Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

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Jim Armstrong: Hello, and welcome to Market Sense. Thanks for joining us. I'm Jim Armstrong with Fidelity. We have learned a ton about the importance of preparing for the future over this past year and a half. And certainly, when it comes to our money, that kind of preparedness could take many different forms. It can be saving for retirement, rebalancing our portfolios, having a plan for when the markets inevitably get rocky again. And, of course, one element involves estate planning. So today, we're actually going to zero in on a specific aspect of estate planning: trusts. And a trust can really help you control where your money is distributed and on what terms. And first things first, a trust is definitely not restricted to the wealthiest of the wealthy. What we'll talk about today is truly relevant for anybody who has any assets at all.

Now, joining us for this discussion is Fidelity's Jurrien Timmer. He will, as always, try to give us a glimpse into what he's seeing in the markets and in the economy as a whole. And we're also joined by Leanna Devinney. Now, she's going to be talking about how she and her team of Fidelity planners really help their customers figure out if and how a trust could or should be a part of their long term planning. So Jurrien, Leanna, thanks for making time to be with us again this week.

Leanna Devinney: Thank you, always great to be here.

Jurrien Timmer: Happy Tuesday.

JIM: Happy Tuesday, indeed. It is, by the way, Tuesday, November 2nd, Jurrien. So let's start with you. I'm curious, in particular this week, which of the 100 shiny things in front of you is gathering—or collecting your attention the most? You've got the Biden tax plans. You've got the Fed meeting coming up, happening as we speak, interest rates, inflation. There's so much vying for your attention right now in moving the markets. What are you focused on?

JURRIEN: Yes. As always, there are many, many moving parts. They're all kind of moving in the direction that I think the markets are comfortable with. So we're in earnings season; we'll touch on that in just a moment. The stock market is back at all time highs. We had that wobble, remember, that we had talked about in September and October, a 5% decline, which, in the grand scheme of things, is really very little to worry about. But the big news is on the rate side, on interest rates on what the Fed is doing. And actually, the Fed is literally about to release its, presumably, its announcement that it's going to start tapering its asset purchases, like, now. So if I'm glancing off to the left here, that's where my Bloomberg terminal is. And maybe I'll give a live update later because that usually will come out around 2:00, 2:15 or so.

But the reason why this is important is because with inflation kind of running a little sticky here and the markets expecting the Fed to kind of frontload its rate hikes. So we have the taper, so the asset purchases, that's one thing that the Fed has to get out of the way. It has to go from $120 billion of bond purchases per month to $0. And, presumably, after that, it will start raising rates. And so the market, of course, is always a real-time signaling system. And in this chart here, you see that those purple dots, that's the so called dot plots. So that's what the Fed is signaling to the markets in terms of when it's going to raise rates by how much. And then the blue line is what the markets are signaling to everyone else, and the Fed, what it is expecting. So this is the Fed funds futures curve.

And so about a year ago, certainly, and even six months ago, that curve was a lot flatter than it is today. And the first-rate hikes really were not expected until 2023. And that meant that the Fed really had a fair amount of time to kind of do these tapers and go from 120 to zero. But now the market is starting to price in sooner rate cuts. And actually, it's pricing in two-rate hikes—sorry, rate hikes, not rate cuts. It's pricing in two rate hikes already in 2022 and then another five or so after that.

And that—again, that's not the end of the world. I mean, the economy's back at full capacity, the unemployment gap has closed. So the Fed has no real justification to be as accommodative as it has been and as it continues to be. But it's just a question of how do you go from here and there. And it's a dance that we have to participate in every market cycle, right? Every cycle, the Fed goes from easy to normalizing policy. And if it goes too fast, the markets don't like it. If it goes too slow, the market starts to think it's going to be too easy on inflation. So it's delicate dance, and the Fed is about to start dancing literally in the next few minutes.

JIM: All right. Well, trust you to keep your eye on that dance, right, because interest rates are such a double-edged sword, right? There are so many folks who are anxious for them climb up a little bit because they've got some cash that they'd like to see doing more for them. So it's worth keeping an eye on. But you did mention earnings season. And, you know, we're—I'll ask you sort of how far into the process we are. But from what I've seen so far, it seems like most companies who reported had a really great summer.

JURRIEN: Yes. It continues to be a good time for earnings growth. So this is a chart that I usually show every few months. So it shows the progression of earnings estimates from Wall Street analysts. And that vertical line is the start of earnings season. And so what we see is that during COVID, there was very little guidance from companies to the analysts. So those lines were kind of flat. And then it turns out that earnings were far more robust than was expected. So that purple line, for instance, was the second quarter earnings season. And you see that huge bounce from an already very high level. And so the black line is the current. So I think 326 companies out of the S&P 500 have reported. 82% of them have beaten estimates by an average of about 10 percentage points, so very, very robust.

