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Steps to Take When Your Child or Grandchild Turns 18

by A. Scott White, CFP®, ChFC®, CLU®
President, Scott White Advisors

Turning 18 is an important occasion for your child or grandchild. The importance goes far beyond a sentimental moment in time for parents and a point when graduates are looking forward to the next chapter in their life. Turning 18 means new legal freedoms, breaking the chains of parental oppression and supervision, and the freedom of making one's own decisions. Some of those decisions, such as getting a tattoo, a body piercing or purchasing tobacco, can have a lifelong impact. Today teens can vote, buy a house and marry a high school sweetheart all without asking for your consent. While these new freedoms are welcomed by our teens, they come with the possibility of going to jail, getting sued or gambling away their college tuition.

Since my son and daughter each turned 18 in the past couple of years, this topic is still fresh in my mind. I do not know if I have much parental advice to offer about how to navigate this milestone, but I can offer some professional advice I insisted both of my children adhere to in order to keep our family's legal affairs in order. Except for registering for the military draft, which was mandatory and only required of my son, these tips for children turning 18 are voluntary. They are also aimed at teaching children to be independent and responsible.

The first thing my wife and I did after each child turned 18 was to change the title on their vehicles. Prior to turning 18, the autos were in my name or my wife's name because minors are not allowed to take title. But that is no longer the case because now each is considered an adult. So why would I want to send my children off to college so they can, despite my best advice, drive around in a new town with who knows who in the car with them after participating in who knows what kind of activities in an automobile that is registered to me? I'm not in favor of that, so we changed the titles and registered the automobiles in their respective names. While my wife and I hope to never find out the level of protection we might receive from this change, it provides a great opportunity to teach our children to be responsible for all the things they own. They are also now responsible for the maintenance of their vehicles. My wife and I might still help financially to some extent, but it is not our responsibility to know when to change the oil, tires, wiper blades, etc. A word of caution here, when you change title to your children, some auto insurance companies will kick your children off your existing family automobile coverage plan and force them to purchase their own insurance plan, resulting in much higher premiums. Because not all insurance companies have the same policy and many companies offer a family rate even if the children have title to their own automobile, be prepared to shop for a new auto insurance company if necessary.

Another area of concern comes in the form of federal privacy laws, particularly concerning health issues. While your children are under 18 you are responsible for their healthcare. After your children reach 18 they are responsible for their own healthcare. This means you no longer have the power to access their medical records, consult with their physicians, give consent for medical treatment, or even decide if it is time to remove them from life support systems. I had a client learn firsthand how serious the medical

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COMMENTARY

Do What I Say, Not What I Do

by A. Scott White, CFP®, ChFC®, CLU®
President, Scott White Advisors

In Warren Buffet's annual address to Berkshire Hathaway, the publicly traded holding company for Mr. Buffet's investments, in February 2017, he advised the average investor to steer clear of "active managers" and instead invest in low cost "passive mangers" who try to replicate index returns. Buffett's logic seems simple: Someone who invests in a passive manager will get index-like returns at a low cost, while someone who invests in an active manager will get average investment returns over time; some managers' investments will do well, and others won't. But when you consider the higher cost of actively-managed investment options, the actual returns the investor experiences from active management will be well below average.[1]

This advice clearly flies in the face of the investment advice Buffet eschewed in his 1984 article "The Superinvestors of Graham and Doddsville". Buffett's main point in that article is that Graham and Dodd's (an active investment management strategy) pupils consistently beat the S&P 500 in the period from 1955 to 1983 by using the "value" style of investing. He describes in detail, using audited track records, by using different techniques, how all of these value investors had beaten the S&P 500[2].

What happened since 1984 to change Buffet's simple advice to use value investing and a margin of safety for superb results? As we look at the performance of Berkshire Hathaway since 1993, this simple advice has obviously proven very successful for Mr. Buffet over the years.

Berkshire Hathaway, Inc. performance vs. the S&P 500 since 1992. Source: Nasdaq.

Why is it that in 2017 Buffett believes value investing is irrelevant, and he now advises investors to give up on active investing and switch to passive managers favoring index-like portfolios? Does quality and price no longer matter when investing? While we might not ever know why Buffet has changed his tune, it seems logical to me that he believes now that neither the investors nor their advisors have the fortitude or intellect to practice the discipline that value investing demands. From that point of view, I believe Buffet may be on to something: In my experience, not only do the average investors not possess these qualities, but neither do their advisors.

While I'm sure everyone can agree that Buffet acts as a fiduciary for Berkshire Hathaway as acting CEO working for the best interests of his company, what many people may not know is that *not every financial advisor acts as a fiduciary for their clients*. Most average investors tend not to work with financial advisors who are fiduciaries that place the client's need ahead of his or her own. Some advisors are simply held to a "suitability standard" whereby the investment recommendation should appear suitable for someone in a similar investor profile. Please note: There can be a big difference between an investment that appears suitable versus an investment that is in the investor's best interest.

Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market vary. Past performance does not guarantee future results. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

Perhaps Buffet's statement might stem from understanding of the importance of a written strategic plan for his company, and he might also be aware that according to a 2015 Gallup study, the average investor does not have a written financial plan that identifies measurable investment goals.[3] Perhaps Buffet understands that many investors and their financial advisors utilize some type of risk tolerance questionnaire to determine asset allocation instead of developing a written Investment Policy Statement. An Investment Policy Statement is a vital part of a well-written financial plan that considers the investor's unique situation and circumstances to develop an asset allocation.[4] In addition, Buffet may recognize the average investor may compare past investment performance against an index to evaluate an investment's suitability, instead of analyzing the investment selection process and the role of an investment in an overall investment portfolio in the first place.[5] And finally, knowing how emotionally demanding it might be for an investor to stick to a well thought out strategy, Buffet is wary that the average investor, lacking a sound written Investment Policy Statement, may sell out of a sound portfolio the moment it underperforms against an index, regardless of the reason.[6]

Let's take closer look at some of the reasons why Buffet may have changed his tune over the past 33 years. In my opinion, it's impossible for a financial advisor to understand what is in a client's best interest without developing a written financial plan that identifies measurable investment goals—and then monitoring the client's progress toward those goals year in and year out. After all, it is only by comparing where you want to be to where you currently are that you can begin an intelligent conversation about how any year's performance can be measured. Was our year-end outcome affected by factors we can control or those we cannot, such as changes in tax rates, inflation, Social Security, or medical costs? Without a way to measure progress, once investors realize they are off course, it is too easy to simply blame the investment portfolio. You will always be able to identify in hindsight investments that did better than yours and it is easier to change the investment portfolio than to identify the real culprit. The real question is: Is your investment portfolio designed to give you a relatively high probability in reaching your goals in the face of many different types of investment risk? In my opinion, building an investment portfolio based on risk tolerance questionnaires instead of your family's unique needs fails to consider a variety of risks such as market risk, exchange rate risk, purchasing power risk, business risk, default risk, interest rate risk, and sector risk, to name a few. And these risks are not easily addressed without considering the price and quality of investments, which passive managers simply can't do.

Another concern Buffett may suspect that places the average investor at a disadvantage is that many financial advisors recommend building investment portfolios based on economic or political forecasts that may or may not happen. In my opinion, that is speculation, not investing. If financial advisors place importance on events they cannot control like interest rate forecasts, GDP growth estimates, unemployment forecasts, and presidential election outcomes, then the chances of having better investment results than index returns might be greatly reduced. Poorer long term performance is associated with the behavior of acting emotionally based on economic and geopolitical events, as shown in the 2016 Blackrock study that found the average investor's returns were 2.11% from 1995 to 2015 versus the average rate of inflation of 2.18%[7], which says that the average investor lost money in real terms. I believe the CEOs of the world's most profitable companies are in a much better position to judge the probability of global geopolitical and economic events and how they might impact their own company's profitability—and hence my investment—than an economist from a financial institution. After all, weren't these large financial institutions the very source of the Great Financial Recession of 2008? And if their economists were so good, then how could they have possibly missed seeing the Great Recession coming? Why would anyone build a portfolio strategy based on their forecasting?

While we may never know why Buffet made his statement to shareholders this past February, I do know that at Scott White Advisors we work as fiduciaries, as defined by the Investment Advisors Act of 1940, looking out for each of our clients' best interests, and we always develop written financial plans utilizing a written Investment Policy Statement as a process to monitor our clients' progress in meeting their goals. You can be assured that when it comes to building your investment portfolio we will not use a risk tolerance questionnaire or speculate on events that may or may not happen. ■

A Scott White

(1) Warren Buffett Just Revealed the Best Investment Most People Can Make – Mark Frankel, The Motley Fool, February 26, 2017.

(2) The Superinvestors of Graham And Doddsville – Is Buffett A Hypocrite? – Sven Carlin, InvestIvDaily, March 7, 2017.

(3) More Nonretired U.S. Investors Have a Written Financial Plan – Jeffrey M. Jones, Gallup.com, July 31, 2015.

(4) The Importance of the Investment Policy Statement – Survey of Advisers, Russell Investments, Investment News, Blaine F. Aikin, October 27, 2013.

(5) 4 Reasons to Stop the S&P 500 Comparisons – 4Bloomberg View, Noah Smith, September 15, 2015.

(6) 4 Reasons to Stop the S&P 500 Comparisons – 4Bloomberg View, Noah Smith, September 15, 2015.

(7) Inflation is represented by the Consumer Price Index. Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/15 to match Dalbar's most recent analysis.

Steps to Take When Your Child or Grandchild Turns 18

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profession takes privacy laws when her son was involved in a traffic accident out of state and she was denied access to the doctors handling his hospital care. To avoid such a difficult situation for my children, I asked each child right after their 18th birthday to go to our family's estate planning attorney and prepare their own Living Will and Health Care Advance Directives. In these documents each child authorizes my wife and me to have the power to consult with their doctors and make healthcare decisions on their behalf if the child is unable.

Also, since I'm going to end up paying the attorney's fees anyway, I told my children to ask the attorney to explain what a durable power of attorney document is and to make sure to name both my wife and me as their agent. This way if either of our children were unable to manage their financial affairs, like signing their tax return, challenging landlords in legal proceedings, or selling their vehicle, my wife and I would have the power to do it on their behalf. And by the way, I sent both of my children to the attorney's office by themselves—but I did discuss it with our attorney beforehand.

These are things I did when my children turned 18, but it is never too late to take action if you already have a child or grandchild over 18. Do yourself and your child a favor and take care of these tasks now, and hope it never comes back to haunt you if you didn't. I have seen it come back to haunt others, so don't let it happen to you or your family. ■

Current Events

Paul Cloonan spoke at the annual Expert's Speak luncheon. Paul is a Senior Vice President and Portfolio Manager of Pioneer Fundamental Growth Fund. He discussed the topic "Does Quality Matter?"

As part of United Way of Lee County allocations Team 1, Scott visited several of the local charities that applied for United Way funds. Scott not only still serves on the board but has also participated on an allocations team for the past 13 years to ensure the gifts to our local United Way are not squandered.

Scott White Advisors hosted Devin Trudden, a Florida Gulf Coast University student, for Shadow Day. He learned what comprehensive financial planning is all about.