notes from the assabet Vol. XIII No. 1

First Quarter, 2015

Do You Speak Money?

Name the top 5 issues that lead to arguments in marriage. Very likely your list includes money. Marital experts attribute this to the fact that spouses usually have different "money languages." While this is especially true in marriage, consider how hard it is to travel with a friend who spends very differently than you do, or just to go out to dinner with a friend who has a different idea about how the check should be divided! How about the level of gift-giving within the extended family? One person is thinking Yankee Swap while the other hopes for a leather jacket by Coach.

Divergent money languages is not simply a matter of vocabulary and sentence structure, of course. If it were that easy, a marriage could be saved by an investment in Rosetta Stone. But a money language reflects personality which is much more impervious to change. Experts offer different types (sometimes called money styles or money personalities) and a different number of categories. These can be useful in getting to know and understand first yourself and then your adversary in the battle (spouse, friend, parent, child, coworker). Usually we assume that our approach to money is reasonable and effective and that "any rational person" would see things as we do. But by identifying our own money language and tracing it to personality helps us be more insightful about our own approach and more respectful of another's. Perhaps you can find yourself (and your spouse) here:

For the ANALYTIC, money is a way to ward off chaos. Analytics are good long-range planners and good savers but may seem to put money first in a priority of decision making. Seeking safety, they may be insensitive to the needs of others.

For the AMIABLE, money is a way to express love and affection. They are quick to share or give. Amiables are sensitive to the needs around them. However, they tend to be poor money managers.

For the DRIVER, money means success and is evidence of competence. The Driver tends to be materialistic, measuring his or her own worth by what (s)he has.

For the EXPRESSIVE, money means acceptance. The Expressive uses displays of wealth to win respect or admiration from a certain group, perhaps to assuage feelings of inadequacy.

Each of these types deals is motivated in part by personal fears (financial insecurity, loneliness, feelings of self-worth, fear of exclusion). Because each style has its own strength and weakness, it's not necessarily helpful for spouses to be perfectly aligned. Marriage counselor Jimmy Evans (an Amiable) jokes that his family is more fun because he's in it, but it's safer because his wife Karen (an Analytic) is in it. Once they came to understand each other's money language, they stopped calling each other "spendthrift" and "tightwad" and managed their money both reasonably and comfortably.

A single individual can straddle two styles. I know someone whose charitable contributions in 2014 were more than 2 times as much as she spent on vacation, eating out, new clothes and beauty/spa treatments put together, an interesting case of "Amiable" meets Analytic."

continued page 2

Assabet Advisors LLC
customized investment solutions

Wayne Ushman

Robert Jacobsen

Assabet Advisors is an independent Massachusetts Registered Investment Adviser, seeking sound and customized investment solutions for high net worth individuals, businesses and foundations.

Focusing our business on larger portfolios, we are able to offer our clients highly flexible services and frequent communication.

We are among a limited group of fee-based advisors who are approved by Dimensional Fund Advisors for access to their funds.

4 Smith Road
Northborough, MA 01532
Tel: 508-351-9666
Fax: 508-351-9689
wushman@assabetadvisors.com
rjacobsen@@assabetadvisors.com

Do You Speak Money? continued

Other lists include additional money types.

The "Worrier" lacks skills and knowledge in financial management and is paralyzed by fears of poverty.

The "Hoarder" is a conservative yet pragmatic money manager who has a mania for bargain-hunting.

The "Miser" engages in extreme self-denial by pretending to be above financial considerations.

The "Spender" buys what (s)he wants without reference to a budget or to the growing level of debt.

The "Binger" stays on top of debt, but occasionally makes a spontaneous purchase of a huge ticket item.

The "Savers" would rather check their growing balance daily than replace their old-school phone with a new model.

The "CFO" loves to run things and stay on top of budgeting, saving and investing, without input from a partner.

The "Need to Know" would be a comfortable spouse for the CFO because (s)he is too stressed out by money issues to be involved and only participates on a need to know basis.

The downsides to any of these personalities may be moderated by the level of an individual's wealth. A very wealthy "Spender," for example, may be able to pay for the vacation home without incurring excessive debt. However, even at a high level of wealth, spending without regard to any financial standards may be problematic. Likewise, an "Analytic" or "Saver" may lose the discipline of their money style as they move from a limited financial worth to greater wealth. Therefore, pegging yourself at one point in time isn't enough. As young marrieds gain wealth, or seniors retire, it's a good idea to look at the money style relative to the current financial situation and make adjustments as necessary.

Www.sorted.org.nz/calculator, "Marriage and Money," Marriage Today, 12/8/10,"Focus on Money Personalities," www.extension.purdue.edu, M. Haiken, "5 Money Styles and How Differences Cause Family Conflicts,"www.caring.com, 6/29/09, L. Smith, "Test Your Money Personality,"www.Investopedia.com

Higher Interest Rates: What, Me Worry?

