Investor Insights & Outlook

August 2014 | Vol. No. 1 | Investment Updates

Floating-Rate Options When Interest Rates Rise

Given the expectations that interest rates will rise in the not-too-distant future, it's no wonder that many fixed-income investors are considering floating-rate securities for their portfolios. The key distinction between floating-rate and fixed-rate securities involves how each investment type reacts to movements in market rates. A floating-rate bond tends to keep its value if rates rise, whereas a fixed-rate bond will lose value. That's because an existing bond with a fixed rate is worth less if investors can buy new bonds at higher rates. If rates drop, the opposite occurs: The existing fixed-rate bond will increase in value.

Because of the protection that floating-rate bonds may offer against rising interest rates, some investors may use them to reduce the rate sensitivity of their portfolios. One commonly used type is known as a bank loan. Corporations needing to borrow money may do so with help from one or several commercial or investment banks, which syndicate the loans and help sell them to investors. These loans typically receive below-investment-grade ratings, reflecting a relatively high risk of default. As is the case with other bond types, investment-grade floating-rate securities tend to pay lower interest rates than fixed-rate bonds do, while non-investment-grade floating-rate securities offer higher rates but also carry more credit risk.

For fixed-income investors concerned about a rise in interest rates, floating-rate securities may be a viable option. But investors may have to either settle for reduced yields (in the case of investment-grade floating bonds) or added credit risk and volatility (as in the case of bank loans). With corporate bonds, an investor is a creditor of the corporation and the bond is subject to default risk. High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds.

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How to Widow-Proof (or Widower-Proof) Your Portfolio

We're Here To Help

- It's common for spouses to split the money chores up (eg. one pays bills, the other handles investments). However, I encourage both spouses to stay informed on their overall financial situation. Regardless, dealing with the loss of a spouse is obviously difficult in many ways and I view my role as helping minimize financial concerns for the survivor.
- Mike

Plenty of people who pass away or become debilitated leave their spouses with overly complicated financial plans, too little information, and no clear instructions about where to turn for help. Below are some of the key ways to make sure that doesn't happen to your family.

1) Start the Conversation. Even if your spouse is happily hands-off, it's important that he or she is looped in on the basics of your financial plan, including how much you have, your chief financial assets, and what type of withdrawal rate your portfolio can safely support. Alternatively, or in addition to having a money conversation with your spouse, share at least the basic information about your finances with your most financially literate (and trustworthy) child.

2) Simplify. Assuming a financial plan includes a well-thought-out asset allocation and reasonable intra-asset-class diversification, less may be more in terms of the number of individual holdings. That's particularly true if you're concerned about your spouse's ability to manage the portfolio on his or her own.Of course, multiple accounts with multiple providers may be inevitable in some households, but collapsing your overall number of accounts (and the holdings within them) could be a good starting point on the road to portfolio simplification.

3) Shape Up (and Share) Your Record-Keeping System. Organizing files in broad, easy-to-understand categories (for example "Investments," "Insurance," and so on) is a good starting point, with subfiles for each account. Another good idea is to create a master directory, which can be either electronic or paper. It should contain financial assets such as bank, fund, and brokerage accounts; company-retirement plan and pension fund details; real estate holdings, and business interests. Alongside or beneath each account name, include account numbers, URLs, passwords, key contacts, and phone numbers. Include similar details for debts you owe and insurance policies. Having such a document can be a good way to provide your spouse with a 3,000-foot view of your household's finances; just be sure to tell him/her where to find this document and keep it password-protected or under lock and key.

4) Provide Guidance on Where to Go for Cash. Many surviving spouses may not have adequate cash reserves to fund their near-term living expenses. Stashing too much of your portfolio in cash may carry a steep opportunity cost right now, but every retiree household should aim to keep at least two years' worth of living expenses in true cash. It's also important to provide your spouse with guidance on which assets are most liquid and appropriate to tap in a pinch and which are less so.

5) Put It on Autopilot. Putting as much of your investment plan on autopilot as possible can allow your portfolio to run itself for a time if need be. A key benefit is that you'll be less tempted to override your carefully laid investment plan at an inopportune time, but another is ease of use. Investigate what options your investment provider has for automating your investment program. Switching on features such as automatic required minimum distributions is a good example of this idea.

