



## Investment Truths Work Better With Discipline

**Todd Brand, President**

I know as I write this article that it may likely have less impact on you as successful, qualified and long-term investors. (Most of the recipients of this newsletter are just that.) However, as I thought about what made you so, it seemed appropriate to write this quarter's article for consumption by generations behind you. Please share this with them if you deem it appropriate.

George Washington is quoted as saying *“Nothing is more harmful to the service, than the neglect of discipline; for that discipline, more than numbers, gives one army superiority over another.”* In the pursuit of financial success, I would tailor the last part of his comment to say; “for that discipline, more than **dollars**, gives one **investor** superiority over another.”

In pursuit of brevity, I'm going to suggest to you that there are four simple disciplines that, when all is said and done, will have accounted for much of your success or failure as investors. These four disciplines are simple, but they are not easy. I don't feel the need to quote volumes of supporting research on these truths because when you read them, I'm betting that you recognize their power and, for some of you, like myself, regret not learning them earlier in life.

I believe the building blocks of enduring investment success are these:

**1) Train yourself to live on no more than 85% of your earned income.** With the other 15%, dutifully dollar-cost-average into “average” investments. In most cases, I believe this will allow you to retire with dignity at an appropriate age and at a lifestyle to which you have become accustomed. The earlier you apply this strategy, the truer its promise will be in your life and the less likely you'll have to exceed a 15% savings rate late in your career. I recommend “average” investments and

not “superior” investments believing that quality investments are consistently “average looking” and rarely electrifying in performance.

**2) Avoid buying investments based upon the perceived need to “not miss the boat” and avoid selling investments to “preserve what is left.”** In other words, live by the oft quoted axiom “buy low, sell high.” All too commonly, we do precisely the opposite. Study after study shows that Americans poured money into “growth and technology funds” in 1999 and 2000. Those same investors, in aggregate, fled those same funds in the following three year bear market. In aggregate, it will ever be so. You, however, have a choice. True wisdom, with a little courage, would have done the opposite and poured money into that category after its crash, not before.



**3) Defer/Avoid taxes on as much of your savings as practical.** If, in saving for your future, you defer taxation on as many of your investment dollars as possible, and if the eighth wonder of the world (compound interest) continues to hold true, you will have more money in retirement. It's that simple. Regular and Roth IRA's, 401k Plans, SIMPLE and SEP plans, and other varieties of retirement plans are available to most investors. If your friends/family have jobs without quality retirement plans, I encourage you to encourage them to explore setting up their own plan. It is vital that investors defer paying Uncle Sam as long as possible so that his (Uncle Sam's) account receivable grows for your benefit before it is paid to him.

**4) Create and adhere to a diversified investment allocation.** It takes great emotional discipline to buy, and hold for life, a variety of intentionally different

investments. This is challenging in that it requires that you perpetually own a variety of investments, some of which appear to be poorly performing at any given time. Having the discipline to set an appropriate asset allocation and then to maintain your wealth in accordance with that allocation will help you preserve more wealth. Diversification works because it limits downside performance, not because it enhances upside performance. To wit: a 10% decline in your portfolio is “fixed” by an 11% gain. A 50% decline in your portfolio requires a 100% gain to fix. This takes longer because it is twice the return of your loss. Pretty basic math isn’t it?

I recognize a certain elementary nature of these suggestions. That being said, to this day I see affluent and non-affluent investors alike succumbing to a periodic lack of discipline that is, in my opinion, more damaging to their futures than the occasional lemon of an investment they may own. My encouragement to all investors is to spend more time on the development of their plan and in solidifying their own investment beliefs and less time searching, buying, crying and selling the illusive “great investment.” Discipline is the best investment I know of.

Oh yeah, eat lots of vegetables and exercise daily! Simple, but not easy.

**Warmest regards,**

***Todd H. Brand***  
***President***

**“It is the greatest mathematical discovery of all time.”**

**Albert Einstein quote regarding Compound Interest**

## **The Mortgage “Pay Off” Dilemma**

Quite often, and particularly when approaching retirement, clients pose the question if and when they should pay off their mortgage. The answer to this question not only has critical financial considerations, but later in life the emotional component often takes precedence.