The threat of rising interest rates can spook investors and cause markets to plummet, sometimes for a day or two, sometimes for a longer period. This is nothing new. Investors have been worrying about a climb in interest rates for several years now, during an extended period of historically low rates. From the market crash of late 2008—early 2009, during the "Great Recession," and even during the slow economic recovery, the Federal Reserve has used a variety of methods to keep interest rates at minimal levels. Investors have been on a continuous "Fed-watch" trying to discern when policymakers would be sufficiently sanguine about economic stability and the rate of inflation to remove their pressure on rates. At this point, the aggressive program of quantitative easing ("QE") which buoyed the economy by keeping rates low between 2008 and late 2014 has ended. The Fed has indicated that they will not be raising the Federal Funds Rate which serves as a basis for interest rates along the yield curve until the second half of 2015. At that point, perhaps, we'll test whether higher rates are worthy of the fears.

Low interest rates have kept the economy afloat by making housing more accessible (at least to those with solid credit and a hefty down payment), by making business expansion more achievable (at least by those who want to venture for growth through greater investment and hiring), by making consumer products more available (at least to those with jobs and expendable income) and by making payments more manageable for those with credit card, student or HELOC debt. However, they have been painful for retirees who rely for income on short term investments such as CDs and long-term fixed income through annuities. These sources of income have been disastrously weakened as the Federal Funds rate has dropped from 5.25% in mid 2006 to the range of 0-0.25%. Rates are not expected to rise considerably once they start but when they do, debtors will be negatively impacted, retirees positively.

People assume that business investment on new plants and equipment declines when rates rise, but that assumption involves "all else being equal." Generally it's not equal. In the context of an improved economic outlook, spending often is maintained or even grows allowing business profits to offset the hike in interest payments.

Portfolio managers don't welcome the affect higher rates have on fixed income assets. As rates climb, the market value of a bond declines, reducing the overall value of the portfolio. This is felt increasingly as you move from short term to long term instruments.

So, we can be rattled by the prospect of rising rates, but really, it depends upon where you sit, and all those factors that are not "equal."

Economic and Financial Overview

According to their most recent report, the Federal Reserve Board expects to raise rates *sometime*, likely sooner (second half of this year) than later (after this year). Things may be changing but not enough to alleviate the uncertainty. At this point, the Fed believes that the economy is growing, albeit slowly. There are positive economic statistics, but none of them particularly inspiring or persistent. What offers encouraging numbers one month, often falls back the next. A case in point: bolstered by minor wage improvement and the decline of oil prices (currently at their lowest in 6 years), consumer spending improved earlier in the year but slowed a bit in February. Manufacturing numbers were not impressive in the first quarter of 2015. According to the most recent report, durable goods orders declined. Housing prices have risen, while measures of construction have been weak. Of the Fed's dual mandate to encourage both stronger employment and stable inflation, they are more or less satisfied with the former (5.5% unemployment is a 7 year low) but concerned about the latter which is lower than their target of 2% per year. Without more definitive economic data, the Fed is reluctant to make assertive moves.

Since the end of 2014, the Euro's value has fallen about 9% against the dollar. The notable increase in the dollar's value doesn't help the Fed's situation. U.S. exports have suffered as they have become more costly in foreign markets. The strong dollar has drawn foreign investors to U.S. Treasury offerings, thus putting downward pressure on U.S. interest rates.

Relative to foreign economies, the U.S. is faring well. European economies are slowing to the point that Central Banks are putting downward pressure on interest rates, furthering debasement of their currencies. China also is experiencing a weakening economic trend while Japan is in recession. The accommodative monetary policy has been good for stocks. On a dollar-denominated basis, large-cap international stocks returned over 4% for the quarter, surpassing emerging markets at around 1.5%. Meanwhile, U.S. Large cap stocks had a 0.44% return (S&P 500 Index) outstripped by small and mid-cap stocks. The Russell 2000 index of small-cap stocks grew by 4.32%. Growth sectors outperformed value during the period.

U.S. fixed income markets have remained stable but have not reached the Fed's goal of more lending, borrowing and investment in the economy. The Barclay's Investment Grade Intermediate Bond Index rose by 1.23%. There was a surge of new corporate bond issuance late in the quarter. Yield spreads between the long and short end of the curve have tightened 37% over the last 15 months, with longer maturities flattening even as the Fed waits for an opportunity raise rates.

Golden Girls?

You can't go far lately without running into articles, seminars and books about retirement planning. That big demographic bulge of Boomers have figured out that setting up and then managing the finances of retirement isn't a slam-dunk. Besides the obvious differences between rich and poor, there are other differentiators that make retirement tougher for certain groups. A study by Rand Corp. highlights the difference between single and married people in financial preparedness. Among singles, men are better off. The study states that while 20% of married couples won't have saved enough, the same is true for 35% of single men and 49% of single women. The broader cultural effect of this statistic is amplified by the fact that 54% of women over 65 are single, compared to 27% of men.