I do think that we're kind of at that peak of growth in the cycle. That doesn't mean that we're—we have a peak in earnings, but in earnings growth. And you can see the black line is below the purple line. So it's going to be hard to keep beating earnings to the extent that companies have, but still a very, very solid fundamental picture for the stock market.

JIM: Got it. So the table's set, Leanna. I want to turn to you now to start getting into the topic of the day, keeping in mind that everything Jurrien just described, of course, is just scratching the surface of what a regular investor might be thinking about when it comes to their long term planning. And I think we know that a lot of folks feel pretty comfortable once they have a will in place. But what we'll talk about today is the role of a trust, which can really be a great financial tool to supplement maybe, you would say, some would say, replace a will or augment a will. And my one final thought before I turn it over to you is I know that in the past year and a half, really, COVID has got a lot of us thinking about long term planning maybe in a way more starkly and more frankly than we had ever before, which is something I know that you and your team definitely are hearing from folks.

LEANNA: It is. Really, COVID has helped spark that conversation of long term planning and estate and legacy planning. So we do hear of wills a lot. But trusts are a really great way to customize your plans for your wealth. And I think many don't know this, but even if you have a will but then your accounts have a beneficiary listed that's separate to what is in your will, the beneficiary listed supersedes the will. So a trust really is a way to be customized and thoughtful around your legacy planning. And many don't realize you can even name a trust as your beneficiary directly on your accounts. It's simple. You can't do that with a will—so another reason why a trust can be really specific.

But recently, members of my team worked with clients in regards to trust planning. One client didn't feel that they needed a trust because the bulk of their retirement, the bulk of their savings, were in retirement accounts. And they thought, well, I just have my spouse and children listed as beneficiary, which is accurate and true. But they met with an estate planner and created a trust to include some of their non-accounts, so their house, some tangible assets. They had a boat. All of this was included in the trust.

So it allows you to customize. And then another one is control. So another client I worked with for many years, she had an adult child, one adult child who had battled with substance abuse when he was younger. And she wanted to make sure that when assets were left, they would be controlled and not giving a significant sum of money upfront. So it's a way to control what's given and when. We can kind of get into those parts of a trust as well.

JIM: That's a really great point, this idea that so many folks have. I think a lot of us fall into that bucket where a big chunk of our—what we would be considered our wealth is in a 401(k), or a 403(b), or a retirement account. So it's getting into that—the frame of mind to take it to that next step is really an interesting way to think about it. So thanks for bringing that up. Now that you've established what a trust is, it'd be great if you could just go into a little bit more detail about maybe some reasons to consider a trust.

LEANNA: So we talked about customization and control. I put up on the slide here a few bullet points as well, or the reasons to consider. But each kind of trust is designed to help achieve a goal. So you can meet with an estate planner professional and they can help go over what specific trusts may be appropriate for you. But the first I see most often probably would be control. And that's controlling, again, when your heirs would be receiving the money and on what terms. So an example I've seen, too, is: I want to leave a legacy to my children or grandchildren, but I want it to be spent on education versus lavish trips to Disney World or something, right? We're controlling when. Next, think about protection. So that would be a way to make sure you're protecting from creditors or the people you're leaving money to. So a trust helps that.

Another one listed here, privacy and probate savings—so depending on where you live or where your property is located, probate process can be very expensive and time consuming, so a trust would help with that as well. Incapacity planning, so God forbid something happens to you, we did see this a lot in 2020. Trusts help customize how to handle assets if you're too ill to manage your own affairs as well.

Then last one here, large retirement account balances. This also was a change in 2020 with the Secure Act that went into effect. And it changed the way the rules around being when you inherit an IRA if you are a non-spouse, inheriting an IRA account. What was known as a stretch IRA was a way to pass on your retirement savings and allowing that non-spouse inheritor to take your IRA over their lifetime. It's now changed to ten years as that time frame. And it can be a significant amount of money in a short period. And there can be taxes involved. So having a trust to help designate when those funds would be distributed to the beneficiary is just another way to customize.

JIM: Absolutely. I know that the Secure Act and its changes generated a lot of questions for you, and your team, and for a lot of Fidelity representatives, certainly, last year. Jurrien—Leanna, before I forget, and I know you've got something to say about the decisions in choosing a trust, revocable versus irrevocable. But Jurrien, I'd love to bring you in because one, I know you have a personal story that you want to share about trust. But also, I'd love it if you could just share a bit of your perspective on someone who might be worried about the estate tax or potential changes to the estate tax, and maybe that's part of their impetus for considering a trust.

