EVENSKY & KATZ / FOLDES FINANCIAL
CELEBRATING 35 YEARS OF WEALTH MANAGEMENT

NewsLetter Vol. 13, No. 2 – April 2020

Dear Reader:

I don't know if you've noticed, but the market's been a bit bumpy lately, so I decided to send out my NewsLetter early to give you something to read other than financial pornography designed to scare the begeebies out of you.

FROM MY FRIEND ALEX

This water fountain allows the water to flow down so dogs can drink, too.

Trash cans in Copenhagen are angled
so that cyclists an throw their trash while cycling.

This inflatable mattress turns the back of your car into a bed.

Traffic lights in Ukraine. The pole lights up too.

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NICE TO SEE

Forbes catching up with the news. The headline of the article was "The Stunning Problem with the 4% Retirement Income Rule in One Chart." The point of the article was that relying on average long-term returns (such as four percent) can be dangerous given that the timing of returns (known as "sequence of withdrawal") can drastically change the long-term outcome. Well, that's not a surprise; in fact, it was the whole point of my friend Bill Bengan's classic article "Determining Withdrawal Rates Using Historical Data," published in October 1994! Not bad. It only took 26 years for Forbes to discover this.

https://www.forbes.com/sites/robertpagliarini/2020/01/22/the-stunning-problem-with-the-4-retirement-income-rule-in-one-chart/#459f578a21cb

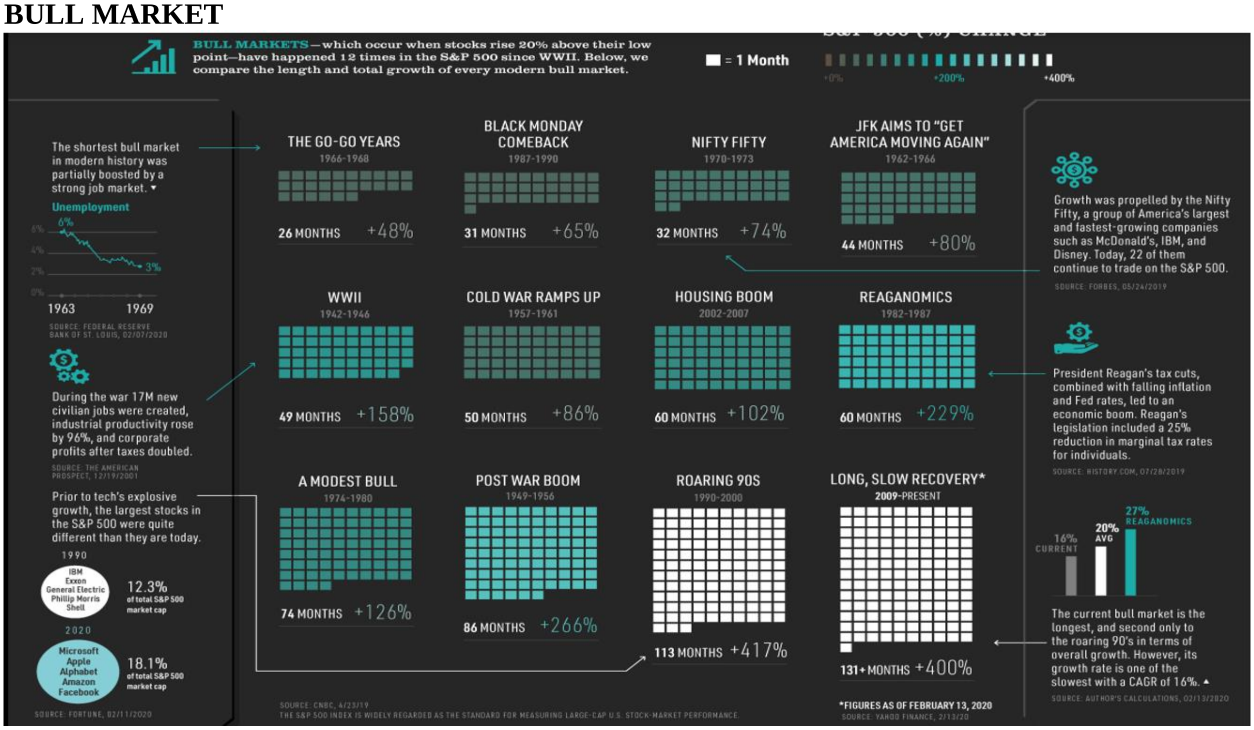
OUCH

INVESTORS FLEE

"Hedge Fund Outflows Neared $100 Billion in 2019, Most Since 2016," Melissa Karsh Bookmark, January 23, 2020, 2:42 AM; January 23, 2020, 4:54 PM (Bloomberg) — Hedge funds suffered almost $98 billion in net outflows in 2019, the most in three years, as managers trailed the stock market rally.

https://static1.squarespace.com/static/594976df29687fe3e672bc85/t/5e39d2c74e25c17488f19a67/1580847815820/Boomber+hedge+fund+outflows.pdf

BULL MARKET



HOW LONG?