The research is complicated by the inclusion of different types of singles (divorced, never-married and widowed) but there still are general conclusions to be drawn about the relative difficulty of retirement for single people and women in particular. Fewer tax breaks, notably filing jointly, are available to singles. Singles without the prospect of a spouse as caretaker are more likely to pay the high price of long-term care insurance. Single women are at a greater disadvantage for many reasons including lower lifetime income, a potentially longer life to fund, and often the lack of training and experience in managing personal finances. Perhaps most significant factor is the fact that the cost of living for one person does not equate to 50% of the cost for a couple because of what can be the largest expense: housing.

AARP reports that many older women share costs, chores, companionship and housing with a roommate. One option, facilitated by organizations across the U.S., is the situation of Golden Girls Dorothy, Blanche, Rose and Sophia who bought a house together. There also are many non-profits who help match those seeking a roommate to live in their own home. Homeshare International helps to set up and then administers homesharing arrangements here in the U.S. and in several other countries. The nature of each contract depends upon the relative needs of the participants. For those with an interest, direct them to the National Shared Housing Resource Center as a good place to start for information.

S. Abrahms, "House Sharing for Boomers," AARP Bulletin, 5/31/13, A. Comings, "Retired With Roommate," Retirement Seniors 6/5/13, J. Hodges, "Retirement Planning and the Single Person," Wall Street Journal, 10/6/14

SRI, Impact, ESG—Integrating Heart & Bank Account

The concept of socially responsible investing ("SRI") dates at least as far back as the 19th century, when abolitionists sought to distance their financial involvement from the institution of slavery. More recently, the integration of investors' values and societal concerns with investment strategies began to expand broadly in the 1970s. It was influenced by the divestment campaign to limit corporate investment in the apartheid regime in South Africa.

SRI activities comprise 4 parts including the avoidance of investment in companies whose practices violate the investor's values, seeking to invest in companies whose activities reflect the investor's ethics, making targeted investments in local companies determined to be furthering a good cause, and participating in shareholder activism to influence corporate policy. SRI is primarily known for the first of those elements. As a result, it is associated with placing negative screens on the selection of securities associated with one or more "sins" of the investor's sensitivity: gambling, alcohol, guns, tobacco, institutionalized inequality or environmental ruin, for example. It's a "first, do no harm" approach. The most common way for investors to express their values in conjunction with their investments is through the use of SRI mutual funds. Dimensional Fund Advisors has increased their SRI alternatives in the past few years.

The term "Impact Investing" was coined in 2007 but has existed long before that. It is very similar to SRI in its integration of personal ethics and societal and environmental goals with investment objectives. However, the two differ in both in concept and in practice. Rather than being essentially negative (do no harm), impact investing is proactive in seeking to achieve a positive change or a specific benefit. For example, while SRI may withhold funds from companies producing high levels of greenhouse gases, impact investors may try to reduce greenhouse gases by investing in the carbon trading market (market based tools to limit the emissions of greenhouse gases). Where SRI might sanction investments in companies whose activities debilitate local agriculture, impact investors would find ways to combat food shortages by investing in local agriculture. Negative and positive.

One familiar form of impact investing is microfinance, or providing access to financial services to poor households or groups, particularly for micro-enterprise. Another is infrastructure investing in large projects designed to build, restore or remedy infrastructure of various types. Impact investors differ not only by what benefits they hope to achieve but also by their priorities. Impact-first investors are willing to accept below-market investment returns in order to maximize environmental and societal good. Finance-first investors look for at-or-above market returns while attempting to have a beneficial impact.

In recent years, there has been a surge in funds with a goal of making an impact. 69% of the available impact funds have prepared since 2009. These take various forms including Private Equity/Venture Capital, which are divided between those with a social focus and others with environmental goals. Fixed income funds are more likely to target social improvement. In general, the funds with an environmental concentration tend to seek market level returns while those with a social focus tend to be more content with below-market performance. One feature of impact investing is measurement of the impact resulting from the investment. This integrates the two goals of conscience-driven investing in that the performance of both the financial and the betterment goals is defined.

ESG analysis includes factors related to Environment, Social and Governance into investment analysis and decision making. ESG has the potential for a number of benefits, including improved long-term performance, offering investors some standards for security selection, and even providing corporate management some pointers for improving their business models. Pollution control (E) workplace health and safety (S) and shareholder rights (G) are examples of ESG factors. There is a movement to encourage investment managers to integrate ESG analysis with traditional factors of risk and reward into their portfolio strategies. The United Nations Principles for Responsible Investment (basically a best practices guide to investing) has been signed by around 700 managers, including Fidelity Investments and other leading investment firms.

Impact Investing—A New Asset Class," impactinvesting.Blogspot.com, 10/10/2012, "Impact Investing v. SRI," EDHEC-Risk, 3/15, J. Freireich & K. Fulton, "Investing for Social and environmental Impact," Monitor Institute, 1/09, L. Caplan, J. Griswold & W. Jarvis, "From SRI to ESG," Commonfund.org, 9/13,M. Fischer, "Surge in New Impact Funds," www.fa-mag.com, 3/6/15, "What is SRI?," www.resonsiblemarkets.com