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Financial Goals Since 1988

REFLECTIONS

1st Quarter Newsletter 2015



WINDGATE
WEALTH MANAGEMENT

ARE YOU RISK AVERSE OR LOSS AVERSE?



**Sean Condon CFP®
Financial Planner**

The S&P 500 Index dropped 19% in the Summer of 2011, the most recent instance of a market correction of 15% or more. You may remember it.

Investors across the country were dealing with high unemployment and the Congressional clumsiness of the debt-ceiling crisis. These problems were universal for all investors, yet how that 19% correction made **you** feel was entirely specific to your personal circumstances.

To see why, let's take a look at a hypothetical example. Say in 2011 you were several years into your career and just beginning to see your savings account accumulate. You had \$100,000; when we asked you during our initial conversation what you would do if the market dropped 20% you confidently replied: "do nothing or buy more." Now the market falls 20%

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If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 800.331.8936

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and you've lost \$20,000 (in practice you've lost less, because we have you diversified and not fully exposed to the S&P 500, but for simplicity's sake stay with us here). Well \$20,000 is certainly a lot of money, and you don't feel great about the short term loss; but we review your long term goals, you mention that \$20,000 could be made up with a nice year-end bonus, and you remain invested and stay on plan.

Here's a look at another case. You are in your late 50's and approaching retirement. Through years of hard work and investing you have built a portfolio of \$4,000,000. An experienced investor, you understand market cycles and even had the same reply as our younger investor did above when asked the generic question, "what would you do if the market dropped 20%" (your answer: "do nothing or buy more"). Ok, now again the market drops 20%, the same exact decline experienced as our younger friend. Here we'll help you with the math: a 20% decline on a \$4 million portfolio is a loss of eight-hundred-thousand dollars. "\$800,000! Enough!" you say. That is a decade's worth of savings and you have a planned retirement around the corner. You feel angry at your advisor and betrayed by the market. You sell everything and get out, taking the \$800,000 loss with no chance of regaining it when the market eventually recovers.

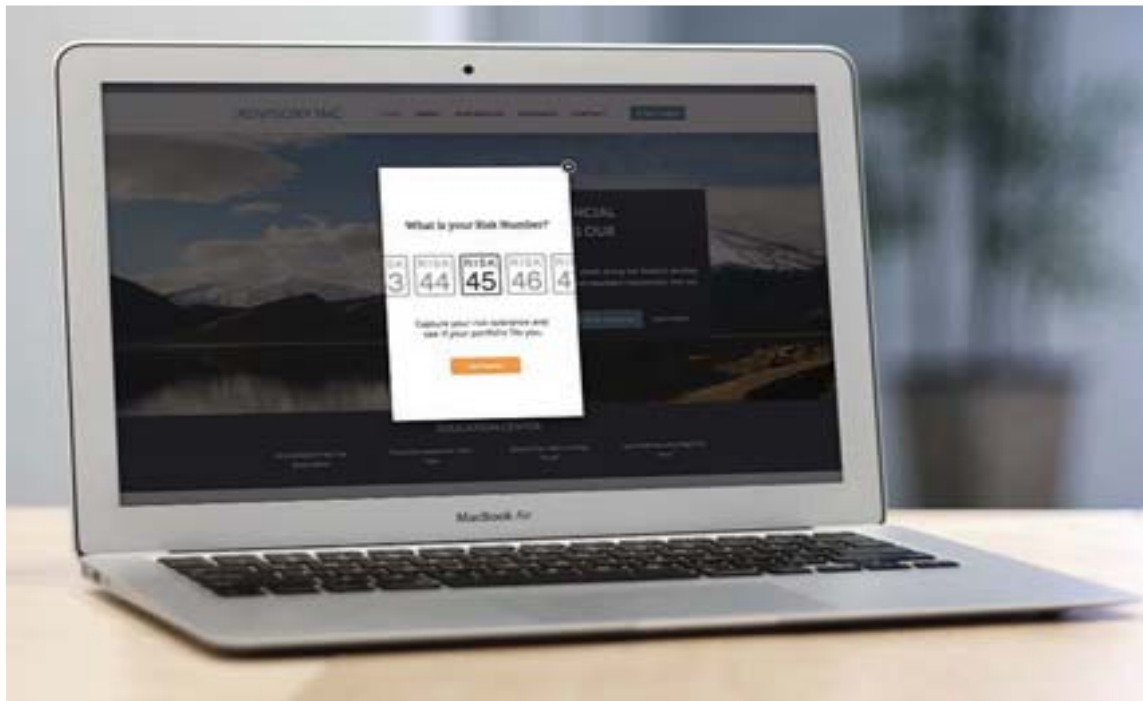
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ARE YOU RISK AVERSE OR LOSS AVERSE? (CONTINUED)

