GRINKMEYER LEONARD FINANCIAL

The RETIREMENT TIMES

December 2018

Happy Holidays from Grinkmeyer Leonard Financial

On behalf of everyone at Grinkmeyer Leonard Financial, we want to wish you joy and happiness during this special season. Thank you for choosing us to be your dedicated retirement plan advisors. This year we certainly saw plenty of activity in the retirement plan landscape — the end of the DOL's Fiduciary Rule, new ruling on hardship distribution rules and litigation against plan fiduciaries. We look forward to 2019 and continuing to keep you abreast of current events within the industry. We are extremely proud to be your retirement plan advisors, protecting you as a fiduciary and helping your plan participants prepare for a meaningful retirement. Congratulations for all you accomplished in 2018.

As we do each December, this month's Retirement Times highlights excerpts from issues published this year. Please contact us with any questions or feedback; we look forward to serving you in 2019 and beyond!

Trent Grinkmeyer and Valerie Leonard
Co-Founders, Grinkmeyer Leonard Financial

Weather or Not, Stay Invested

Kyle Olson, CFA, Senior Investment Advisor, Published February 2018

Last year was one of the strongest years on record for hurricanes in the Atlantic region of the United States and among the costliest of seasons on record, with preliminary estimates totaling over $200 billion. This is the second largest season in damages since 1900, with 2005 having a slightly higher total (Hurricane Katrina).[1] For those not directly affected by the hurricanes or other extreme weather events, some often wonder how it might affect them indirectly, via their investments. Article upon article is quickly spewed out, some with catchy titles that contain minimal factual content (example: "Investors Brace for Hurricane Irma"). While these articles succeed at garnering clicks, they can also lead investors to act irrationally, thinking they can time the markets or shift investments due to pending storm damages.

Thankfully, there exist some helpful studies that show how markets react to these extreme weather events. The first, from Ishuwar Seetharam at Stanford University, shows that natural disasters do have a small effect on companies who are directly exposed.[2] He looked at over 30 years of data, spanning the top 122 natural disasters. From a timing perspective, the largest effect occurs five days preceding the event to 20 days following. Though this may seem like a no-brainer, other variables can surface which help drive this effect in either direction. For example, if a company has different business lines, or is spread around multiple geographies (to name a few), this can add to or mitigate potential losses.

Diving deeper into the markets by industry, Dubravko Lakos-Bujas, from JP Morgan's U.S. Equity strategy team, claims that distributors and construction materials are the top beneficiaries from hurricanes, while energy and insurance companies fare the worst.[3] He arrived at these conclusions by looking at all of the major hurricane landfalls since 1995. As for the overall market, the losses from hurricane damage tend to revert back to normal levels due to ensuing increases in public and private spending.

Despite a lack of strong evidence from the two studies above, there is another idea that comes from no closer than that of left field, albeit from a highly respected individual. Robert Bruner, dean emeritus and current professor of the University of Virginia's Darden School of Business, believes that Hurricane Katrina (2005) triggered the 2008-2009 financial crisis.[4] Like a domino effect, Katrina caused significant damage to housing in the Gulf Coast states, which then triggered credit card delinquencies, and then sub-prime mortgages fell after that. He also claims that other market downturns were triggered by natural disasters, notably referencing the Mississippi flood of 1927 eventually triggering the Great Depression.

One major lesson learned in investing is that you cannot immediately discredit an idea, no matter how unusual it might be. Professor Bruner's claim might sound strange, but perhaps the overarching claim pertains to vulnerability. Some companies, countries and geographic regions are prepared and built to withstand a natural disaster, either physically, financially or some combination of the two. Both studies above show that certain companies and industries can immediately be affected (via-the stock market) if they are not prepared. Also, keep in mind that a particular company's preparedness (or lack thereof) can already be priced into the market. The long-term effects, though intriguing, are very difficult to assess because they seem tangential (i.e. hindsight is 20/20).