According to the IRS, the periods of limitations that apply to income tax returns are as follows:

- Keep records for three years if situations (4), (5), and (6) below do not apply to you.
- Keep records for three years from the date you filed your original return or two years from the date you paid the tax, whichever is later, if you file a claim for credit or refund after you file your return.
- Keep records for seven years if you file a claim for a loss from worthless securities or bad debt deduction.
- Keep records for six years if you do not report income that you should report, and it is more than 25 percent of the gross income shown on your return.
- Keep records indefinitely if you do not file a return.
- Keep records indefinitely if you file a fraudulent return. [my favorite]
- Keep employment tax records for at least four years after the date that the tax becomes due or is paid, whichever is later.

https://www.irs.gov/businesses/small-businesses-self-employed/how-long-should-i-keep-records

According to *Kiplinger:*

One Year

Keep pay stubs at least until you check them against your W-2s. If all the totals match, you can then shred the pay stubs. Take a similar approach with monthly brokerage statements—you can generally shred them if they match your year-end statements and 1099s.

Three Years

Generally speaking, you should keep documents that support any income, deductions, and credits claimed on your tax return for at least three years after the tax-filing deadline. Among other things, this applies to:

- W-2 forms reporting income
- 1099 forms showing income, capital gains, dividends, and interest on investments
- 1098 form if you deducted mortgage interest
- Canceled checks and receipts for charitable contributions
- Records showing eligible expenses for withdrawals from health savings accounts and 529 college-savings
- Plans
- Records showing contributions to a tax-deductible retirement-savings plan, such as a traditional IRA

Six Years

The IRS has up to six years to initiate an audit if you've neglected to report at least 25 percent of your income. For self-employed people, who may receive multiple 1099s reporting business income from a variety of sources, it can be easy to miss one or overlook reporting some income. To be on the safe side, they should generally keep their 1099s, receipts, and other records of business expenses for at least six years.

Seven Years

Sometimes your stock picks don't turn out so well, or you loan money to a deadbeat who can't pay you back. If that's the case, you might be able to write off any worthless securities or bad debts. But make sure you keep related records and documents for at least seven years. That's how much time you have to claim a bad debt deduction or a loss from worthless securities.

https://www.kiplinger.com/article/taxes/T056-C005-S001-how-long-should-you-keep-tax-records.html

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FOR MY GOLFER FRIENDS

MORE ON GURUS

From my friend, Larry Swedroe's contribution to Advisor Perspective. Larry is one of the most thoughtful and insightful practitioners I've had the privilege of knowing and *Advisor Perspective* is the Rolls Royce of professional publications.

"There's a large body of evidence demonstrating that stock market forecasts have no value (though they supply plenty of fodder for my writings) because their accuracy is no better than one would randomly expect. For example, David Bailey, Jonathan Borwein, Amir Salehipour, and Marcos López de Prado, authors of the March 2017 study, Evaluation and Ranking of Market Forecasters, covering 6,627 market forecasts (specifically for the S&P 500 Index) made by 68 forecasters who employed technical, fundamental and sentiment indicators, and the period 1998 through 2012, found:

- Across all forecasts, accuracy was 48% – worse than the proverbial flip of a coin.
- Two-thirds of forecasters had accuracy scores below 50%.
- About 40% of forecasters had an accuracy score between 40% and 50%.
- About 3% of forecasters fell in the left tail, with accuracy scores below 20%.
- About 6% of forecasters fell in the far right tail, with accuracy scores between 70% and 79%.
- The highest accuracy score was 78% and the lowest was 17%.

The distribution of forecasting accuracy by the gurus examined in the study looks very much like the common bell curve –what you would expect from random processes. That makes it very difficult to tell if any skill is present.

