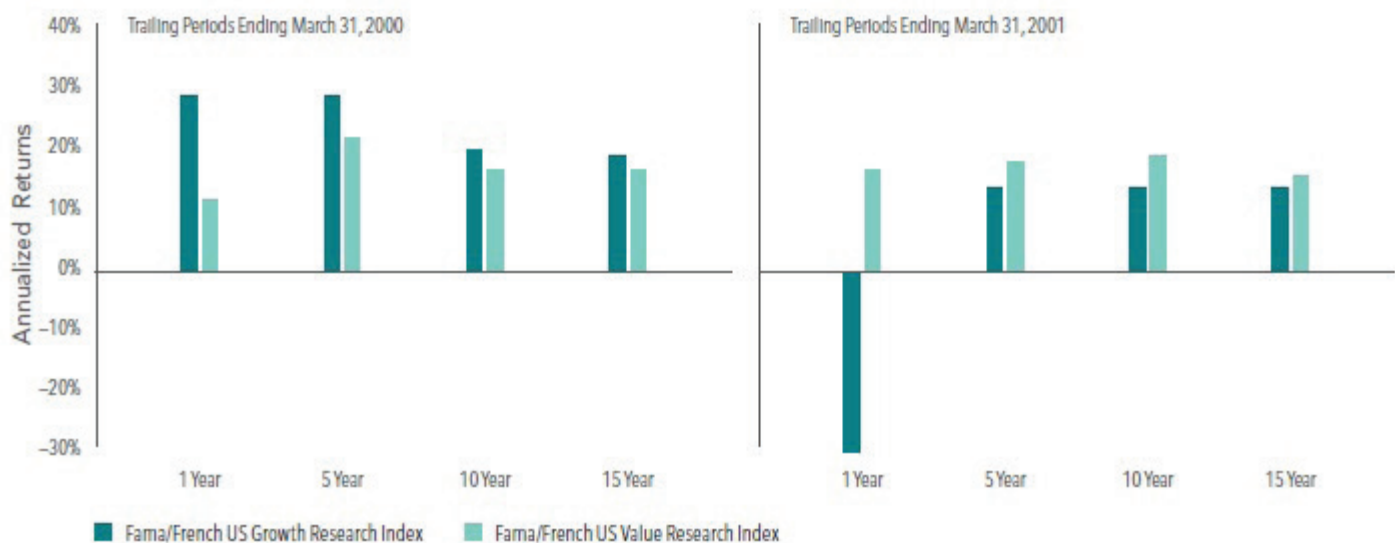
A Quick Comeback

While stock returns are unpredictable, there is precedent for the value premium turning around quickly after periods of sustained underperformance. For example, some of the weakest periods for value stocks when compared with growth stocks have been followed by some of the strongest (see [Exhibit 2](#)).

On March 31, 2000, growth stocks had outperformed value stocks in the U.S. over the prior year, prior five years, prior 10 years, and prior 15 years. As of March 31, 2001—one year and one market swing later— value stocks had regained the advantage over every one of those periods.

Exhibit 2: Leap Year

Using March 31, 2000, and March 31, 2001, as ending points, performance of US value and US growth stocks over 1- to 15-year trailing periods



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Positioned for the Long Term

The theoretical support for value investing is longstanding—paying a lower price means a higher expected return. However, realized returns are volatile. **A 10-year negative premium, while not expected, is not unusual.**

But history also tells us that changing course after a disappointing spell for known premiums can lead to missed opportunities. When those drivers of outperformance have turned around in the past, steadfast investors have been rewarded. A key to successful long-term investing is sticking with your approach, even through difficult periods, so that you are there for the good times too.

—*Dimensional Fund Advisors*

¹ Value stocks' performance is measured by the Fama/French US Value Research Index. Growth stocks' performance is measured by the Fama/French US Growth Research Index.

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There is no guarantee investment strategies will be successful. Investing involves risks, including possible loss of principal. Investors should talk to their financial advisor prior to making any investment decision. There is always the risk that an investor may lose money. A long-term investment approach cannot guarantee a profit.

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

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MENTAL ILLNESS—CONCERNS AND CHALLENGES

When our son was diagnosed with a serious mental illness and our family life was turned upside down, we had no thoughts or ideas about how, in the long run, it would impact us financially.

To be honest, early on, the ramifications to our financial plan weren't even on the radar. My wife and I were focused on getting our son into the right treatment programs, taking him to doctors and therapists, and just managing our lives in this new world we found ourselves in.

But one day it hit me. I was doing my job as a financial advisor, sitting in my office working on a financial plan for a client and focusing on their retirement plan. And something about their plan made me shift my thinking to my own plan, and I suddenly realized that it was no longer just about the retirement plan my wife and I were building for ourselves.

“Are we also going to need to make sure our child has financial support for the rest of his life too?” I thought. “And what about our estate planning? What changes should we be making to that?”

Those questions prompted me to start thinking about all the financial aspects being impacted by this illness. And I wondered if our experiences and concerns were typical of what others were experiencing.

Before I wrote the book *When Mental Illness Strikes: Crisis Intervention for the Financial Plan*, I wanted to know what the biggest concerns and challenges were for families that had been stricken by a mental illness. I really wanted to know if what my family was experiencing was any different from the experiences of other families dealing with a serious mental illness.



I wanted to see if I could gain more insight and confirm or maybe refute some suspicions I had. For example, does the stigma that so often surrounds mental illness affect a family's financial planning as much as we know it does when they are seeking treatment? And does the impact of the stigma change across different levels of affluence?

