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GOALS-BASED ADVICE

The power of intent

Identifying the approach to your wealth can help you navigate through volatile times

By Michael Liersch,
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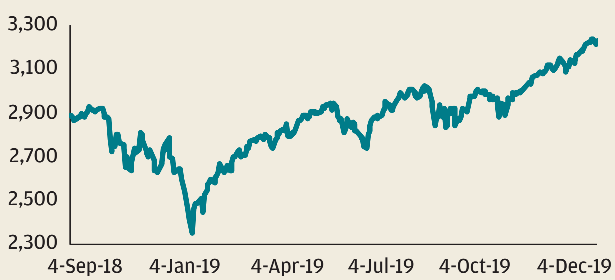
Financial markets can offer a great opportunity to grow wealth, but volatility can make investors uneasy, ushering in feelings of fear, or even greed. Reacting to market movements may sometimes seem like the right thing to do for the short term—but what about the long-term consequences?

Let's take a look at the U.S. equity markets at the end of 2018 and the end of 2019. In 2018, after closing at a record high of 2,930.75 on September 20, 2018, the S&P 500 took a quick turn lower. By December 24, 2018, the index had fallen nearly 20% to 2,351.10, with Brexit, trade negotiations, and a variety of other political and economic concerns spooking investors.

However, in 2019, despite a rough start, markets headed higher once again. Fueled by more positive sentiment—including Federal Reserve rate cuts, robust economic data and increased Brexit certainty—the S&P climbed more than 37% by December 31, 2019, to 3,230.78.

But will markets go down again? Were the gains in 2019 temporary, or representative of the potential for new market highs? What should an investor do? Buy, sell, hold?

S&P 500 CLOSING PRICES
(September 1, 2018 through December 31, 2019)

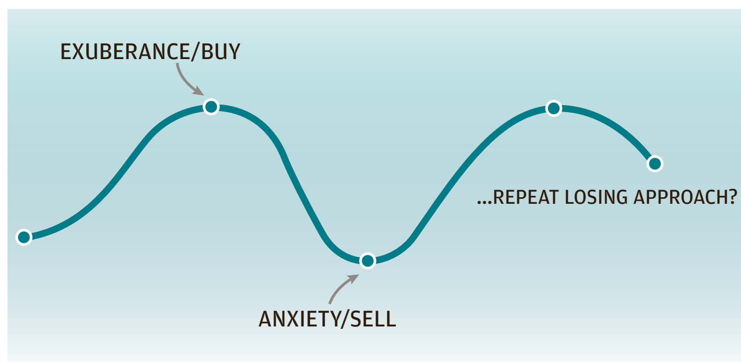


Source: Bloomberg. As of December 31, 2019.

FOCUS ON YOURSELF, NOT THE MARKETS

While it can be tempting to analyze moment-to-moment market movements, and let those drive your decisions, research suggests that this approach actually diminishes returns. DALBAR's annual Quantitative Analysis of Investor Behavior showed that the S&P 500's 20-year annualized return was 7.20%, while the average equity mutual fund investor saw only a 5.29% return on the same basis. That nearly 2% difference is often attributed to investors' reactions to the markets.[1] Indeed, there is ample evidence from the field of behavioral finance suggesting that people tend to react to markets in a way that lowers returns.[2] Many people tend to "buy high" and "sell low," which can cause them to "churn and burn" their own portfolios.

WHEN EMOTIONS INTERFERE



How can we avoid decisions that might lead to poor outcomes, and instead position ourselves for potential success? Reframing financial decision making is a crucial starting point. Rather than reactively focusing on elements that are *out of our control*—markets, economies, policymakers, and the like—we can instead proactively focus on elements that we *can control*.

[1] DALBAR Quantitative Analysis of Investor Behavior, 2018.
[2] Brad Barber and Terrance Odean, *Boys Will Be Boys*, 2001.

WHAT IS YOUR MONEY'S JOB?

There are a number of factors that are within your control, but perhaps the *most critical* component in *every* wealth strategy is explicit identification of the primary purpose, or intent, for your money. In other words, what job do you want your money to do for you? When your decision-making process serves the primary intent for your wealth, you then have a guidepost to understand if there is truly any action that needs to be taken, given market (or other) events.