Evidence such as this led Warren Buffett to state, 'We have long felt that the only value of stock forecasters is to make fortune-tellers look good. Even now, Charlie (Munger) and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children.' Remarking on the value of forecasts, *Wall Street Journal* columnist Jason Zweig stated 'Whenever some analyst seems to know what he's talking about, remember that pigs will fly before he'll ever release a full list of his past forecasts, including the bloopers.'"

https://www.advisorperspectives.com/articles/2020/01/06/accountability-proves-the-incompetence-of-market-forecasters

NATURE AT HER MOST UNIQUE

From my nephew, Ken

https://www.facebook.com/SuccessfulFlow/videos/1585783688223141/UzpfSTEwMDAwMDUzMDUzNjM0NzozMTQ2NTYwMzE4NzA0OTU1/

WHY YOU MIGHT WANT TO HAVE YOUR ADVISOR SIGN THE "OATH" (IT'S AT THE END OF THE NEWSLETTER)

FINRA SOCKS MERRILL, RAYMOND JAMES FOR $12 M

FINRA Orders Merrill Lynch, Pierce, Fenner & Smith Inc., Raymond James & Associates, Inc., and Raymond James Financial Services, Inc. to Pay More Than $12 Million in Restitution to Customers for Supervisory Failures Involving 529 Plan Share Classes

https://www.finra.org/media-center/newsreleases/2019/finra-orders-merrill-lynch-pierce-fenner-smith-raymond-james

THIS RHYMES

Wells Fargo's Ex-CEO Banned, Fined $17.5M Over Sales Scandal

"The Office of the Comptroller of the Currency has banned Wells Fargo's former CEO from the industry and fined him and six other executives in connection with the bogus account scandal at the company's retail bank, according to news reports….

Stumpf had resigned from the firm in October 2016 following revelations that thousands of its employees opened millions of fake debit and credit accounts with customers' knowledge. The $185 million fine Wells Fargo paid that year was only the beginning of regulatory scrutiny that has since extended to most of the company's business divisions, including its wealth management unit."

https://financialadvisoriq.com/c/2634783/309643/wells_fargo_banned_fined_over_sales_scandal?referrer_module=emailMorningNews&module_order=0&login=1&code=WkdGMmFXUkFaWFpsYm5OcmVTNWpiMjBzSURRek16RTJOek1zSURnd01UUTJPVFUyTkE9PQ

OH OH

Banks Are Handing Out Beefed-Up Credit Lines No One Asked For

By Michelle Davis

- Banks boost limits more often for subprime, near-prime clients
- Outstanding debt passes pre-crisis peak, reaching $880 billion

January 2020

https://www.bloomberg.com/news/articles/2020-01-23/banks-are-raising-credit-card-limits-without-asking-customers

$100 BILLION UP FOR GRABS

According to Barron's, "There's Nearly $100 Billion in Missing Money, and It's Easier Than Ever to Claim. Here's How." The story links to websites used to search for unclaimed funds.

I just got $119 back!

https://www.barrons.com/articles/theres-nearly-100-billion-in-forgotten-money-and-its-easier-than-ever-to-claim-heres-how-51581771601

GOOD NEWS?

The CNBC headline sounds pretty positive, but I see a different story.

41% of Americans would be able to cover a $1,000 emergency with savings

I read that 59% of Americans could not cover a $1,000 emergency with savings. When I add to that a Bankrate survey that found the average unexpected expense was $3,500 and that last year 28% of people experienced a financial emergency, the news is pretty depressing.

https://www.cnbc.com/2020/01/21/41-percent-of-americans-would-be-able-to-cover-1000-dollar-emergency-with-savings.html

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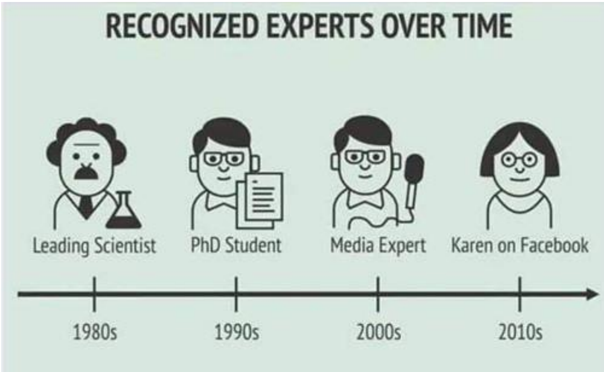
TOO TRUE



SMART NOT BRILLIANT

Asset allocation works

From JP Morgan's always excellent *Guide to the Markets* (12/31/2019)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%
Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%
DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%
REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%
Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%
Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%
Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%
High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%
Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%
Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%

https://am.jpmorgan.com/blob-gim/1383407651970/83456/MI-GTM_1Q20.pdf?segment=AMERICAS_US_ADV&locale=en_US

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SOME AMAZING PICTURES
From my friend Judy

This is where the great wall of China ends !!