In our two examples we see opposite reactions to identical events. Our younger investor was *risk averse* (as are most investors), showing a general preference for certainty over uncertainty but able to weigh the choice between risk and reward. Our retiree-to-be investor has become *loss averse*. Loss aversion is more than the desire to reduce risk; it is an utter disdain

for loss. In fact, individuals experiencing *loss aversion* have been shown to feel the pain of loss more than **twice** as strongly as any joy felt from an equal sized gain.

Anyone can find themselves in a situation where they become loss averse. This is why it is so important to understand your own expectations and tolerance for risk. It helps to show losses in dollar terms instead of percentages, as demonstrated above. But the personal risk level that is acceptable to you depends on much more than your age or size of portfolio.

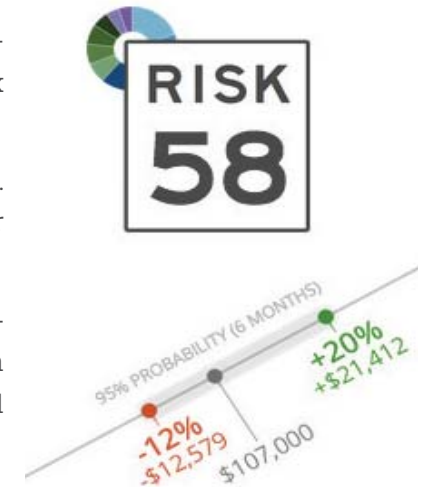


How Much Portfolio Risk Is Right For You?

We now have a technology tool that pinpoints your acceptable levels of risk and reward, in both percentages and dollar terms. Based on the Noble Prize winning work of Daniel Kahneman (author of *Thinking, Fast and Slow*), our risk questionnaire does far more than ask the unproductive question of “what would you do if the market dropped 20%.” The question we need to answer is: “how far can my portfolio fall before I capitulate and make an emotional-charged poor decision?”

Here’s how it works:

- Take a short quiz that covers portfolio size, top financial goals, and what you’re willing to risk for potential gains. From the questionnaire we’ll pinpoint a personal Risk Number.
- We analyze your current investments to generate a Risk Number for your portfolio. Does your portfolio Risk Number match your personal Risk Number? What about your 401(k) or other self-managed accounts? Your entire big-picture portfolio?
- We can now discuss how to better align your portfolios to match your personal tolerance for risk. Crucially, we can begin to compare your investment returns not only to a market benchmark, which may not be relevant to your goals, but to your own personal expectations and risk appetite.



By understanding your personal appetite for risk and setting your investment expectations accordingly, you can minimize the situations where you feel the pain of loss aversion tightening its grip. It can help you make smart investment choices and most importantly, allow you to reach your financial goals. If you would like to discover if all of your invested assets accurately reflect your personal risk tolerance, let’s talk. To take our online risk questionnaire, call or email us today.