Undoubtedly, finally owning your home has tremendous psychological value. Not only is it gratifying to own rather than owe, but equally important is the comfort in knowing that you have liberated yourself from debt. After all, the pursuit of paying off your mortgage seems endless at certain times in your life, particularly during the early years when a larger percentage of the payment goes to interest rather than principal.

Aside from the psychological value comes the reality of when it makes good financial sense to pay off your mortgage. For starters, try this simple calculation to find the after tax cost of your mortgage. This results from the deductibility of your mortgage interest. Multiply your mortgage interest rate by your marginal tax rate ( $6\% \times 35\% = 2.1\%$ ). Then subtract that answer (2.1%) from your interest rate to learn the after-tax cost of your mortgage, which is 3.9% in this example. If, on an after tax basis, the return on your investment portfolio is expected to exceed your after-tax mortgage rate, the obvious answer to this dilemma appears to be keep your mortgage. But what about the risk?

The degree to which you achieve an after tax investment return greater than the after tax cost of your mortgage depends upon the risk/return characteristics of your investment strategy and the vagaries of global markets. After all, the expected after tax return of your investment strategy should have the potential to outperform your mortgage rate, otherwise why take the risk? While low cost mortgage debt provides the opportunity for investors to experience potentially higher returns of the markets, with this opportunity comes risk. Fortunately, the majority of our clients refinanced to historically low interest rates over the past

few years. If not, the opportunity to lock in at a thirty year rate below 6%, and an even lower fifteen year rate, still exists for the time being.

If you think that now is the time to pay off your mortgage, a critical decision must be made as to the availability of liquid funds. From a tax perspective, it generally does not make sense to pay off a mortgage with funds from tax deferred accounts such as IRAs. It can be too costly when you consider the tax ramifications on the withdrawal.

Ultimately, making this decision depends on your financial wherewithal, the emotional benefit, and the potential opportunity as an investor. As always, we are here to help guide you through these important decisions. Feel free to contact us if you would like to revisit this issue.

### **Ladies Lunch & Learn Reminder**

If you haven't already responded to your invitation to attend the Ladies Lunch & Learn at 10:00a.m. on October 28, please do so by calling Stacy to reserve your seat and select an entrée. I wish to thank the ladies who graciously assisted in the crafting of the agenda for this meeting. They mutually agreed that the presentation for this first seminar should be a fundamental explanation of the industry terms and asset classes discussed at investment reviews. We will also be discussing the important points to look for when reviewing your quarterly statements. Please join Stacy, Cindy and me for this informative session.

### **Share Class Conversions**

We have been working recently on taking advantage of the ever improving investment cost structures available to the affluent investor. Many of you may have noticed a "share class conversion" of some of your Vanguard funds at \$100,000 or greater. By doing so, we reduced the internal expense of the investment by as much as 50% in some cases. These opportunities utilize a lower cost share class of the same fund. The conversions are often a tax free event and we plan to continue converting applicable investments as soon as eligible. Please don't hesitate to call if you have questions on this issue.

**Living Wills – After Terri Schiavo**  
**Steve Page, Principal at GTrust**  
**Friend of Brand Asset Management Group**

Regardless of how you felt about the Terri Schiavo feeding tube controversy, the case was tragic. Especially tragic because the whole episode could have been avoided if only Terri Schiavo had prepared a Living Will. The lesson is that if you want to direct what should happen to you in the event you become incapacitated, then enact a Living Will.

A Living Will, or Advance Directive, is a legal document in which you can express your wishes about the kind of health care you wish to receive if you become unable to make your own treatment decisions. In most states, there are two types of advance directives and you need both: The Living Will and the Durable Power of Attorney for Health Care.