If conducting the research on affected companies and industries while also factoring in investor sentiment seems daunting, we believe it is best to remain diversified and hold for the long-term.

[1] *http://time.com/4952628/hurricane-season-harvey-irma-jose-maria/*
[2] *https://web.stanford.edu/~ishuwar/Disasters_Stocks_Current.pdf*
[3] *https://www.marketwatch.com/story/what-history-says-about-hurricane-irma-and-the-stock-market-2017-09-08*
[4] *http://www.cityam.com/263829/floods-hurricanes-and-earthquakes-triggers-financial-crises*

About the Author, Kyle Olson, CFA

Kyle works as an investment analyst with plan advisors on constructing best-in-class lineups and conducting market and mutual fund research. Kyle is also a member of RPAG's Investment Committee, where all quantitative and qualitative aspects of the investment due diligence process are vetted and discussed when providing manager recommendations. Kyle graduated with a Bachelor of Arts in economics from the University of Pennsylvania in 2010.

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Tips for Preventing Uncashed Retirement Checks

Published July 2018

Managing uncashed retirement checks may be considered a nuisance by plan administrators. Nevertheless, the employer still has fiduciary responsibility when a former employee fails to cash their distribution. Search efforts to locate a missing plan participant consume time and money and may fail to locate the participant. Likewise, going through the process of turning over dormant accounts to the state can also consume time and resources.

Decrease the burden of uncashed checks by:

1. Discussing with terminating employees during the exit interview the options for their retirement plan. Employees may forget they have a company-sponsored retirement plan, or don't know how to manage it.
2. Reminding departing employees that they can roll over their retirement assets into their new employer's plan. Your plan's service provider or the new employer can answer questions the former employee may have about the rollover process.
3. Letting employees with an account balance of $1,000 or less know they should expect to receive a check in the mail after a certain amount of time.
4. Having the employee verify their current address to where the check can be sent.

Remember, fiduciary responsibility and liability extends to terminated employees with assets in the plan. This responsibility includes delivery of all required distributions and all fiduciary prudence responsibilities. Stay in touch with this important group.

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Hey Joel! – *Answers from a recovering former practicing ERISA attorney*

Published May 2018

Welcome to *Hey Joel*! This forum answers plan sponsor questions from all over the country by our in-house former practicing ERISA attorney.

Should I distribute the Fiduciary Investment Review to plan participants?

- Generous in Georgia

Dear Generous,

I appreciate your desire to provide detailed information to your plan participants, but hold your horses. While there is nothing legally preventing the sharing of the Fiduciary Investment Review (FIR) with participants, we do not recommend it and, in fact, strongly discourage it. The FIR is designed for delivery to fiduciaries, not participants. This is not only because the fiduciaries are more sophisticated but because the report is better understood (I would even say, only understood) when presented/explained by an advisor that knows the data. The average participant may be alarmed by watchlisted funds and take inappropriate action (i.e., remove them from his/her portfolio when that's not the recommendation.) Further, we fear that participants will move all their money into the funds scoring 9 or 10 and as you can imagine, doing so would ignore the critical strategy of diversification. Instead of sharing the report itself, I always recommend an employee

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communication from the plan sponsor. Something like – "Hey employees, the company has met with our plan advisor to review the plan investments and all is doing great. We take the monitoring seriously, we do it regularly and will let you know when/if a change is needed… Until then, don't forget to join, increase your deferral, diversify, etc, etc." No need to create alarm unnecessarily.

Always here to ***give*** advice,

Joel Shapiro

About Joel Shapiro, JD, LLM

As a former practicing ERISA attorney Joel works to ensure that plan sponsors stay fully informed on all legislative and regulatory matters. Joel earned his Bachelor of Arts from Tufts University and his Juris Doctor from Washington College of Law at the American University.

If you have a question for Joel, please send it to Grinkmeyer Leonard Financial. Maybe it will be featured in a future issue!

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