6) Help Identify a Suitable Advisor. Many individuals with spouses who are disengaged financially take comfort in knowing that their spouse will be able to turn to an advisor after they're gone. If you think your spouse will eventually need to turn to an advisor, it doesn't hurt to begin the search for a qualified advisor while you're still around to help with the screening.

This is for informational purposes only and should not be construed as legal, tax, or financial planning advice. Please consult a legal, tax, and/or financial professional for advice specific to your individual circumstances. Asset allocation and diversification are methods used to help manage risk. They do not ensure a profit or protect against a loss.

Do You Have a Plan for Your Digital 'Estate'?

Even people who think they've ticked off all of the usual boxes on their estate-planning to-do lists may have overlooked an increasingly important component of the process: ensuring the proper management and orderly transfer of their digital assets. Just as traditional estate-planning relates to the management and transfer of financial accounts and hard assets, digital estate-planning encompasses digital possessions, including data stored on tangible digital devices (computers and smartphones), data stored in the cloud, and online user accounts.

Digital estate planning is, in many respects, more complicated than traditional estate planning. The field of digital estate planning is evolving rapidly, as are digital providers' policies on what should happen to digital assets that are left behind. Digital assets are also governed by a complex web of rapidly evolving laws, both at the state and federal levels. Precisely because of all the potential complications, it’s important to take a few minutes and get a plan in order. Here are several key steps to take.

1) Conduct a Digital ‘Fire Drill.’ A good first step in the digital estate-planning process is to conduct a digital fire drill, which tends to jog your memory about what digital assets you deem important. Consider the following questions. What valuable items would you lose if your computer was lost or stolen today? If you were in an accident, would your loved ones be able to gain access to your valuable or significant digital information while you were incapacitated? If you were to die today, to what valuable or significant digital property would you like your loved ones to have access?

2) Take an Inventory of Your Assets. The next must-do is to create an inventory of the digital assets you named during the fire drill. Document the item/account name as well as user names and passwords associated with that item. Among the items to document in your digital inventory are: digital devices such as computers and smartphones, data-storage devices or media, electronically stored data, including online financial records, whether stored in the cloud or on your device, user accounts, domain names, and intellectual property in electronic format. This document would be chock-full of sensitive information, so keeping it safe is crucial. A printed document should be stored in a safe or safe deposit box, and an electronic document should, of course, be password protected.

3) Back It Up. We've all been schooled on the importance of regularly backing up digital assets, and estate-planning considerations make it doubly important to do so. Even if a specific device malfunctions, storing digital assets on another storage device or in the cloud helps ensure the longevity of those assets. Moreover, online account service providers may voluntarily disclose the contents of electronic communications, but they're not compelled to do so. If you want to help ensure that your loved ones have access to the information in your online accounts, backing it up on your own device is a best practice.

4) Put Your Plan in Writing. Experts also recommend formalizing your digital estate plan. That means naming a digital executor—someone who can ensure that your digital assets are managed or disposed of in accordance with your wishes after you're gone. If your primary executor is savvy with technology, there's probably no need to name a separate digital executor. But if not, or if you have particularly valuable or special digital property, such as intellectual property, experts advise a separate fiduciary/executor for digital assets. Depending on the type of property, the fiduciary may also need special powers and authorizations to deal with specific assets.

Protect Your Finances

We have had several cases in the past few years of clients who have been contacted by unscrupulous operators trying to take advantage through various schemes to get them to part with money or personal information.

These have included email approaches where a friend or associate's email contact list has been hacked, sweep stakes programs requiring payment of fees or expenses to claim a prize and of course, the classic request for one's bank account information so "we may deposit money into your account and provide a service fee to you for your help in transferring the money into the U.S."

We recently had a case in which a client was visited by a woman proposing to do "family and nursing home planning" for a fee of several thousand dollars. Our office did some quick research and found she was an attorney who has been sued by former clients for mis-appropriating money for her personal use, was under FBI investigation, and had previously had her insurance license revoked by the Wisconsin Insurance Commissioner, yet was still out soliciting money from people.

We encourage all our clients to be skeptical of any unsolicited approaches for products or services, or requests for information from people unknown to them. If you feel you have been involved in a fraudulent situation, the Wisconsin Department of Agriculture, Trade and Consumer protection offers information and assistance you may find helpful either on their website or by phone at 1-800-422-7128.

We also encourage you to call your KOM advisor with any questions or concerns on any financial decision you may be facing.

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