Imagine young entrepreneurs in their early 30s with no children. The couple eventually want to provide for their lifestyle when they sell their business. They have many working years ahead of them and have no intention of using their investments for decades. So for them, market volatility may be largely irrelevant. Why? They are more able to wait out ups and downs, ultimately taking advantage of potential investment returns over multiple decades.

Now imagine the same couple, but they are now in their 60s. They have three adult children and no other source of income outside of their investment portfolio. They not only need to sustain their spending, but would also like to provide for family members. So in addition to revisiting their portfolio risk level, they may want to consider factors that go far beyond investment decision making.

For example, how long do they want the money they give to their family to last? Within the children's lifetimes, or well beyond? Also, what is the most tax-efficient way to give to their family? And, based on that level of giving and their own needs, do they have enough to maintain their lifestyle? This may necessitate a dialogue with professionals about wealth structuring, investing, borrowing, income and estate tax considerations, and more. Identifying a primary intent moves a focus on investments to the broader purpose of wealth, which can align overall wealth strategy and decision making with the individual's or family's goals.

TAKING A GOALS-BASED APPROACH

To have your money work toward your goals, it helps to identify with one of four "foundational intents" for wealth.[3]

SPEND: *To support your lifestyle goals with the assumption that all wealth will be spent in your lifetime.*

Spending all of your wealth during your lifetime can be by choice (e.g., *"I'd like to bounce my last check"*), or by necessity (e.g., *"I feel that I may not have enough during my lifetime based on my current spending"*).

Traditional goals in this category focus on generating lifestyle income now or in the future, and on educational goals for children and/or grandchildren. Many people believe this is the easiest intent to manage. However, if you are truly attempting to achieve a zero balance sheet at the end of life, the risks are many (especially of over- or underspending). These continuous risks make stress-testing and contingency planning essential. Just think, would you be comfortable using equity in your home if you unexpectedly lived to 100? Reviewing your plan at least once annually on an ongoing basis can help minimize these risks.

Of the four foundational intents for wealth,

WHICH FITS YOU BEST?

SPEND
To support your lifestyle goals with the assumption that all wealth will be spent in your lifetime.

DIVIDE
To identify a set amount of money to either create a minimum wealth level or to leave to beneficiaries.

PRESERVE
To create a strategy and family culture that enable wealth to last through multiple generations.

GROW
To create a strategy and family culture that enable wealth to grow in perpetuity.

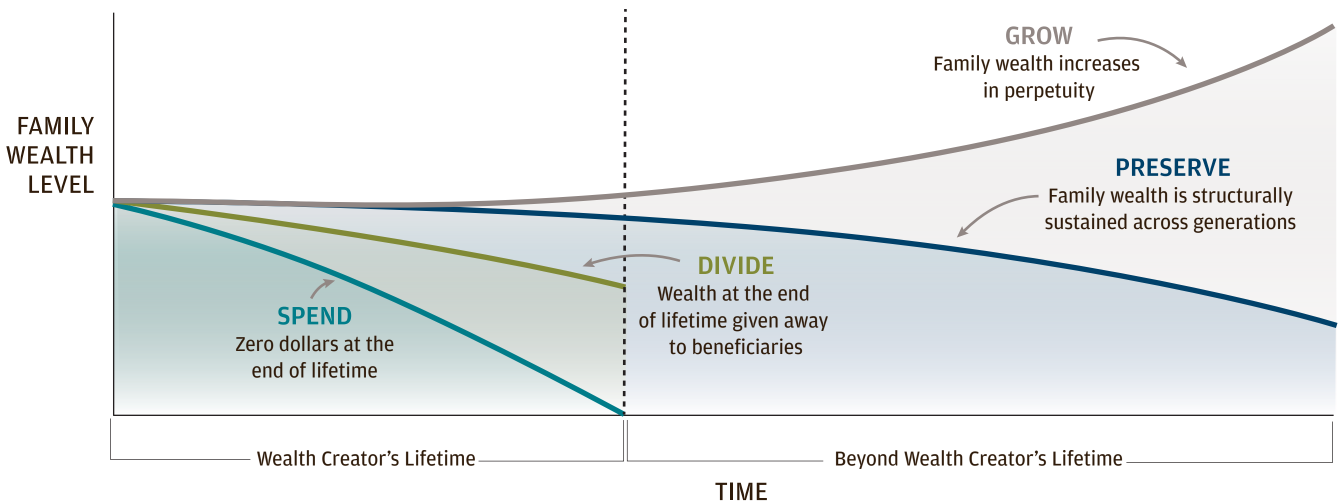
A WEALTH DISTRIBUTION

At a recent client event, here's how over 100 J.P. Morgan wealth management clients responded when asked which intent they are currently focused on.