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THE LEGACY CONVERSATION: THE MISSING GEM IN WEALTH PLANNING

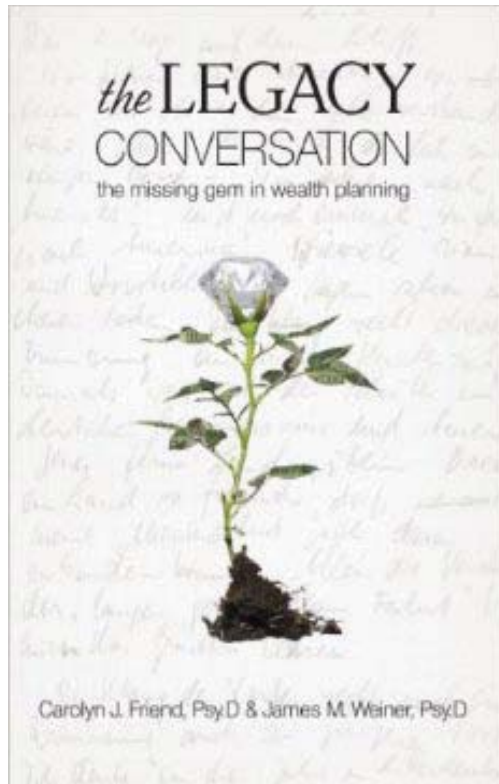
Chicago's O'Hare International Airport regained its title as World's Busiest Airport in 2014. The benefit of working in such a business hub is that it's easy for us to meet with the executives of small companies that we invest in every day. Sometimes, however, unique opportunities can be found right at home.

We recently met with Drs. Carolyn Friend and James Weiner, authors of *The Legacy Conversation: the missing gem in wealth planning* at their offices in a historic loft building in Chicago's West Loop. In place of a conference room was a comfortable living area complete with couch, arm tables and chairs. Off the bat, we felt we were ready for a unique experience.

Drs. Friend and Weiner have founded a distinct practice - *Inheriting Wisdom* - that helps families find meaningful ways to engage in what's really happening behind the money. They understand that traditional wealth planning is often devoted to the technical or tangible side, such as money, investments and property. Yet their experiences show (and we would agree) that families also place a high value on the human or intangible side of wealth planning: family traditions, principals and beliefs make up a family's collective wisdom.

To develop a robust, lasting legacy, we need to bring together the human dimensions of our family wisdom with the technical items like money.

Too often, due to its personal nature, the human side is disregarded during wealth management discussions. Inheriting Wisdom seeks to build collaborative, high-performing family enterprises. Family members are given a purpose to align goals, build out strategic plans and reach consensus in decision-making processes. They are aware that reaching consensus takes time. It is the intentionality behind this type of planning that is the crucial piece.



In their book, Drs. Friend and Weiner pose the question, “What is the most important thing we can bequeath to our families?” They share an anecdote about a family squabble that occurred shortly after the death of the matriarch. After the funeral, a grieving couple returned to the home to find family members hunting for a cherished memento, a brooch pin, in every drawer, closet, cabinet and purse. The commotion ends in an accusation of a theft and one member declaring “this is the end of our family!”

Ironically, the brooch was a piece of costume jewelry with little monetary worth. Yet it had immeasurable intangible or emotional value to each family member as it was the treasure, a source of personal memories. This type of story is universal. You may even have one in your own family. So commonly the family dragons of jealousy, envy, greed and power take control. The process provided by Inheriting Wisdom enables families to build a strategic plan to help manage these types of dragons.

To develop a robust, lasting legacy, we need to bring together the human dimensions of our family wisdom with the technical items like money. Tangibles without intangibles (or human side) create an unbalanced legacy. Your estate plan may clearly define which *tangible/technical* assets will be passed on to the next generation, however will it prepare your heirs to work together as a collaborative team ready to ward off any potential “brooch episodes?”