The super-moon on November 14,2016, will mark the closest the full moon has been to earth in about 70 years.

8 Ton Orca jumping 15ft out of the water !!

Humpback whales feeding in Alaska.

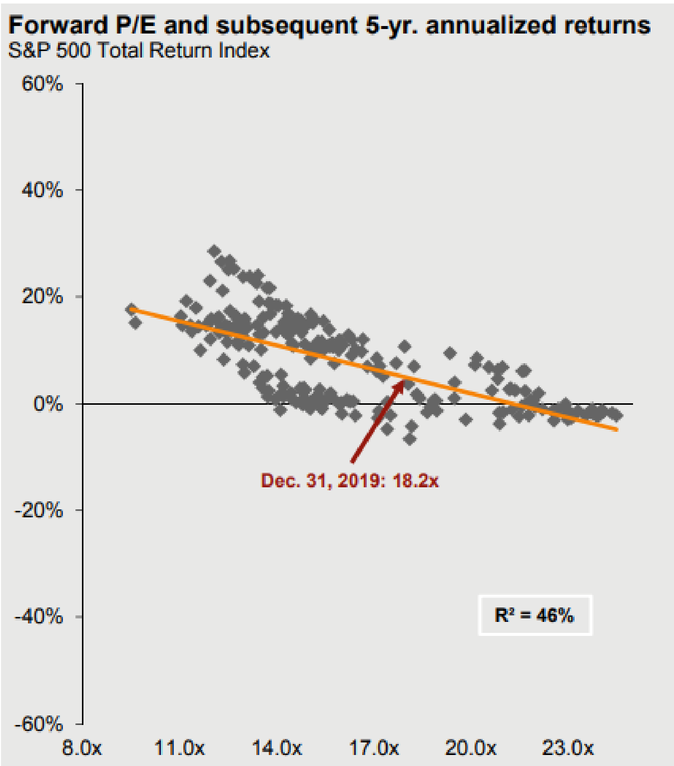
The Volcanic Island of Aogashima, Japan Inhabited by 200 villagers.

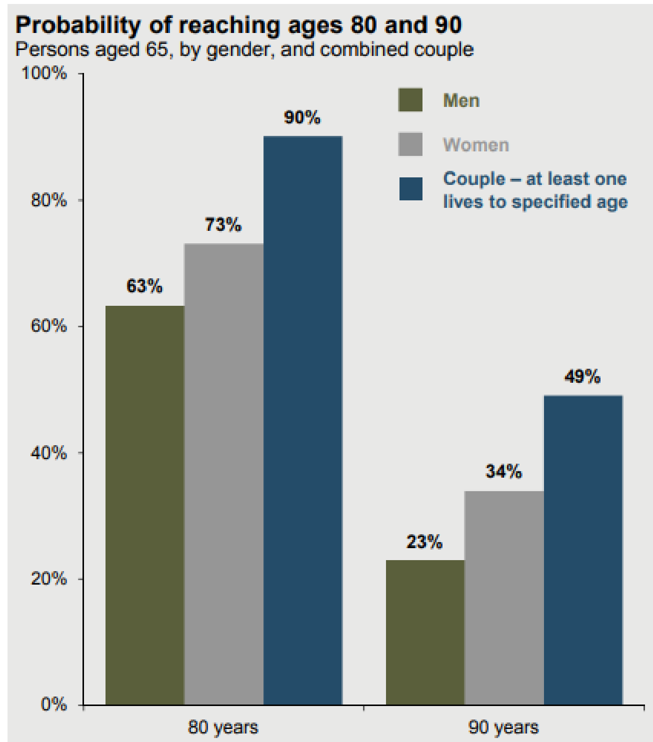
A village in Yemen.

https://static.uglyhedgehog.com/upload/2017/1/18/h1-456416-doc_20170113_wa0013.pdf

FOOD FOR THOUGHT

Also, from JP Morgan's *Guide to the Markets* (12/31/2019):





