



Your Summer Compass

JUNE/JULY 2020

IN THIS ISSUE

I Hate Rollercoasters
a message from Steve

'A Better Way'
vlog series

Form CRS
Client Relationship
Summary

RMD Changes
recontribution

Client Portal
improvements

Cybersecurity
best practices part 1

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I Hate Rollercoasters | July 26, 2020



At amusement parks the kids know I'm a wimp when it comes to rollercoasters. And I'm OK with that. Fundamentally, they are rides that start and finish in the same place and find a way to ruin my day. Why in the world should I subject myself to a ride that makes me feel like I'm going to hurtle to my demise? Why should I ruin the rest of the day as my stomach settles back into its normally assigned location? No logic will get me to strap in. I'm a

wimp and that's OK.

For some clients, the last five months have felt like a dreaded roller coaster. It's as if we were strapped in, went straight down one side of the Grand Canyon and then rocketed back up the other side. Now we're back to where we started the year. Many clients are asking themselves, and us, "now what?" If recent history is a normal part of investing, why should we go through this again? Why not reduce the risk we take so we sleep better the next time the stock market goes off the edge?

It's a fair question. Our job is to lead and guide clients on a broad range of wealth management issues, to include asset allocation - simply put, the mix of cash, stocks and bonds. Reevaluating that mix is a prudent exercise now when we are more able to make rational decisions as opposed to when we were in the middle of the ride.

This letter addresses five factors that affect asset allocation: Emotion, Intuition, Science, Logic and Planning. All five are valid, yet most people give greater credence to some over others.

Emotion: The market action over the last few months caused you to worry and lose sleep. Life is too short to live under that cloud. Ask yourself, "Why does this bother me?" If you feel your most important objectives and values are being risked by the volatility, we can help you see if that's actually the case. It's possible there is no connection

continued on pg 2

and you're simply worried. One possible solution is to "sell down to your sleeping level." If you have 75% stocks now, and need to get to 50% to sleep well, then there's your answer.

Intuition: Together, the advisors at Great Diamond Partners have 90 years of experience advising clients and in the capital markets. We lived through the bursting of the tech bubble, 9/11, the financial crisis, an occasional flash crash, Covid-19 and plenty of other events. We have opinions on what's appropriate for each client and where we are headed. In this case, simply rely on us to guide you.

Science: In launching Great Diamond Partners we sought to avail ourselves of current technology to augment the empathy we have for clients. We are pleased to share that we now use a program called Riskalyze to give us the science side of risk measurement. There are three elements to the program: statistically determine how much risk you are willing to assume, measure how much risk your current portfolio exposes you to and determine a scientifically ideal asset allocation. It's a web-based system, simple to use and early client reactions are quite positive.

Logic: Let's oversimplify for a moment and assume you will only withdraw investment income and can only choose between stocks or bonds. You will not need to access your principal. As of 6/30/2020, bonds (Barclay's US Aggregate) have shown a 1.14% yield which has historically not grown significantly over time.¹ While stocks (S&P 500) have shown a dividend yield of 1.78%² and have historically grown their dividends by 6% a year.³

Presented this way, most people will choose stocks. The initial income is higher and the cash flow should grow every year. Yet many people are moving towards the bond option. In this case, emotion is clearly winning over logic. Don't forget that there are different forms of risk. Investing in bonds risks income, especially when you consider the impact of inflation. Investing in dividend paying stocks makes the income safer, however the principal is at risk... but only if you need access to the principal.

Planning: It's important to put the question of asset allocation into the context of your overall financial plan. What are your objectives and what's the time horizon? What impact will changes in your allocation have on taxes and is it worth it? Some of our clients have plenty of cash flow to cover their expenses. As a result, we are effectively investing for the next generation. By definition, they are younger, likely have a longer time horizon, and therefore a higher allocation to stocks may make sense.

It's perfectly natural and appropriate to reevaluate your asset allocation at this time. Ideally, we incorporate all five factors into the discussion. But in the end, if one factor overwhelms the others, that's OK.



STEVEN TENNEY
Founding Partner & CEO

¹The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).
Source: <https://www.bloomberg.com/quote/LBUSTRUU:IND>

²The weighted average of the underlying holdings' indicated annual dividend divided by price, expressed as a percentage.

