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Resolute Connections

In this month's newsletter, *Does Dollar-Cost Averaging Really Work?* reviews the research that suggests dollar-cost averaging (as most of us do via our work-related retirement plans) is normally a losing strategy, that investing a lump sum (if you have one) tends to produce better investment results.

Common Estate Planning Pitfalls discusses the many mistakes a lot of people make concerning estate planning, and how to avoid a few of the major pitfalls.

Punching Above Our Weight concerns one of the unexpected results of the recent rally in American stocks, combined with a market malaise throughout the rest of the world. The U.S. companies, in aggregate, now make up more than 40% of the global market capitalization of all publicly-traded stocks, this is up from just over 32% ten years ago.

And *Introducing the New Apple Card* reviews the new card that is actually issued by Goldman Sachs, but what most consumers will see is a digital card that lives in the Wallet app of their iPhones.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Does Dollar-Cost Averaging Really Work?

You might read articles in the consumer press about the wonders of dollar-cost averaging. The basic idea is that instead of putting a lump sum of cash to work in the

investment markets all at once, you spread out your investing over a period of weeks or months. That way, if the market goes down while you're investing, your next scheduled investment will be buying stocks at a bargain.

Unfortunately, the research suggests that dollar-cost averaging is normally a losing strategy, that investing a lump sum (if you have one) tends to produce better investment results.

If you're investing when the start date falls right before a dramatic crash or the start of an overall 12-month slump, then investing in stages will turn out to be a winner. But how often does that happen?

One study, by the Vanguard fund group, found that over rolling 10-year periods for the U.S. market between 1926 and 2011, and the UK market from 1976 to 2011, and the Australian market from 1984-2011, lump sum investing generated a higher total return than dollar-cost averaging 67 percent of the time. And that makes sense, because the markets are delivering positive returns far more often than they are mired in a bear market. Another study from the Seeking Alpha organization found that over the last 27 years, a 12-month investment in the S&P 500 provided an average return of 8.77%, while using dollar-cost averaging over the same period would have returned only 4.77%. When substituting bonds for cash as the investment of the money not deployed in the market, the dollar-cost averaging strategy came closer to the lump sum average returns, but still posted a lower average return.

However, dollar-cost averaging does have one thing in its favor: it does reduce the risk that you're investing at an inopportune time. The average maximum drawdown in the latter study was 9.98% for the lump sum investment, but only 5.87% for the dollar-cost averaging strategy.

If you're curious about the difference between lump sum investing vs. dollar-cost averaging, there's a calculator that will allow you to do your own research. It lets you choose the month and year when you would have invested your lump sum, and compares that with investing equal amounts at the start of every month for that year, during which the remaining cash will be invested in a bank account at a guaranteed

interest rate. You see the investment value after 12 months for the lump sum method vs. using dollar-cost averaging.
(Here’s the link: http://www.moneychimp.com/features/dollar_cost.htm).

Common Estate Planning Pitfalls

Estate planning is complicated. There are a lot of moving parts to organizing your finances and determine where they will go after your death. And in many cases, people simply sign a stack of documents at their attorney’s office and think the job is done.

The result? A lot of mistakes, a lot of people falling into estate planning pitfalls. Here are a few that you should try to avoid.

1) Naming the wrong executor. These are the people who are appointed to take legal control over the assets when you pass away. Executors collect all the assets of the deceased, pay final debts and expenses, and file federal and state estate tax returns (if needed). Unfortunately, it is not uncommon for the named executor, years after the documents have been signed, to be deceased or no longer suited for the position because he/she is too elderly. If a professional is named, is the attorney or CPA still in business? Meanwhile, children who were too young to serve when the documents were signed may now be capable of taking on the executor role.

Solution: periodically check to see who has been named as the executor in the estate documents. Is that still appropriate?

2) Not updating documents to reflect the maturity and financial conditions of the children. Estate planning documents that were created when children were young will have named a guardian, but when the children reach maturity, that would no longer be necessary. The document may leave assets to trusts on behalf of the children, when it makes more sense to distribute them directly to the adults they have become. And in some cases, an unequal distribution of assets might make sense, if one adult child has become financially successful while others are struggling. Finally, when children are minors, they typically don’t need health care powers of attorney,

living wills or advance health care directives. Once they become adults, they should consider having these documents in their own right.

Solution: check to see the provisions in your will or trusts that relate to the children, and update as necessary.

3) Inappropriate health care directives. Under the Health Insurance Portability and Accountability Act, every individual's medical records and other personal health information is confidential, meaning it cannot be shared with anyone, including family members, without written authorization. Lack of this information and specific directives could impede decision-making by others when you're incapacitated or approaching the end of your life.

Solution: check and update your family's health care powers of attorney, living wills and advanced health care directives.

4) Inappropriate estate tax provisions. In 2019, individuals are legally permitted to transfer assets valued at $11.4 million ($22.8 million for married couples) free of federal estate and gift taxes. But outdated estate documents might include planning that was appropriate for much lower exemption values—for example, forcing a trust for the heirs to be funded up to the applicable exclusion amount, which might impoverish the surviving spouse.

Solution: review the formulas in the estate documents with your attorney and/or tax professional.