Characteristics of bull and bear markets

Market Corrections	Bear markets: Market peak	Bear markets: Bear return*	Bear markets: Duration (months)*	Macro environment: Recession	Macro environment: Commodity spike	Macro environment: Aggressive Fed	Macro environment: Extreme valuations	Bull markets: Bull begin date	Bull markets: Bull return	Bull markets: Duration (months)
1 Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	◆			◆	Jul 1926	152%	37
2 1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	◆		◆		Mar 1935	129%	23
3 Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	◆			◆	Apr 1942	158%	49
4 Eisenhower Recession - Worldwide recession	Aug 1956	-22%	14			◆	◆	Jun 1949	267%	85
5 Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6				◆	Oct 1960	39%	13
6 1966 Financial Crisis - Credit crunch	Feb 1966	-22%	7			◆	◆	Oct 1962	76%	39
7 Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	◆	◆	◆		Oct 1966	48%	25
8 Stagflation - OPEC oil embargo	Jan 1973	-48%	20	◆	◆			May 1970	74%	31
9 Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	◆	◆	◆		Mar 1978	62%	32
10 1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	60
11 Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	30	◆			◆	Oct 1990	417%	113
12 Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	60
Current Cycle								Mar 2009	378%	129
Averages	-	**-42%**	**22**					-	**164%**	**54**

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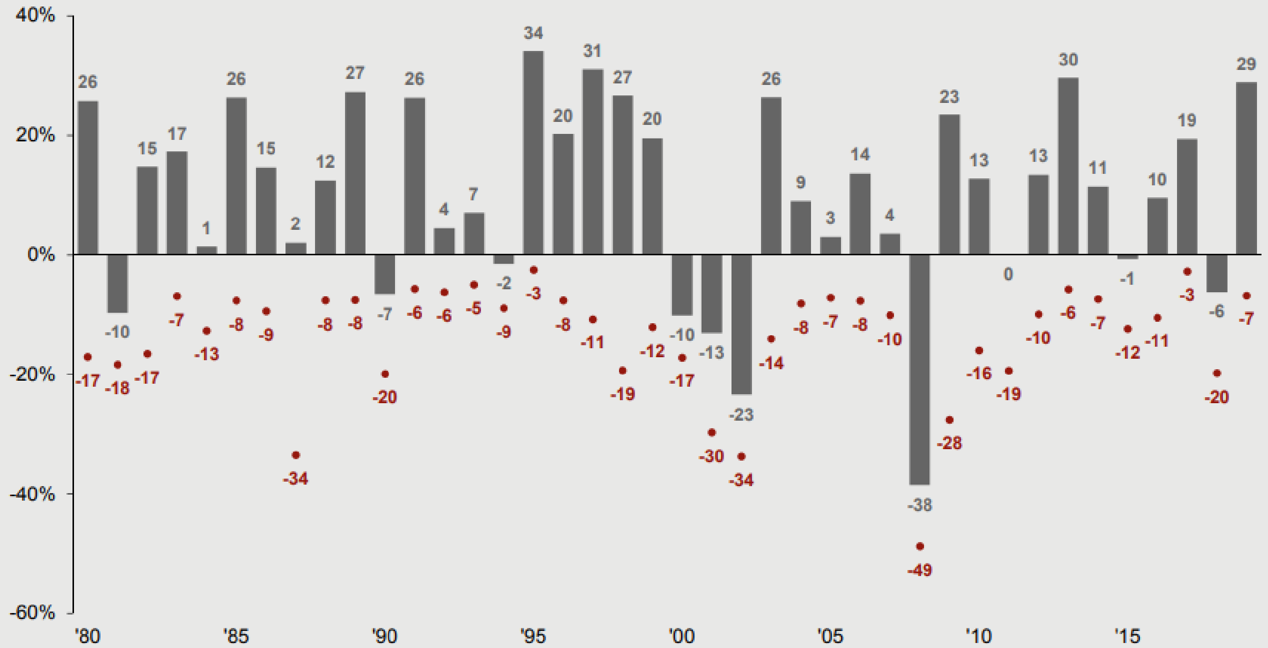
S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 30 of 40 years



Correlations and volatility

Alternatives

	U.S. Large Cap	EAFE	EME	Bonds	Corp. HY	Munis	Currcy.	EMD	Cmdty.	REITs	Hedge funds	Private equity	Ann. Volatility
U.S. Large Cap	1.00	0.85	0.73	-0.29	0.73	-0.21	-0.38	0.40	0.53	0.66	0.85	0.76	13%
EAFE		1.00	0.88	-0.23	0.74	-0.13	-0.58	0.55	0.55	0.49	0.86	0.85	14%
EME			1.00	-0.08	0.76	-0.03	-0.68	0.71	0.60	0.44	0.74	0.78	16%
Bonds				1.00	0.08	0.88	-0.04	0.49	-0.08	0.21	-0.23	-0.33	3%
Corp. HY					1.00	0.05	-0.44	0.75	0.67	0.63	0.74	0.64	6%
Munis						1.00	-0.07	0.53	-0.14	0.26	-0.23	-0.30	4%
Currencies							1.00	-0.54	-0.55	-0.14	-0.32	-0.63	7%
EMD								1.00	0.45	0.49	0.44	0.37	6%
Commodities									1.00	0.30	0.57	0.64	14%
REITs										1.00	0.53	0.43	13%
Hedge funds											1.00	0.79	5%
Private equity												1.00	6%