I wanted to see, as a financial planner, how these families felt that an advisor could have made a difference in their lives.

So I conducted a study to find out. I met with many individuals who had direct experience, and I conducted in-depth interviews with them. I asked them what their most pressing concerns were, what the issues and problems they faced as parents were. I also asked leaders of mental health organizations to share their perspectives on the most pressing issues families face.

I wanted to know what kept people up at night. I wanted to know what major challenges they faced and,

specifically, from a financial perspective. I wanted to drill down as deeply as I could into their financial fears.

I asked them if they thought people were generally successful at managing the financial challenges and why or why not? I asked them if they believed an empathetic financial planner would have been helpful for them, particularly early in the process. If they had met with someone who clearly understood what they were going through, would it have benefited them?

Here's what I found out:

Without a doubt, the number one concern of the people I talked to was this: "Who's going to take care of my kid after I'm gone?" This is a tough question, and it's a complex one. There are usually no simple answers, so it's not surprising to find out that many parents had delayed or were delaying answering that question for as long as possible.

The question encompasses more than who pays the bills and makes sure their child takes their meds. It is about advocacy, care, and all the little things. I talk about this in great depth in the book.

Another issue I heard from every parent was a concern about law enforcement and the safety of their son or daughter. They were concerned that their kid would one day be seriously hurt if they had a run-in with an officer who hadn't received Crisis Intervention Team training.

I can tell you firsthand that the experiences we've had with officers who had received this special training made all the difference.

Not surprisingly, when I delved into their biggest financial challenges, I found that in almost every case, the mental illness had blindsided the family and had stressed their financial plans to the limit. In some cases, it broke those plans.

Families were worried about future health care costs and accessibility. They worried about how they were going to pay for care and treatment. And one of their biggest worries was whether they would somehow jeopardize their child's eligibility

for government programs—benefits their son or daughter would need not just for the monthly income they provide but more importantly, for access to treatment.

People wanted to know what tools or programs were available that could help them. They wanted to know more about ABLE accounts, special needs trusts, and any other smart financial planning tools they should know about.

They also wanted to know how to connect with the right kinds of professionals, people who understood their concerns. They wanted attorneys and planners who really grasped the depth of their situation.

And when I asked how successful they felt they'd been in dealing with the financial aspects of mental illness, I found that the responses varied widely. But one thing was common: You have to be proactive. If you sit back and do nothing, the outcomes are not good.

If you have a family member with special needs, these are the concerns we focus on in our financial planning practice when we work with families like yours every day. It's about finding the best solutions for your particular family. It's about finding out what your deepest, most important concerns and challenges are and making sure your financial plan reflects those concerns and challenges.

If you'd like to talk more about your situation, I hope you'll feel free to give us a call so we can start that conversation.

—Allen Giese

STEVE'S PEARLS OF WISDOM

Some days there is more news than others, but the newspaper always has the same number of pages.

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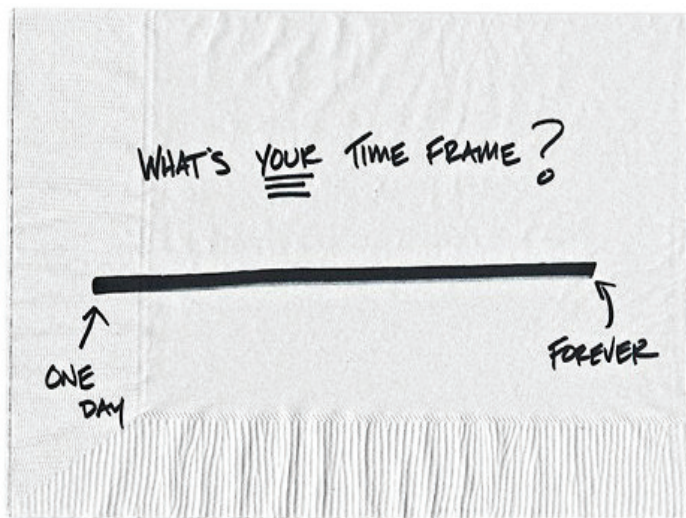
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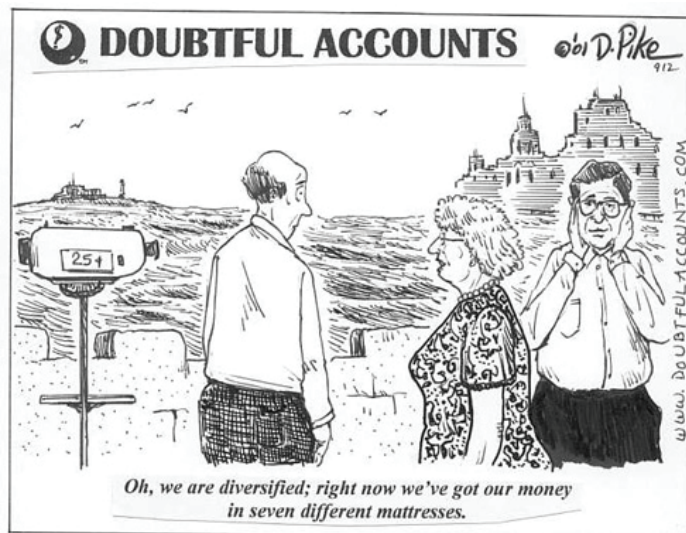
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FROM CARL RICHARDS' NAPKIN BLOG



FINAL THOUGHT



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