First Quarter Newsletter

WATERFORD ADVISORS LLC
Relationships Beyond Investing

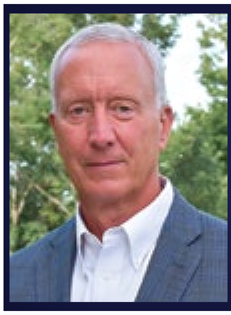
April 2021

Three steps to successful INVESTING

Every once in a while, it's useful to step back from the permanent chaos of political, economic and market events, and ask ourselves the fundamental questions: what am I investing for, and how will I know whether I'm succeeding or not? How, indeed, does one even measure investment success?

The answers will be found not in today's headlines—and certainly not by attempting to predict tomorrow's. Nor will they be a function of whether the market's next 20% move is up or down. You see, the answers you're looking for can only be discovered by the light of your own personal financial situation. In practice, they'll depend on whether or not you are following***—in exactly this order—***the three fundamental steps to a genuinely successful lifetime of investing: **goals—plan—portfolio**.

This may be somewhat startling to investors who think successful investing is a function of whether or not their portfolio is outperforming some benchmark, or of getting in



Gregory L. Kozerski
CPA, CFP®, AIFA®
President

and out of the market opportunely. Considered properly, all portfolio issues are subordinate to the two vastly more important questions: (1) ***Have you set specific goals?*** And (2) ***Do you have a specific plan for achieving those goals in the time allotted?*** (for most of us, that will be our planned retirement date). The great thing about this is the realization that the most important variables in investment success are within your control—as opposed to economic and market variables, which are beyond your control. Let's consider them in order:

GOALS. Under this heading, we have two critical questions to answer. First, ***what are we investing for?*** Most of us, I think, are accumulating capital for retirement, and beyond that for legacy. For the sake of focus, let's leave legacy out of the equation for the moment—because if we don't get retirement right, chances are there won't actually be any legacy. Thus, the threshold financial issue in retirement is simply ***will we outlive our money, or will our money outlive us?***

The second and more specific question then becomes: ***how much is enough?*** That is, what will our income need in retirement be, and what capital sum might be expected to enable us to cover that income need, at an initial withdrawal rate of four to four and a half percent? Ideally, that withdrawal would rise as our cost of living rises, and we would also have funds set aside for emergencies.