The Living Will is a legal declaration that states in advance your wishes to receive or withhold life-support procedures. It is placed into use when a patient becomes irreversibly unconscious or terminally ill, and is unable to make decisions about his or her own health care. So long as the patient is able to make health care decisions, the Living Will cannot be used. When it is used, the document directs the withholding or withdrawal of any treatment that might be considered life prolonging or that artificially extends the dying process. The Living Will and the Durable Power of Attorney address specific issues, e.g., those involving the administration of nutrition and hydration in these circumstances.

Anyone over the age of 18 who is of sound mind can complete and sign a Living Will. The signature must be either witnessed or notarized. The document may be revoked at any time by the patient so long as he or she is of sound mind.

The Durable Power of Attorney for Health Care is a document that allows patients to specify in advance who should make health care decisions for them in the event they become unable to do so. Like the Living Will, this document becomes effective when the patient loses the ability to make his or her own health care decisions. But, unlike the Living Will, the patient need not be terminally ill or in an irreversible coma for the Durable Power of Attorney to become effective. The Durable Power of Attorney for Health Care grants broad or specific powers to consent or refuse any type of treatment. These are very

flexible documents that name someone to make decisions when the patient is unable to do so and also defines the treatments that the patient wants or does not want to receive.

Anyone over the age of 18 (except for the attending physician or those employed by him or her) can be named in the Durable Power of Attorney document. Again, any person over the age of 18 and of sound mind can complete and sign a Durable Power of Attorney for Health Care, and witnesses or notarization is also required. More than one person may be named in the document to act for the patient. This may be advisable to ensure that someone will be available to act when it becomes necessary. The Durable Power of Attorney may be revoked at any time by the patient so long as he or she is of sound mind.

Once the Living Will and Durable Power of Attorney have been completed and properly signed, it is important that they be furnished to health care providers when needed. Hospitals and clinics often ask for the documents at the time of admission. It is advisable that whoever is named to make health care decisions possess copies of the documents.

Remember that advance directives only take effect when the patient loses the ability to make his or her own decisions. Before that time, the patient's wishes should be followed and active communication with patients and families is vital.

*This article was re-printed with permission from GTrust.*

### **Contact Information**

**Brand Asset Management Group  
16640 Chesterfield Grove Road  
Chesterfield, Missouri 63005  
(800) 822-8998 Toll Free  
(636) 532-7333 Phone  
(636) 532-2551 Fax**

**tbrand@brandamg.com  
mcreehan@brandamg.com  
pdaniels@brandamg.com  
jakridge@brandamg.com  
cdolniak@brandamg.com  
saccardi@brandamg.com**

### **Compliance Corner** **Cynthia Dolniak, Compliance Officer**



Listed below are a few items that our compliance attorney has suggested we implement in our business and update in our Investment Advisory Agreement (“Contract”). We have shared these issues with many of you already, but would request that after reading this document, please let us know if you have questions. Our current Contract can be amended only by a writing signed by the parties. Therefore, during your next Investment Review, we will be asking each of you to sign an updated Contract.

**Item 1:** As you are aware, our corporate name has changed to Brand Asset Management Group this year and our attorney has encouraged us to provide this as a formal notification to you.

**Item 2:** Per advice of our compliance counsel, we are no longer able to vote proxies on your behalf. While we’ve shared this with many of you already, for those that weren’t aware, this is our official notice that you will be receiving your proxy materials directly. We may, however, offer assistance as to proxy matters upon your request, but you will always retain the proxy voting responsibility. Please call us if you have any questions or concerns about this request.

**Item 3:** We also want to clarify that it is our firm’s intention to only have custody over client assets to the extent we request your custodian to deduct advisory fees directly from your account(s). Invoices are no longer required to be sent to clients whose fees are deducted from their accounts; however, as a service to you, invoices will continue to be sent unless otherwise notified. The advisory fees that have been deducted from your account are listed on your custodian statement. Additionally, invoices will always be mailed to our clients who have made arrangements to pay by check.

We appreciate you taking the time to review this document. If you would like further clarification of any of the points or have other concerns, please don’t hesitate to call Todd, Madaline, Phil, Jason or me. We’ll be happy to discuss these items with you.