SPEND	24%
DIVIDE	22%
PRESERVE	29%
GROW	25%

[3] *Trusts & Estates* magazine; "A Strategic Approach to Estate Design"; April 2017.

INTENT HELPS STEER THE PATH OF FAMILY WEALTH



DIVIDE: ***To identify a set amount of money to either create a minimum wealth level or to leave to designated beneficiaries.***

Many people who focus on division are interested in "keeping it simple" with respect to the path their wealth will take at the end of life. Why? Some feel they want beneficiaries to have complete control over the money they receive, or it feels like too much effort to create a "trust and estate plan."

Others are reluctant to discuss their wealth or aren't ready to commit to gifting to the future recipients. The key focal point is that the wealth goes to the intended place, and that the plan is reviewed on an annual basis—especially later in life when preservation can become more appealing. For example, when gifts become larger than anticipated, there may be a greater focus on sustaining the wealth for third and fourth generations. Also, it can be more apparent whether family members are psychologically ready to productively receive wealth and what governance may or may not be needed.

PRESERVE: ***To create a strategy and family culture that enable wealth to last through multiple generations.***

The desire to preserve wealth across generations is enormously complex—often in unexpected ways. To support an estate plan where assets are meant to be preserved, family culture and dynamics need to be considered.

Promoting a positive family culture to foster the stewardship of wealth may require answering challenging questions such as: When are trust distributions so large they risk stifling the beneficiary's growth and development? The answer lies beyond just dollar amounts: It also depends on the level of engagement in deliberate and structured communication with beneficiaries about financial values, accountability and governance. The key to success here often depends on how well you align a wealth strategy and structure with a family culture designed to support them.

GROW: ***To create a strategy and family culture that enable wealth to grow in perpetuity (often via a family business or pooled family investments).***

Perhaps the most complex of the four intents, this category requires multigenerational succession plans, as well as business and wealth strategies that are truly owned and governed collaboratively by family members. Even the best laid-out approach can end in very public and painful family disputes, making predefined exit strategies essential. To this end, a key starting point can be to identify whether your family has the human infrastructure (e.g., family members who also have a desire to grow) to support this path for your wealth.

FROM AWARENESS TO ACTION

Establishing a primary intent—whether it be Spend, Divide, Preserve or Grow—can empower you to reframe financial decision making. It can motivate you and your family to collaborate, and help your professional advisors work with you to answer the following questions:

Do I have just enough, more than enough or not enough to achieve my primary intent?

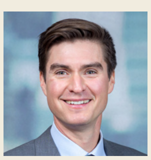
Establishing the resources available—now and in the future—to serve your or your family's intent is critical. *If there is not enough,* working to adjust the levels of cash flow needed can help get you back on track. *If there is just enough,* continual monitoring of the situation may be essential. *And if there is more than enough,* perhaps there are other goals or opportunities to explore.

Who should be involved in the financial decision making, and when?

Establishing a group of decision makers and a culture that can support the desired intent is also important. For example, if family members don't know they will be receiving large amounts of wealth, they may not have the information or tools to successfully steward the money or a family business across multiple generations. Working with professionals to communicate the right amount of information at the right time can help you or your family meet the desired outcomes.

HOW WE CAN HELP YOU

Your J.P. Morgan team is looking forward to an opportunity to work with you and help you identify your goals-based approach to wealth. We are ready to help you build a strategy that identifies your goals and helps you work toward addressing your concerns. With regular check-ins, we can help keep you on track and aligned with your strategy. Remember to consult your legal, tax and other professional advisors for further guidance on how certain strategies should be applied to your situation.



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