SAYING GOODBY

A very thoughtful piece my friend Katharina shared with me:

> Not enough credit is given to the painful process of saying goodbye to stuff, be it papers, letters, a childhood toy, a broken lamp I intended to fix, a hooked rug I never finished, a dress I will never fit into. All so very painful.
>
> I am not a hoarder or an avid collector; I pity those who are. I don’t allow stops at garage sales and I have strict rules about shopping, one piece in — one piece out. This does not, however, exempt me from the constant struggle of saying goodbye to stuff.
>
> And where does my stuff come from? It seems to seep in through cracks, fly in through open windows and leap to a hiding place when I open the door to walk the dog. Despite my resolve, I still pick up a bargain, find a treasure, and optimistically hope to return a discarded object to its former glory.
>
> The mail is also a culprit. At one time it brought the anticipation of personal correspondence. Now mail brings only requests for money and opportunities to spend. I am not immune to the solicitations. I put requests from charities on my desk to study, I lay catalogs near my chair to peruse. These, of course, will all need to be dealt with at a later date. Ah, that later date.
>
> Most of my friends are downsizing and going through the anguish of sorting and discarding. I scoff at their bag of mildewed children’s books, but don’t you dare suggest I toss the stuffed animal resembling my first dog.
>
> When the necessity to say good-bye arises, I may ask myself if I will need it in the future, which family members I should give it to when I die, or when I will finish the project. The difficult questions are, when was the last time I used it, will my family members want it, will I ever finish it, whether it is a book, a craft, or a project. It all comes down to giving up dreams: the dream that I would use it, pass it down to the next generation, or complete it. Every object we say good-bye to is saying good-bye to a dream. No wonder it is such a painful process.
>
> These can be large dreams such as the cabin we rarely make use of, or small ones, the recipe we never tried. These dreams are difficult to give up; however, it is these very dreams that make us human and positive and hopeful.

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GREAT REMINDER

From Dominic Chu on Twitter

HERE'S THE ORIGINAL

From Ron Lieber's most excellent article

Freaked Out by the Stock Market? Take a Deep Breath

When the stock market shudders a few days in a row, it is tempting to do something, and fast. Read this first.

The Change in the S&P 500 Over the Last 10 Years*

*And most of you should be investing for 30 to 60 years down the road.

https://www.nytimes.com/2020/02/26/your-money/stock-market-changes-virus.html?referringSource=articleShare

SOME FUN STUFF
From my friend Peter

Interviewer: "So, tell me about yourself."
Me: "I'd rather not. I kind of want this job."
~ ~ ~
Remember, if you lose a sock in the dryer, it comes back as a Tupperware lid that doesn't fit any of your containers.
~ ~ ~
If you're sitting in public and a stranger takes the seat next to you, just stare straight ahead and say, "Did you bring the money?"
~ ~ ~
I finally got eight hours of sleep. It took me three days, but whatever.
~ ~ ~
When someone asks what I did over the weekend, I squint and ask, "Why, what did you hear?"
~ ~ ~
That moment when you walk into a spider web suddenly turns you into a karate master.
~ ~ ~
Sometimes, someone unexpected comes into your life out of nowhere, makes your heart race, and changes you forever. We call those people cops.
~ ~ ~
My young daughter was wearing a beat-up old watch a friend had given her.
I asked her, "Does it tell the time?"
My daughter looked at me and said, "No, you have to look at it."
~ ~ ~
To me, "drink responsibly" means don't spill it.

CREATIVE PHOTOS
From my friend Peter











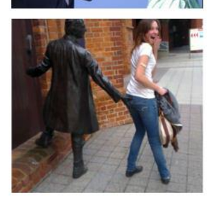

SURE THINGS

More from Larry. For many years he's been compiling a list of predictions that so-called "gurus" had made for the upcoming year, along with some items he heard frequently from investors, for a consensus on the year's "sure things."