THE LEGACY CONVERSATION: THE MISSING GEM IN WEALTH PLANNING (CONTINUED)

Make a plan to start a conversation with your family members about what's **really** going on behind the money to ensure discussions around legacy are productive ones. Reading *The Legacy Conversation* is a good start. It provides stories to spark a dialogue about which aspects of the family's wisdom is most important to you. As a way to build off of the ideas presented in their book, Drs. Friend and Weiner also developed a deck of 52 "Conversation Starters" cards - grouped into categories of money, philanthropy, health, wisdom, traditions, and "dragons," - each with a single question designed to get the family conversation going. Questions are precise ("What cherished possession might your family fight over?"); thought provoking ("If blindfolded for a day, pick a family member as your guide."); or more light-hearted (Have you ever found wisdom in a song's lyrics? Name that tune).

Creating a legacy plan that includes the human side as well as the technical aspects takes sustained effort over time. But for those who can engage the investment, it will be worth it. If you have an interest in the Inheriting Wisdom process, *The Legacy Conversation* book, or the Conversation Starters deck, give us a call.

Make a plan to start
a conversation with
your family members
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HEALTH SAVINGS ACCOUNTS: EARN A DEDUCTION AND START A MEDICAL IRA



The passage of the Affordable Care Act (Obamacare) has changed how many Americans seek out and pay for health care. Employers and individuals are taking a fresh look at plans, often determining that higher-deductible plans (“Bronze Plans”) are the least expensive and most beneficial. And those who have a High Deductible Health Plan (typically a minimum deductible of \$2,500) are eligible to enroll in a Health Savings Account (HSA) to help save for medical expenses.




A Health Savings Account is a tax-advantaged account that you can use to pay for current or future IRS-qualified medical expenses. Unlike popular Flexible Spending Accounts (FSA), with an HSA there is no “use it or lose it” provision – meaning you have the ability to invest your healthcare savings and earn a return over time. An HSA works by making contributions up to a maximum amount every year, either via payroll deduction or periodic investment. You can then pay for qualified medical expenses using funds in the account, and unused funds roll over year to year.

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HEALTH SAVINGS ACCOUNTS: EARN A DEDUCTION AND START A MEDICAL IRA (CONTINUED)

Why is an HSA so compelling?

An HSA provides tax savings in three ways. Here's how:

-  Contributions to your HSA are made with pre-tax dollars (deducted from a paycheck) or any after-tax contributions are deductible; therefore any HSA contributions reduce taxable income.
-  HSA account interest and investment earnings are tax-free
-  When used for IRS-qualified medical expenses, distributions are tax-free.

Establishing a Health Savings Account (HSA) may provide you with a deduction of up to \$7,650. This above the line deduction comes with no income limits or phaseouts, making it especially attractive to high-bracket tax-payers. HSA deductions are above the line and can help you shrink your adjusted gross income or modified AGI. Because there are no income limits and no phaseouts for HSA tax deductions, this means that HSA contributions can help affluent investors who have been phased-out of tax benefits, and also minimize their exposure to the 3.8% surtax on net investment income. For 2015, The IRS permits tax-deductible HSA annual contributions of \$3,330 (individual) or \$6,650 (family), with a \$1,000 extra allowed for those over 55. However, you are no longer eligible for an HSA account once you have enrolled in Medicare.

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“Medical IRA”








In its most basic use, an HSA saves you money by allowing you to pay for current health care expenses using pre-tax dollars. With a little luck, or good planning, an HSA can also be treated as a “Medical IRA.” Let’s say you have several years when your medical bills are low, or you can pay for your health care expense out of pocket – then the balance in your HSA can continue to grow, untaxed, for future use. In retirement, these funds can be used toward medical expenses with untaxed dollars. Retirees being forced to draw from their Traditional IRAs to fund expenses, which raises their taxable income, can benefit from having a tax-free bucket of earnings available from their HSA.