This, then, is the essence of goal setting: knowing what we're investing

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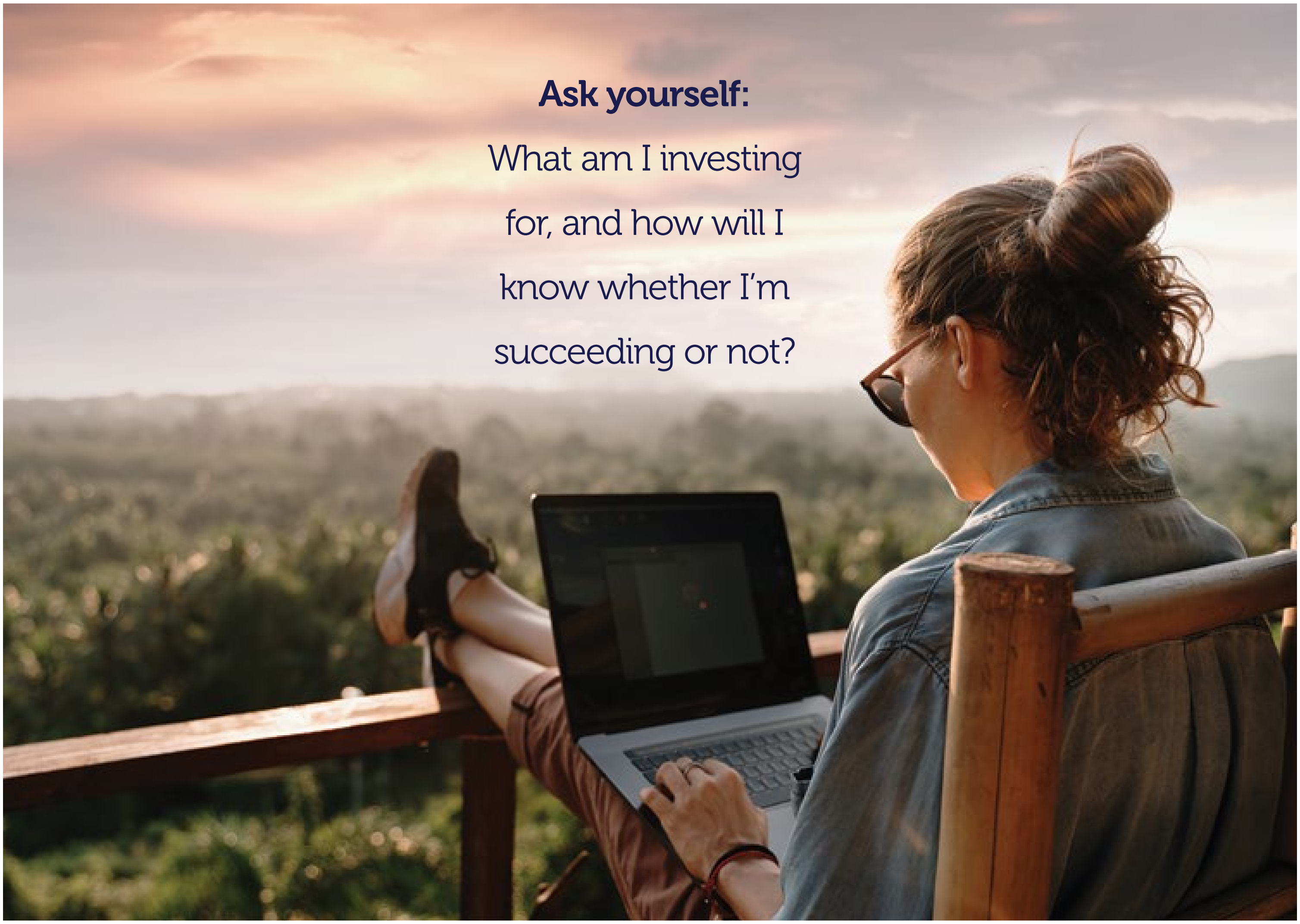
The Waterford Difference

We believe that true wealth lies within all that you cherish that money cannot buy and death cannot take away. That is where the Waterford difference begins.



for and having a fairly good idea of how much capital will be necessary to fund that goal. That should be very good information for the folks who'll ultimately read this little essay: ***without a clear, specific accumulation goal—and a sense of when you'll need to have reached it—nothing else matters much.*** As the immortal Yogi Berra said, "If you don't know where you're going, you might not get there."

PLAN. Then—but only then—the issue becomes making a ***written, date-specific, dollar-specific plan for accumulating that capital sum in the time allotted.*** Again, the issues are two-fold: (1) how much must you regularly be putting away, and (2) at what assumed rate of return, to get you from where you are now to where your (inflation-adjusted) goals say you need to be by the time you retire. ***None of us were ever trained to do this.***

Which is why this is where—if he/she hasn't already—your financial advisor comes in. I suppose there are any number of software programs that might let you take a pretty good first cut at this, but in the end, I think you're going to want to be looking in someone's eyes as the exercise unfolds. There's just too much riding on it.

Thank you for your continued confidence and trust in our team. A true compliment is to entrust us in assisting your loved ones to achieve their financial goals as well.

PORTFOLIO. The last piece of the puzzle is the portfolio you and your advisor choose to be the funding medium for your plan. The key phrase in that sentence is, of course, "funding medium."

A portfolio isn't an end in itself, nor is beating a benchmark a financial goal. (Not running out of money in retirement is a financial goal—indeed, some of us see it as the financial goal.) ***The portfolio is simply a means to an end.***

This tells you that you're not going to be choosing a long-term portfolio based on some or another economic or financial out-look. You'll choose it

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TAX CORNER SPOTLIGHT

The past year has been unique and challenging in many ways. It has also provided us the opportunity to reflect on values and things we hold dear. In many cases, this includes a greater appreciation for the community around us which allows us to thrive. This quarter, we have decided to replace our typical Tax Corner article with a spotlight on a local organization that has been an integral part in building the local community over the past 100 years, and through many collaborative initiatives, has made an impactful difference in helping those less fortunate weather the storm of the past 12 months; the **Community Foundation for Greater Buffalo**.

