

Market Update Week Of 1-20-14 and A Look at Why Family Wealth May Fade

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Thomas Cymer CFP®, CRPC® Presents:

# WEEKLY ECONOMIC UPDATE

January 20, 2014

**WEEKLY QUOTE**

"The friend who holds your hand and says the wrong thing is made of dearer stuff than the one who stays away."

- Barbara Kingsolver

**WEEKLY TIP**

With a durable financial power of attorney, someone you trust can act on your behalf to manage your finances and investments if you cannot.

**WEEKLY RIDDLE**

Dave is at the hardware store to buy something for his house. Yesterday, he bought 1 for \$1. The week before he bought 10 for \$2 and his friend bought 100 for \$3. Today he bought 907 for \$3. If the prices haven't changed, how is this possible?

**Last week's riddle:**

David put on a white shirt with three large holes in it and went to the grocery store. No one gave him a funny look; no one objected to it. What kind of shirt was David wearing?

**Last week's answer:**

A white T-shirt.

**INFLATION RISES IN DECEMBER**

Labor Department reports showed the Consumer Price Index up 0.3% last month (with core CPI rising 0.1%) and the Producer Price Index advancing 0.4% (core PPI went north 0.3%). If these spikes foreshadow greater inflation for 2014, they do little to alter the big picture of 2013 - a year in which consumer prices increased only 1.5% and wholesale prices rose just 1.2%. Annualized consumer inflation is beneath the Federal Reserve's 2.0% target and hasn't exceeded 2% for two years. The last two consecutive years in which consumer prices rose less than 2% were 1997-98.<sup>1,2</sup>

**A MILD LIFT FOR RETAILERS**

Economists polled by Briefing.com thought retail sales would be flat in December. They rose 0.2% instead (0.7% with auto buying factored out). The Census Bureau revised November's 0.7% advance down to 0.4%.<sup>3</sup>

**CONSUMER SENTIMENT MISSES EXPECTATIONS**

The initial January consumer sentiment index from the University of Michigan took a major dip, dropping to 80.4 from the final December figure of 82.5. The consensus forecast of analysts surveyed by Briefing.com was for a much higher reading - 83.0.<sup>3</sup>

**LESS GROUNDBREAKING AT YEAR'S END**

This is hardly surprising given winter weather: the Census Bureau reported a 9.8% drop in housing starts for December, plus a 3.0% decline in building permits. For 2013, housing starts increased 18.3% and permits 17.5%.<sup>4</sup>

**NASDAQ OUT OF THE RED YTD**

Thanks to a 0.55% 5-day advance, the tech-heavy Nasdaq became the first of the big three to go positive so far for 2014. The Dow gained 0.13% last week; the S&P 500 retreated 0.20%. Friday, the indices settled as follows: DJIA, 16,458.56; NASDAQ, 4,197.58; S&P, 1,838.70.<sup>5</sup>

**THIS WEEK:** Monday is Martin Luther King, Jr. Day and U.S. stock and bond markets are closed; overseas, China's government releases Q4 and 2013 GDP numbers. Tuesday brings earnings from Delta Airlines, Texas Instruments, Verizon, Halliburton, IBM, Johnson & Johnson, TD Ameritrade and The Travelers. More earnings reports arrive Wednesday from eBay, Logitech, Netflix and SanDisk, and the annual World Economic Forum begins in Switzerland. Thursday offers data on December existing home sales and initial jobless claims, Q4 results from Alterra and Alaska Airlines and the Conference Board's December leading indicators index. Friday, nothing major is scheduled.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-0.71	+21.05	+19.75	+5.53
NASDAQ	+0.50	+33.85	+34.89	+9.61

S&P 500	-0.52	+24.16	+23.26	+6.13
<b>REAL YIELD</b>	1/17 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.58%	-0.64%	1.81%	1.83%

Sources: USATODAY.com, bigcharts.com, treasury.gov - 1/17/14<sup>6,7,8,9</sup>

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

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## Why Does Family Wealth Fade Away?

*A lack of vision is often the answer to that question.*

Provided by Thomas Cymer CFP®, CRPC®

**Many are the stories of family wealth lost.** In the late 19th century, industrial tycoon Cornelius Vanderbilt amassed the equivalent of \$100 billion in today's dollars - but when 120 of his descendants met at a family gathering in 1973, there were no millionaires among them.<sup>1</sup> Barbara Woolworth Hutton - daughter of the founder of E.F. Hutton & Company, heiress to the Woolworth's five-and-dime empire - inherited \$900 million in inflation-adjusted dollars but passed away nearly penniless (her reputed net worth at death was \$3,500).<sup>1,2</sup>

Why do stories like these happen? Why, as the *Wall Street Journal* notes, does an average of 70% of family wealth erode in the hands of the next generation, and an average of 90% of it in the hands of the generation thereafter? And why, as the Family Business Institute notes, do only 3% of family businesses survive past the third generation?<sup>1,3</sup>

Lost family wealth can be linked to economic, medical and psychological factors, even changes in an industry or simple fate. Yet inherited wealth may slip away due to a far less dramatic reason.

**What's more valuable, money or knowledge?** Having money is one thing; knowing how to make and keep it is another. Business owners naturally value control, but at times they make the mistake of valuing it too much - being in control becomes more of a priority than sharing practical knowledge, ideas or a financial stake with the next generation. Or, maybe there simply isn't enough time in a business owner's 60-hour workweek to convey the know-how or determine an outcome that makes sense for two generations. A good succession planner can help a family business deal with these concerns.

As a long-term direction is set for the family business, one should also be set for family money. Much has been written about baby boomers being on the receiving end of the greatest generational wealth transfer in history - a total of roughly \$7.6 trillion, according to the *Wall Street Journal* - but so far, young boomers are only saving about \$0.50 of each \$1 they inherit. If adult children grow up

with a lot of money, they may also easily slip into a habit of spending beyond their means, or acting on entrepreneurial whims without the knowledge or boots-on-the-ground business acumen of mom and dad. According to online legal service Rocket Lawyer, 41% of baby boomers (Americans now aged 50-68) have no will. Wills are a necessity, and trusts are useful as well, especially when wealth stands a chance of going to minors.<sup>1,4</sup>

**Vision matters.** When family members agree about the value and purpose of family wealth - what wealth means to them, what it should accomplish, how it should be maintained and grown for the future - that shared vision can be expressed in a coherent legacy plan, which can serve as a kind of compass.

After all, estate planning encompasses much more than strategies for wealth transfer, tax deferral and legal tax avoidance. It is also about conveying knowledge - and values. In the long run, nothing may help family wealth more.

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