Here is how he ended 2019 with respect to the eight sure things he was tracking:

1. U.S. economic growth would continue strong, slowing just slightly from about three percent to percent. In 2019 the U.S. economy had a full-year growth rate of 2.3%. With growth appearing to slow more than expected, we'll score this -1.

2. Corporate profit growth would continue to be strong, with Morgan Stanley predicting that S&P 500 companies' earnings would reach a cumulative $178 a share, an increase of about eight percent. The latest (December 16) consensus analysts' estimates for S&P 500 operating earnings per share have been lowered to about $162. Score: -1.

3. The U.S. stock market would have a strong year. Bloomberg gathered 14 forecasts for 2019 from the firms it tracks, and the average prediction was for the S&P 500 Index to rise by about 11 percent. The S&P 500 Index closed the year at 3,231, and the SPDR® S&P 500 ETF (SPY) provided a total return of more than 30 percent. While the forecasted return of 11 percent was off by about 20 percent, we'll still give this a score of +1.
4. With economic growth moderating, inflation would remain tame. The consensus forecast of professional economists was for the CPI to increase by just 2.3 percent. The market certainly agreed… right in line with the full-year forecast. Score: +1.

5. With slowing economic growth and tame inflation, it would be safe to extend maturities. Futures markets showed a 91 percent probability of no rate increases in 2019 by the Federal Reserve. Thus, longer-term bonds would outperform. Vanguard's Long-Term Treasury Index ETF (VGLT) returned about 14 percent, far outperforming Schwab's Intermediate-Term U.S. Treasury ETF and Schwab's Short-Term U.S. Treasury ETF. Score: +1.

6. With the Federal Reserve lowering expectations for further rate increases, the dollar would weaken versus the euro. The U.S. Dollar Index (DXY) closed 2018 at 96.2 and ended the year slightly stronger at 97.0. Score: -1.

7. Concerns over massive budget deficits combined with the weaker outlook for the dollar would lead to gold putting in a strong performance. Gold closed 2018 at $1,282. It finished the first half at $1,515, an increase of about 15 percent. Score +1.

8. With continued uncertainty over the risk of a trade war, the problem of Brexit, etc., volatility would remain high. The VIX ended 2018 at 25.42. The VIX finished the year well below that at 13.78. Score: -1.

THE MORAL

Our final 2019 score comes to four winners and four losers, a net score of 0. Here's the historical evidence on my list of sure things. As you can see, only about one third turned out to be true. Apparently, sure things are not so sure. Keep this in mind the next time you are tempted to react to some forecast, either yours or anyone else's.

Year	Number of Sure Things	Yes/True (+)	No/False (-)	Tie/Draw	Net Score
2019	8	4	4	0	0
2018	7	5	1	1	+5
2017	8	2	6	0	-4
2016	8	2	6	0	-4
2015	8	3	4	1	-1
2014	10	3	7	0	-4
2013	7	2	5	0	-3
2012	8	3	4	1	-1
2011	8	1	7	0	-6
2010	5	1	4	0	-3
Total (%)	77	26 (34%)	48 (62%)	3 (4%)	-21

https://www.advisorperspectives.com/articles/2020/02/11/final-review-of-2019s-sure-things

MORE REASONS YOU SHOULD HAVE YOUR ADVISOR SIGN THE FIDUCIARY OATH

NICE ROUND NUMBER
From *USA Today*

"Wells Fargo to pay $3B settlement for violating antifraud rules, resolving fake account probes

Wells Fargo has agreed to pay $3 billion to settle claims related to its creation of millions of fake accounts to meet sales goals, including $500 million that will be returned to investors, the Securities and Exchange Commission said Friday.

The agreement, with the SEC and Justice Department, says the banking giant misled investors about its strategy of selling additional financial products to existing customers, according to the SEC. That "cross-sell" strategy was "inflated by accounts and services that were unused, unneeded, or unauthorized," the SEC said.

From 2002 to 2016, Wells Fargo opened millions of financial accounts that were unauthorized or fraudulent. Wells Fargo also pressured customers to buy products they didn't need, the SEC said."

https://www.usatoday.com/story/money/2020/02/21/wells-fargo-settlement-bank-reaches-3-billion-settlement-feds/4835436002/

CLIENT LOAN PRESSURES AT MERRILL MADE THIS FA JUMP SHIP
From *Financial Advisor*

"Jonathan Trusty says he and his FA team fled Merrill Lynch to escape the pressure they felt to shore up client loans if they wanted to maintain their prior year's compensation levels.
Trusty and his team — along with the $200 million in client assets at his Nashville, Tenn.-based firm, Southern Oak Wealth Group — moved to the Sanctuary Wealth RIA network in June last year.