100 YEARS
FOCUSED FORWARD
Community Foundation
for Greater Buffalo

Making the Most of Your Generosity

As Western New Yorkers, we want to be able to do good in our community and make a positive impact today, tomorrow, and forever. That is true now more than ever, as we not only work to address the current challenges we all face in the wake of the pandemic, but also continue to support the future of the organizations, causes, and communities we care about.

Doing good means something different to each one of us, and these distinct values that every individual, couple, and family possesses influence charitable goals. We recognize that your giving is as unique as your fingerprint. For more than 100 years, the Community Foundation for Greater Buffalo has worked with clients to provide customized and flexible solutions to connect people, ideas, and resources to improve lives in Western New York so people can give back in the way that is most meaningful to them.

Dan Byles-Smith
CPA,CFP®
Principal

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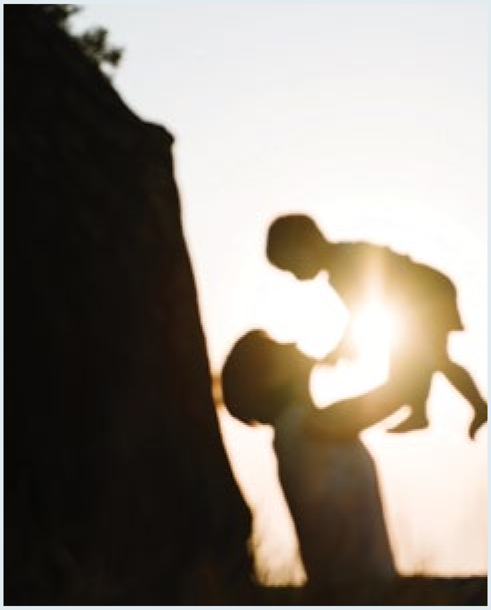
"One of the first things that I liked about the Community Foundation for Greater Buffalo is the fact that we could set up our own foundation within the Foundation and support the charities that we were most interested in. The Community Foundation introduces clients to new ideas, new issues, and new possibilities."

–Current Client

The Community Foundation hears time and time again from clients that they are focused forward on the future of their families, their legacy and that of the organizations and communities they care about. Whether you are a teacher who wants to support education forever, part of a family foundation who wants to pass along a legacy of giving to your children and grandchildren, or a proud Western New Yorker who wants to know your hard earned dollars are still making a difference a hundred years from now, there is no limit to how you can make an impact.



Working closely with clients, the Community Foundation can be a philanthropic partner to make the process of giving easier, more efficient, and impactful. Clients can personalize their plans and: Establish a fund or foundation during their lifetime or as part of their estate plan; give in Western New York and across the globe; support specific organizations, issues and communities they care about; give individually and/or as part of a collective effort; engage their children or grandchildren as future successors to their fund or foundation; and/or give over a period of time or create a perpetual source of funding.

Most people want to leave a legacy; some proof that their life made a difference. Legacy Funds are ideal for families and individuals who want to support organizations, issues, and communities that meant the most to them during their lifetime.

The Community Foundation works with clients to ensure their wishes are documented and carried out as intended, in their names, forever. Legacy funds provide you with the flexibility and simplicity to include your fund as a beneficiary of your Will, trust, or retirement assets.

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TAX CORNER

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Choose one or a combination of options that can support specific organizations, issues or areas of need, or the changing needs of our community over time.

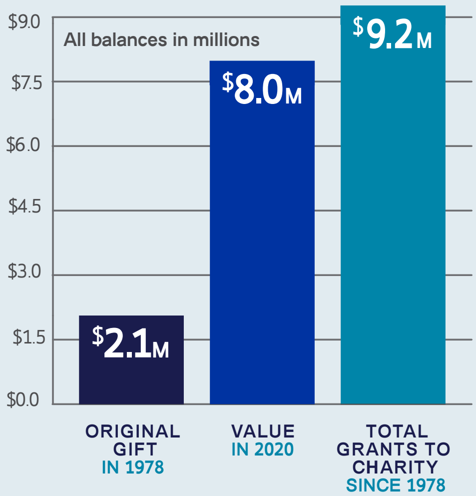
How will you leave your mark on Western New York? While that part is up to you, the Community Foundation will work with you to make your charitable goals a reality.

To learn more about the Community Foundation, please contact Betsy Constantine at (716) 852-2857.