So you plan to build an HSA for the long-term; now how will you invest it? According to a recent report by Fidelity, only 16% of HSA owners had invested their account beyond cash and cash equivalents. Once a sufficient base of liquidity is established in an HSA, it could pay to invest and aim for a higher return. Keep in mind that HSAs are portable, even without a job change. Ask your employer or health insurance provider if your HSA includes a menu of investment options. If not, it’s worth exploring other providers that do. We have a relationship with one of our custodians which allows us to guide clients through an open menu of investment options suitable for an HSA. For further guidance on how open an HSA, or how to benefit from additional HSA investment options in a current HSA, give us a call or email. We can determine how an investable HSA might be right for you.

Ask your employer or health insurance provider if your HSA includes a menu of investment options. If so, we can help.

MONEY CAN BUY HAPPINESS, BUT WORDS ARE FREE

Favorite quotes regarding Money, Work and Humor

-  "There is no cure for birth and death save to enjoy the interval." - [George Santayana](#)
-  "In my many years I have come to a conclusion that one useless man is a shame, two is a law firm, and three or more is a congress." - [John Adams](#)
-  "I will tell you how to become rich. Be fearful when others are greedy. Be greedy when others are fearful." - [Warren Buffett](#)
-  "There's a difference between a philosophy and a bumper sticker." - [Charles Schulz](#)
-  "Wise men talk because they have something to say; fools, because they have to say something." - [Plato](#)
-  "How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case." - [Robert G. Allen](#)
-  "You miss 100 percent of the shots you don't take." -- [Wayne Gretzky](#)

-  Even if you are on the right track, you'll get run over if you just sit there."- [Will Rogers](#)
-  "When writing the story of your life, don't let anyone else hold the pen."- [Harley Davidson](#)
-  "Whether you think you can or whether you think you can't, you're right!" - [Henry Ford](#)
-  "Invest in yourself. Your career is the engine of your wealth." - [Paul Clitheroe](#)

MEET THE TEAM: Judy Burns, Marketing and Design Extraordinaire



Judy joined our firm in 2011. She helps ensure that the firm's messaging is consistent with overall marketing and communication objectives. Judy assists with the planning and execution of marketing activities, and provides new ideas for marketing materials, including design and content of marketing pieces to be used online and in person. Judy's high energy, positive outlook and creative thinking contribute to the total effectiveness of department. After hours, Judy is also a greeting card entrepreneur, who markets, publishes and sells her own designs through her online e-commerce site and wholesale markets. Judy has over twenty years of marketing experience, most recently at advertising agency Schafer Condon Carter.

Q. What is a graphic artist?

A graphic artist composes visual material for printing or digital display. I work to bring many kinds of communication alive for the maximum impact of the message. Inspiration and creativity for this job and in general isn't about luck, inherent creative genes or special eureka moments, but rather hard work and sharing of ideas which is so common here at Windgate Wealth Management.

Q. What role did design play in the Windgate re-branding?

Design played a major role. Our message behind the brand is to show our way of doing business is to form a partnership with our clients. This personal relationship is part of what sets us apart from larger firms. From this idea the "Reflection" theme was born. It may be subtle, but the creative image of reflection drives the brand. All of our images are versions of a reflection, and the logo - emphasizing the two-color "W" - is a reflection itself.

Q. Give us an instance of being creatively inspired?

Over the last twelve summers I vacationed in a cottage that was set into a bluff overlooking the Kalamazoo River. The cottage sat across from a yellow and purple house that was owned by a celebrated artist who was 90 years old when she and I first met. This woman was the quintessence of an inspired life. Her creative spirit gained strength and vigor as she aged. She thrived on trying things she'd never done before; took risks and dared to imagine diverse possibilities. She discovered new ideas and ways to see things and knew that willingness to meet anxiety and fear head on was how creative growth flourishes. She lived creatively for 103 years. An inspiring influence if ever there was one.

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300 S. WACKER, SUITE 2880
CHICAGO, IL 60606

To Your Future Prosperity..