5) Estate documents drafted in a state where you no longer reside. Every state has its own estate and income tax laws; some are common law property states while others are drafted with community property laws. There can be significant differences between them when it comes to transferring assets. Moreover, 17 states also impose some form of estate or inheritance tax, with different exemption amounts. Some estates that would not be subject to a federal estate tax might be subject to state estate taxes. If your documents were drafted in a different state from where you currently reside, they could be outdated and misapplied.

Solution: review your estate plan to see if it is still appropriate, with an eye toward reducing state estate taxes and making sure they reflect your current residency.

6) Not utilizing portability. The federal estate rules say that a surviving spouse can take advantage of any unused portion of the spouse's exclusion amount. But that's only true if the estate files a federal estate tax return within nine months of the deceased's passing. (This can go up to 15 months if an extension is granted.) In the normal case where the deceased's estate would not have to pay estate taxes, often nobody realizes that the federal estate tax return (showing zero taxes have to be paid) has to be filed. This can be costly in some larger estates, where the second spouse dies with more than $11.4 million in wealth.

Solution: Some families set up a credit shelter, bypass, family or exemption trust that would be funded with assets from the first spouse's estate. That preserves not only the portability of those assets, but any growth in those assets would not be counted in the estate tax calculation. The surviving spouse could also disclaim part of the deceased's assets, allowing them to pass to the children. Or the executor of the estate can file the federal estate tax return, preserving the portability of $11.4 million of additional estate tax exemption.

7) Failing to plan for capital gains taxes. Most estates will never pay a federal estate tax, which means that the tax planning should be concentrated on income tax planning. One important consideration is the step-up in basis for appreciated assets, which means that, for the heirs, the capital gains tax obligation on the amount of appreciation during the deceased's time of ownership will vanish. This is the closest thing to a free lunch, in the tax world, that you can get.

Solution: Save some highly-appreciated assets like legacy stock positions and shares of the family business from the normal rebalancing and diversification activities, and pass them on to heirs.

Punching Above Our Weight

One of the unexpected results of the recent rally in American stocks, combined with a market malaise throughout the rest of the world, is that U.S. companies, in aggregate, now make up more than 40% of the global market capitalization of all publicly-traded stocks. This is up from just over 32% ten years ago.

What makes this more remarkable is that two-fifths of the market opportunities have been generated in a country that makes up just 6.2% of the world's population.

Japan's total market cap ranks in a distant second place, with 7.59% of the total—down from 8.02% ten years ago. But Japan is still punching above its weight; its population represents 1.66% of the world's total. Similarly, the United Kingdom's publicly traded companies make up 4.49% of the world's total (down from 6.83% ten years ago), while England's total population is just 0.86% of all the people in the world.

Among other big disparities: China's publicly-traded companies make up just 7.51% of the world's total, even though China makes up 18.2% of the world's population. The disparity is even greater in India, whose companies make up 2.83% of global market cap despite India representing 17.5% of the world's population.

Introducing the New Apple Card

You have to wonder how the banker's employees feel. Goldman Sachs, the huge New York-based investment bank, devoted an entire department to the launch of the newly-announced Apple Card. Yet Apple chose as a tag line for its advertisements: Apple Card is Here—Created by Apple, Not a Bank.

The Apple Card is actually issued by Goldman Sachs, but what most consumers will see is a digital card that lives in the Wallet app of their iPhones. You can also get a physical card made of titanium, which provides your data on a chip, without having your card number, expiration date, CVV security code or signature displayed on it. (One wonders how its users will make online purchases.)

There is no doubt that the Apple Card represents a step up in convenience. When you're in the store, you simply display the card on your phone to make the purchase. Your iPhone carries a unique device number, and Touch ID or Face ID will provide the merchant with a one-time security code, with no signature required. Apple will provide weekly and monthly summaries of your spending, displaying (unlike many banks and credit card companies) the merchant names, locations and dates for each transaction.

Apple Card does not have an annual fee. And like many cards, there are cash-back features on all Apple Card purchases. You get 1% cash back when you use the physical card, 2% when you use your phone, and 3% when you buy products and services directly from Apple, including iTunes, the App Store and iCloud storage. The money is actually stored in your Apple Cash account, which can be used to pay off your Apple Card balance.

But also like most cards, Goldman Sachs will collect its pound of flesh on any balances that are not paid off, and it's clear that, despite the tag line, the bank had a hand in designing how much to charge. The interest rates (depending on your credit score) will range from 13.24% APR up to 24.24%. The national average of all credit cards, according to [CreditCards.com](), is 17.67%, so people with good credit are getting somewhat of a deal, while those with low credit scores might be better off using a different card.

Also: Apple will charge a 1 percent fee to make a transfer from Apple Pay Cash to a debit card. People using the Apple Card can send digital money to other iPhone users, which is a relatively new feature in the marketplace.

For all its convenience and the purported independence from the banking industry, the Apple Card is actually not the best deal in the credit card universe. The Blue Cash Everyday Card from American Express gets you 3% cash back at U.S. supermarkets, 2% cash back at gas stations and many department stores, and 1% cash back on other purchases—all with no annual fee. You can also get a welcome bonus of a $150 statement credit if you spend $1,000 within the first three months. The Chase Freedom Unlimited Visa card, also with no annual fee, provides 3% cash back in the first year up to $20,000 spent, with unlimited 1.5% cash back thereafter. Plus, it

offers 0% intro APR for the first 15 months from account opening on purchases and balance transfers—but the APR is somewhere between 17.24% and 25.99% after that.

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For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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