How It Works

This endowment was established with $2.1 million in 1978 through a legacy gift (bequest) to the Community Foundation from a parent in honor of his son who died tragically as a young man. Today, decades after both father and son have passed on, the initial gift has more than tripled to $8 million, all while giving $9.2 million in grants to the organizations they cared about. Their fund will continue to honor this family's charitable giving legacy by making grants to their favorite organizations in their name, forever.

The Impact of Endowments



Three steps to successful INVESTING

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based on ***what mix of assets has historically delivered the return you need over long time horizons.*** Will that same mix deliver its precise historical trendline return over your particular run-up to retirement? It doesn't seem likely: the randomness of equity returns being what it is, you may have to hunker down and practice greater-than-projected thrift to have a hope of achieving your goals. On the other hand, returns may outrun your target, such that you end up not having to invest as much money as you'd planned (unless, of course, you want to). This is yet another variable over which you have no control. What matters is that ***you always know where you are relative to where you expected to be*** and can adjust accordingly.

Once again, then, the sequence of the three steps to long-term investment success must always be: **goals—plan—portfolio**. Take these steps out of their proper order—much less skip one altogether—and at some point, you'll get to watch all the lights going out.

There is, however, one other point to be made here. It concerns the great reward we historically reap when we pursue a long-term plan of investing systematically toward a goal. Specifically, we get to experience perfectly normal equity market setbacks as opportunists rather than as victims.

There may be a more irrational investment policy than wanting the market to go up while you're still accumulating for retirement. But if there is, I don't know it. When you're beavering ahead, pursuing a multi-year investment plan, you want the market to go down the way the Boston Irish used to vote: early and often. The more shares you can get into the barn at fear-driven low prices, the more likely you are to reach your long-term goals.

If you haven't got these three steps in place, and in this order, you know what your next conversation with your financial advisor needs to be about. Hint: it isn't what the market is going to do next.

Waterford
HAPPENINGS

Here's the latest from your friends at Waterford Advisors…

Marybeth Rose
Planning Associate

Celebrating a New Waterford Generation

Please enjoy an update on some of our newest additions to the "Waterford family."

Alexandra Rachel "Allie" Kozerski

Born 4/26/2018 to parents Greg and Erin Kozerski

Thomas W. Byles-Smith (left)

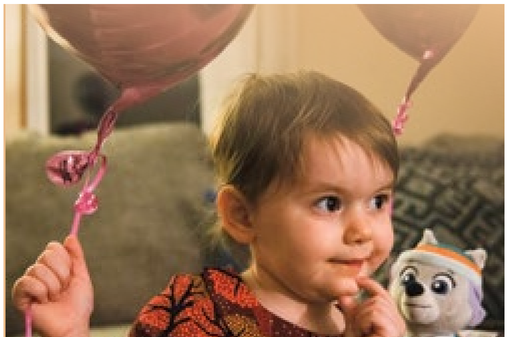
Born 4/21/2016 to parents Dan and Jill Byles-Smith

Jonathan M. Byles-Smith (right)

Born 10/17/2018 to parents Dan and Jill Byles-Smith

Maeve Rae Harmer

Born 10/19/2020 to parents Mike and Marissa Harmer



Elise Marigold Brennan

Born 2/26/2018 to parents Ellen Bosco-Brennan and Mike Brennan

Joseph David "Joey" Michalczak

Born 1/30/2019 to parents Christina and Dave Michalczak

Isabel C. "Izzy" Polkovitz

Born 11/03/2020 to parents Abigail Shaw and Mark Polkovitz

As always, we welcome your comments or questions and invite you to share our newsletter with family and friends.

Relationships Beyond Investing

WHAT IS A
Target Date Fund Glide Path?

A Target Date Fund (TDF) is the "set it and forget it" fund option for many 401(k) plan participants and retirement investors. This type of fund automatically rebalances the overall asset allocation for a targeted mix of equity and fixed income investments based on the investor's age and an assumed retirement date. Often TDFs are named as the default investment option within 401(k) plans since they are designed to be age appropriate and generally do not require the participant to make any allocation changes themselves over time. The year noted in the TDF name is the year the plan participant plans to retire; their targeted retirement date (ex. Target Date 2030 is referring to the year 2030, a participant looking to retire during that year would select this fund as his or her investment option). Most TDFs are named in five-year increments, so the participant would choose the fund closest to his or her planned retirement date. Most TDFs assume a retirement date of age 65, however a participant can select any TDF that is appropriate based on his or her goals and desired retirement date.