JURRIEN: Of course. And taxes are always something that we need to really carefully keep in mind. And estate taxes are no different in that sense. But it's funny we're having this conversation today because it really just so happens that a few weeks ago, I completed my trust. And it took me a couple of years of procrastinating to finally get there. I mean, this may be a silly example, but it's like you walk by your closet, like, I really need to organize my closet. It's like, oh, I'll do it tomorrow. And then you close the door and you walk away.

JIM: Yep.

JURRIEN: And—but then, you know, I'm turning 60 next year, so you kind of start to think about your mortality. Hopefully, it's a long ways off, but I always had this irrational fear like I'm handing control over my life to something, some entity. But, of course, it's the opposite. You're taking control. And my kids are in their 20s. And God forbid something were to happen to me, as Leanna said, you want to control when they inherit their—these assets, and the house, landing in probate, and everyone can see that. So I finally, finally got to the point where I signed the papers. But it was—even for someone as analytical as myself, it took a while to get there. And it was by no means a rational process to pull—to wait that long.

But I'm glad I did it. And it's kind of a nice way or an important way to just kind of take stock for lack of a—no pun intended—of everything that you have, and that's in your life, and what you want to happen with it. And it includes, obviously, the will, healthcare proxy. And what Leanna said, I think, is very important, naming your trust as the beneficiary of accounts so that then the trust can decide how quickly to distribute. So anyway, it was kind of a relief that I finally did it.

JIM: No, listen, thanks for sharing that. I think it reinforces this idea for anyone watching or listening right now. We're all just people. We might work at Fidelity. We might be what others perceive as financial professionals. But you have the same sort of concerns and—or procrastinate about the same things that everybody else procrastinates about. I think I shared a year or so ago, my wife and I desperately needed to update our wills because we wrote them before our second child was born. So he wasn't named in anything. So, again, it was something that I looked at, like you passing your closet, and thought, I got to do that; I got to do that. And then, eventually, you get to the point where you do. So we're definitely all in the same boat there. Leanna, in terms of picking a trust, what can you tell us?

LEANNA: Well, I'd say just on that, too, not to come in as a doomsdayer, but I think for those listening, it's a great way to encourage your family members or loved ones to say, hey, I learned about establishing a trust today or making sure your beneficiaries are in order because so often, we meet with clients who did pass over that closet year after year or their parents did, and they never got it organized. So I think it's a way to definitely take it seriously and know that you have professionals out there to help. So types of trusts, so revocable and irrevocable trusts are different types of trusts that you'll hear talked about.

So a revocable trust, this is a trust that is revocable, and it can be altered or amended. And generally, you can have your assets go in and out of it, really, at any time during the grantor's lifetime. It's also referred to as a living trust.

JIM: And I'm the grantor, right? The grantor is the person who, just to be clear, that's the person who wrote the thing.

LEANNA: Yes, exactly.

JIM: Got it.

LEANNA: And after the grantor's death, that trust becomes irrevocable and really acts as the will, and it starts acting as the way you've listed it out and customized it. The second one is an irrevocable trust. And in almost all circumstances, the grantor—so you, in this case, Jim—you cannot amend the trust once it's been established. And they cannot regain control. It's truly a gift into the trust. And there's different tax—there's differences in taxes from revocable to irrevocable. So it's something you want to talk with that estate planner or tax professional about. But these are, again, two ways that I see most, the revocable trust and irrevocable trust.

JIM: And any sense of when or if they should be updated? I know we sometimes have some thoughts about—it's not entirely a set it and forget it for the rest of your life.

LEANNA: Yes. So especially the revocable, that living, breathing document, you—as a rule of thumb, you want to look at it every three to five years, we like to say, or as if a life event happens or occurred or a change in planning. Life events such as marriage, or divorce, or birth of a child, grandchild, recipient of inheritance, all these life events that can happen, and that's a way we'd want to amend the trust and the documents.

JIM: Got it. Hey, Jurrien, before we wrap up, any eye on what any Fed decision come down in the last 30 seconds or anything?

JURRIEN: No, no, I haven't seen it yet. No.

JIM: Okay, we will definitely keep our eye on that. And it will be something we discuss next week as well. Also, next week, we're going to be talking about stagflation. It's a term that many of us might not have heard since high school or college economics. But it's in the news a lot recently, so we're going to attempt to unpack that a little bit next week and talk about it. So Jurrien and Leanna, we look forward to that conversation with both of you.

And for folks watching, we hope to see you again next week. In the meantime, of course, if you've got any questions about estate planning or any sort of long term financial question, don't forget that you can always reach out to Fidelity for help. Head to our app. Head to our website. And do some research there, and then give us a call. Whatever suits your personal needs, we're here for you. So thanks, again. And we hope to see you next week.

LEANNA: Thank you.