At Merrill Lynch, members of Trusty's team could qualify for the team's top earners' payout rates if 30% of their clients had loans — such as home equity loans, cash-out mortgage refinancing or margin borrowing — according to the compensation plan. Bolstering clients' loans was not the only route for team members to win those higher grid rates, however.

"We did not feel a fiduciary partnership [with Merrill Lynch] when we were basically driven to do things that we didn't feel comfortable doing," Jonathan Trusty, Sanctuary Wealth Partners

Alternatively, the FAs could get the same payout result if at least 30% of their clients had taken out those loans or used the bank's trust services or bought certain types of insurance coverage, Trusty says.

Under Merrill Lynch's 2020 pay formulas, an FA's primary compensation is based on a productivity grid that largely depends on the income produced for the firm and parent bank. That individual productivity grid is product-neutral.

There's also a 2020 team grid that can boost an individual FA's compensation. The FA receives an additional payout level based on the team's highest producer.

The FA may become eligible for the team grid boost by voluntarily pursuing incentive goals, which include, as one option, having a pre-set minimum percentage of clients take out loans. At the same time, they must meet other metrics to receive the team grid boost — including adding to their professional accreditations and increasing their clients' engagement with other Bank of America services.

If FAs do seek to meet the client lending goals, borrowing by multiple generations of their clients' families helps the FAs meet the pre-set minimum.

A spokeswoman for the wirehouse says "an advisor and team's growth goals are completely product agnostic and have been designed to encourage advisors to meet more of their clients' needs."

A 'shitty' loan
But during Trusty's time at Merrill, his team perceived the loans as the only viable way for advisors at the earlier stages of their careers — who typically had clients who didn't need insurance products or trust services — to achieve those results, he says.

Trusty says he and his team of FAs had an unenviable choice, which was, as he described it: either accept that some members would get a lower payout rate or get more of their clients to borrow. That would have likely meant helping clients take out margin loans, Trusty says.
"It's a shitty loan," Trusty says about the margin loans.
His team members approached Merrill Lynch's management about what they characterized as a problem. After getting no answer for three months, the answer they finally got from management provided them with no relief, according to Trusty.

"We did not feel a fiduciary partnership when we were basically driven to do things that we didn't feel comfortable doing," Trusty says."

FIDUCIARY OATH

PUTTING MY CLIENTS' INTERESTS FIRST

◆◆◆◆◆

I believe in placing my clients' best interests first.
Therefore, I am proud to commit to the following five fiduciary principles:

I will always put my clients' best interests first.

I will act with prudence; that is, with the skill, care, diligence, and good judgment of a professional.

I will not mislead clients, and I will provide conspicuous, full and fair disclosure of all important facts.

I will avoid conflicts of interest.

I will fully disclose and fairly manage, in my clients' favor, any unavoidable conflicts.

Advisor ____________________________

Firm Affiliation ____________________________

Date ____________________________

EVENSKY & KATZ / FOLDES FINANCIAL
CELEBRATING 35 YEARS OF WEALTH MANAGEMENT

NewsLetter Vol. 13, No. 2 – April 2020

I'M AMAZED
At what investors can learn in one day.

Wall Street Journal March 4th
BREAKING NEWS
"The S&P 500 rose more than four percent, bouncing back after a steep drop as investors reacted to Joe Biden's strong Super Tuesday showing."

Wall Street Journal March 5th
BREAKING NEWS
"Stocks plunged more than three percent as investors predicted the economic damage from the coronavirus could be much worse than initially expected."

No wonder I refer to this as financial pornography.

AN ASTUTE OBSERVATION

By Bill Winterberg on Twitter

Monday: I'm a market-timing genius!
Tuesday: I've made a huge mistake.
Wednesday: I'm a market-timing genius!
Thursday: I've made a huge mistake.

VERY COOL. HOW DOES HE DO IT?
From my friend Peter
https://youtu.be/vlufK5NAI_Y

And a last-minute addition from Natalie
Yes! Very cool! It reminds me of the TV show "The Carbonaro Effect"
https://www.trutv.com/shows/the-carbonaro-effect

Hope you enjoyed this issue, and I look forward to "seeing" you again.

Harold Evensky
Chairman
Evensky & Katz / Foldes Financial Wealth Management

Important Disclosure

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