A TDF's glide path is the changing mix of equity and fixed income investments over time. As the participant's target retirement date gets closer, the fund's overall asset allocation "glides down" to a less volatile mix of investments. For younger participants with a significant amount of time before reaching their targeted retirement date, the overall asset allocation will be much more aggressive and hold a greater percentage of equity funds than fixed income funds, with a primary goal of growth. Over time, those investments will shift to more fixed income investments so that the overall asset allocation becomes more conservative and more aligned with preserving capital and generating income.

Some TDF glide paths continue holding some equity funds past the targeted retirement date in order to provide growth opportunities to ensure the longevity of the portfolio value throughout the participant's retirement time frame. A 65-year-old is still a long-term investor with a 30-year time horizon which needs to be planned for by the portfolio asset allocation. Below is a basic example of a TDF glide path.

Christina M. Michalczak
CFP®, QPFC
Principal

A TDF's glide path is the changing mix of equity and fixed income investments over time.

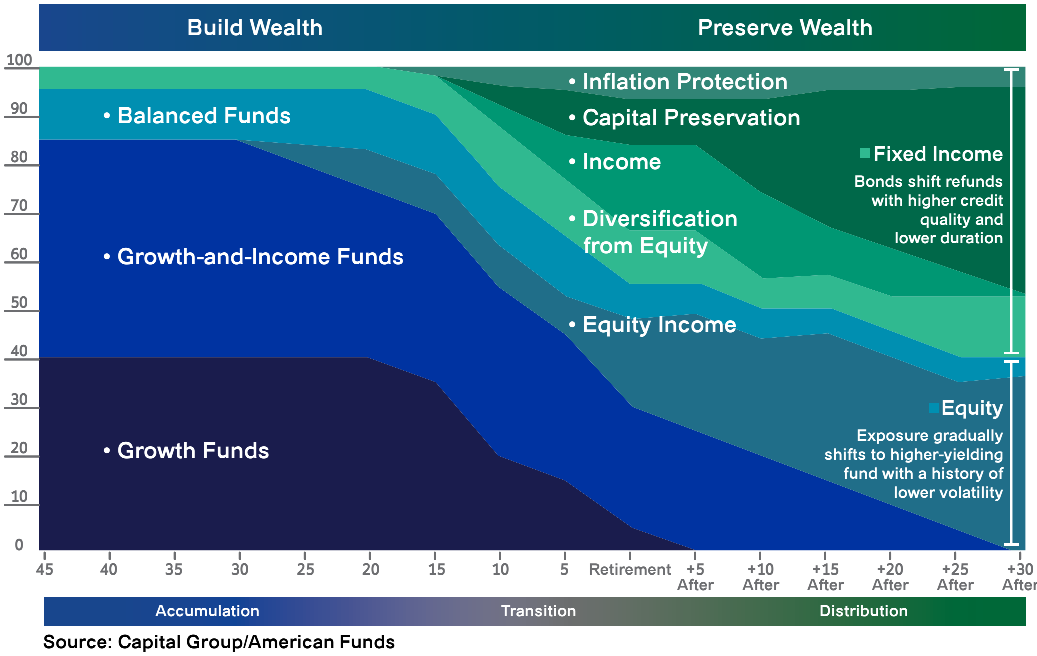
It's important to note that the managers of TDFs don't just change the percentage of equity funds and fixed income funds over time but also tactfully manage the types of equities and fixed income funds over time as well to take advantage of current market opportunities and benefit the retirement investor. TDFs are an easy and efficient way of ensuring that participants have a proper asset allocation based on their age and time until retirement that they don't have to manage themselves.

TDFs can help participants avoid being their own worst enemy by being too reactive to volatile markets. It's important to remember that even with their growing popularity, TDFs aren't perfect and are not always the optimal choice for every participant or retirement investor. All investments carry some risks and TDFs are no exception. However, for many participants, the one stop convenience often makes them the right choice.

If you have questions about a TDF that you're invested in or you would like to learn more about them, please don't hesitate to contact our office.