³Annual current dollars percentage change in 12 month dividend per share (not inflation adjusted).
Source: <https://www.spglobal.com/spdji/en/indices/equity/sp-500/#overview>



'A BETTER WAY' VLOG SERIES

Visit our website to watch episodes at www.greatdiamondpartners.com/vlog.

Ep 1: Welcome

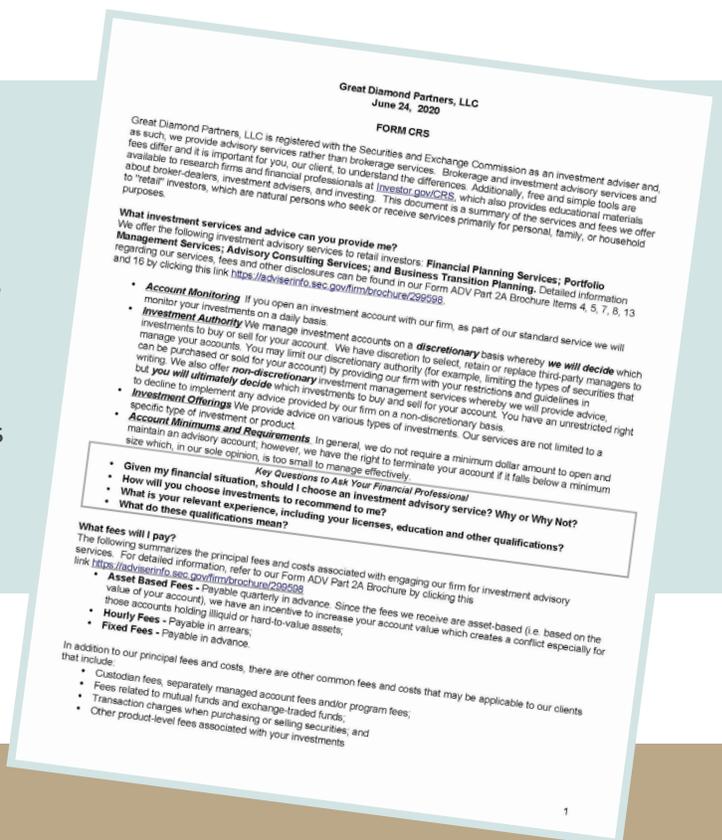
Ep 2: Great to Good

Ep 3: Conscious Capitalism with Tara Jenkins

Ep 4: Employee Benefits with Helen Andreoli

FORM CRS (CLIENT RELATIONSHIP SUMMARY)

You should have received a note from us in the mail including our new Form CRS. The Securities and Exchange Commission (SEC) requires we share this document with you which includes a summary of the services and fees we offer and information on our firm's standard of conduct as a fiduciary. You can always find a link to the Form CRS [here](#) on our website. Questions? Please connect with us!



2020 REQUIRED MINIMUM DISTRIBUTION (RMD) CHANGES

Passed earlier this year, the Coronavirus Aid, Relief, and Economic Security (CARES) Act allows retirees to forgo taking Required Minimum Distributions (RMDs) from IRAs or 401(k)-type plans in 2020.

Now, according to new guidance from the IRS in **Notice 2020-51**, if you already took an RMD you can re-contribute the amount back into your retirement account, as long as you do it by August 31, 2020. Read [this article](#) for more helpful details and reach out with questions.

SCHWAB STATEMENTS AVAILABLE ON YOUR CLIENT PORTAL



Access to your important documents is even easier! Your monthly Schwab statements and tax documents are now available through your **personalized client portal**. After log-in, you can find documents in your Vault. If you haven't already established an account through our client portal, please ask us to send you an invitation.

CYBERSECURITY BEST PRACTICES: PART 1

Below are some tips to reduce criminal access and mitigate risk:



- We will always request verbal confirmation of wire requests.
- We will always use our secure messaging system or your personalized client portal to share statements, reports or confidential documents.
- Do not click on any link sent via email without verifying its legitimacy. Hover your cursor over the link before clicking to see the link address. The sender of an email alone does not indicate its authenticity, since any email address can be easily spoofed. Assume links sent over email are malicious until proven otherwise.
- Make sure your passwords are strong and consider enabling multi-factor authentication on your online logins. Avoid connecting to unsecured or public WiFi and don't visit unsecured websites.

Look for Part 2 in next month's Compass. We'll share even more details about securing your home network, password best practices, phishing attacks and managing your devices.

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Past Performance is not a guarantee of future results.

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