Source: https://www.plansponsor.com/in-depth/understanding-tdf-glide-paths/

TDF Glide Path



Source: Capital Group/American Funds

Market
RECAP

Global stocks continued to power upward this quarter from their pandemic bear market low on March 23, 2020. U.S. stocks, developed international stocks, and emerging-market stocks are now up an astonishing 80.6%, 74.8%, and 74.6%, respectively, since then. ***Clearly, it paid not to panic and get out of the markets last spring.***

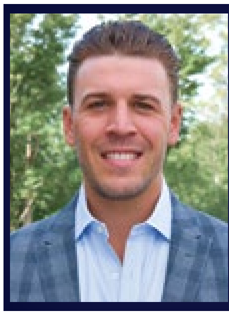
Due to expectations for a reinvigorated economy this year, the market has seen a "reflation rotation": For a couple of quarters now, equity investors have been betting on more economically sensitive small caps and value stocks and eschewing large caps and previously highflying growth stocks.

The reflationary winds tore through the bond market as well. The prospect of higher growth and higher inflation caused interest rates to jump. The 10-year Treasury yield more than tripled from the historic low it set last August. Correspondingly, the core bond index fell 3.6%, suffering its worst quarter since 1981. On the flipside, floating-rate loans, which benefit from reflation, gained 1.8%. And most of the flexible, active bond strategies we invest with delivered positive returns this quarter, despite higher rates (and all outperformed core bonds).

Investment Outlook

The primary variables that will determine the direction of the economy and markets remain COVID-19 developments and the fiscal/monetary policy response. These currently imply a base case for a strong economic rebound, particularly in the United States but also globally. This will support the fundamentals underpinning higher-returning asset classes (stocks, credit sectors of the bond market) if interest rates do not move sharply higher.

At the current vaccination rate, experts estimate the United States could achieve herd immunity by late summer. Controlling the pandemic will enable us to start getting back to normal lives, boosting economic activity. The American Rescue Plan (ARP) Act, the massive



Mike Harmer
CFP®, EA
Principal

fiscal stimulus enacted early in the new administration, will supercharge economic growth further. That should in turn feed into company earnings. Yet the Federal Reserve continues to reiterate that it will not preemptively raise interest rates. It intends to wait till it sees inflation above its 2% target for an extended period of time, a new policy that suggests this economic cycle has plenty of room to run.

So high economic growth, strong earnings growth, but low interest rates? Equity investors couldn't ask for more. The main threat is our old friend valuation risk. However, stocks remain reasonably attractive relative to bonds.

Speaking of bonds, longer-term interest rates have risen in anticipation of a higher-growth, more inflationary environment. That has hurt bond investors this year. We have felt less of an impact as we were significantly underweight to core bonds to protect against just this occurrence. Rates could rise further in the short run leading to greater bond price declines, but they should stay contained unless inflation spikes up and stays higher.

What About Inflation?

Inflation has been at the top of investors' list of concerns lately. Governments all over the world have passed large fiscal stimulus packages in the wake of the pandemic. There is a lot of potential pent-up spending. Add in an expected economic rebound from the pandemic, and the Fed doing everything it can to stoke a healthy level of inflation, and investors and consumers are understandably worried about maintaining their purchasing power. An inflation spiral would be bad for stocks, bonds, and pocketbooks.

In the coming months, we will in fact see year-over-year inflation increase, most likely to the 3%-plus range. But this is largely due to prices rebounding from the pandemic lows. We want our clients to know that what really matters is meaningful, sustained inflation. The jury will still be out even after the next couple of months as to whether this higher inflation will be transitory or the beginning of a longer-term trend.

Our portfolios tilt toward stocks that will benefit from higher economic growth. Floating-rate loans offer natural inflation protection. And we have diversified into flexible bond strategies that, with their yield advantage and active management flexibility, should outperform core bonds.

Our financial planners are always available to answer any specific questions that you may have. Please feel free to contact our office at any time.

CONGRATS Ellen!

Please join us is congratulating Ellen Bosco-Brennan in attaining the Financial Paraplanner Qualified Professional™ Designation! The FPQP™ program covers the main facets in personal financial planning with a focus on practical application, such as estate, tax, retirement, insurance, and investments.

WATERFORD ADVISORS LLC
Relationships Beyond Investing

Certified Financial Planner™
Visit us online at **waterfordadv.com**
Phone: **716-580-3906**

3858 North Buffalo Road, Suite 2
Orchard Park, New York 14127

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