



SUMMER PLANNING WITH HEMINGTON

June 1, 2018

WISDOM FROM WARREN BUFFETT

"The light can at any time go from green to red without pausing on yellow"



As you are likely well-aware, financial markets have been chaotic in 2018. Three of the Dow Jones Index's largest point drops in its 122-year history have already occurred this year and (as of May 31) there have been 34 trading days where the S&P 500 has finished either up or down by 1% or greater. To put this in perspective, there were just 8 days in all of 2017 where the S&P moved 1% in either direction. This sharp increase in volatility is making many investors squirm with a desire to react; to do something amidst such uncertainty and persistent bad news. We understand this natural inclination and remain committed to helping Hemington clients make great decisions.

In lieu of tired clichés involving roller coasters or stormy seas, let's consider the success story of one of the most famous and wealthiest investors in history, Warren Buffett – CEO of Berkshire Hathaway. While Buffett is known for amassing his great fortune by carefully selecting businesses to invest and grow, his greatest attribute may be his strong conviction to stick with his investments and company goals, even during periods of terrible market performance.

In his most recent letter to shareholders, Buffett focused on the importance of maintaining a disciplined, long-term perspective. Rather than simply focusing on Berkshire Hathaway's impressive growth of 21% annual average gains over the past 53 years, Buffett chose to highlight its four worst periods of performance. These were vulnerable moments where the market price of his stock took some disastrous dips.

Period	Percentage Decrease
3/1973 – 1/1975	-59.1%
10/2/1987 - 10/27/1987	- 37.1%
6/19/1998 - 3/10/2000	- 48.9%
9/19/2008 - 03/05/2009	- 50.7%

Part of what makes Buffett so extraordinary is that during these downturns, he chose not to react and instead remained committed to his strategy. Just picture that feeling for a second – if you're him. Would you stick to your investment plan if your own portfolio lost half its value on paper? How tempted would you be to trim or exit out of these positions? The patience and conviction to follow his long-term investment plan during such timeframes without locking in any losses is remarkable.

In that same letter to shareholders, Buffett underscored that in the future his shares (and others) **WILL** experience declines like those in the past and that **no one** will be able to say when those times will occur. He warned that "the light can at **any time** go from green to red without pausing at yellow."

Markets will never be smooth engines of efficiency – they will sway and alter themselves without any true sense of predictive direction. **You can have the most impressive portfolio ever constructed, but it won't matter if you cannot stomach the inevitable ups and downs of being an investor.**

We are here to help. Conversations and a long-term perspective can hedge against impulsive decisions. Fear and uncertainty are a part of investing and we cannot ignore the emotions exposed with increased volatility – we just want to ensure they do not lead to reduced long-term investment returns. Investing like the extraordinary Warren Buffett is hard to do for the ordinary investor, so please let us help if you are feeling the urge to react.



ARE YOUR KIDS STARTING THEIR SUMMER JOBS?

OPEN A ROTH IRA!!

One of the top priorities for many of our clients is to pass on strong money values and help their kids build great money habits. The Roth IRA can be an excellent tool to learn about investing and will help them get a head start on retirement savings. A Roth IRA allows kids with earned income to invest savings that will grow tax-free and can be taken out tax-free down the road. And even if they choose to spend some or all of their summer job income elsewhere, you can contribute on their behalf. One popular strategy is to offer to match your child's annual savings amounts. For example, if they save \$1,000 of their own earned income, you could match this with an additional \$1,000 (assuming they earned at least \$2,000 this year). The Roth IRA can be funded for 2018 up until the April 2019 tax filing deadline, so you have the option of waiting for their W-2 forms to confirm how much they earned before making contributions. Please contact your Hemington team if you want to learn more about this strategy.

Key Benefits – Roth IRA for Your Kids

1. Tax-free growth on gross earnings up to \$5,500 (in 2018)
2. Simple setup with no age restrictions
3. No penalties for distributions of principal or distributions used for a first home purchase (up to \$10,000) or qualified educational expenses
4. Parents control account until child reaches age 18 or 21 (depending on state)
5. Your kids can experience THE POWER OF COMPOUNDING!

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BUSINESS OWNER'S CORNER

Using Joint Ventures to Capitalize Your Company

Hemington provides specialized financial planning for business owners. For those contemplating the sale of a business, we provide a comprehensive Term Sheet Analysis, summarizing the unique combination of tax, cash flow, retirement and investment risk components of each proposed offer.

Few business owners look forward to the process of raising capital. Both traditional methods – borrowing and/or selling equity – inherently dilute the value of one's ownership stake.

One method of funding a company that, while it's been around for many years but is just now emerging as capitalization, is the Joint Venture. A JV is a contractual relationship between two companies in which they agree to share resources. This might be personnel, marketing and sales channels, and working capital, among others.

The JV works well for companies that want to develop an existing idea, or scale a product offering. Instead of taking funds from an investor, a company works with another firm that has technical and engineering resources that it lacks, or perhaps takes advantages of sales channels to which it currently has no access.

One good example: we work with a small firm that has patents on a new way of making concrete. The idea seems to be a good one—the concrete they provide is cheaper, stronger and more environmentally efficient than current market offerings. However, the R&D costs associated with this project would likely be in the range of many millions of dollars; if our clients take funding, they would likely dilute their ownership to a nominal percentage.

Instead, they contracted with a big concrete manufacturer to use surplus plant equipment and engineering resources to develop the product (concrete being a cyclical industry). The big company gets first rights to a licensing agreement in return; the owners of the small company avoid the long process of raising funds, and retain full ownership.

The traditional methods of raising capital have become so costly and onerous that many business owners search for creative ways to fund their businesses. The JV is one way – there are many others to explore as well.



WHAT'S NEW AT HEMINGTON?

We are delighted to welcome Fred Hubach, CFP® and Kate Niemiec to the team!



Fred Hubach is a Certified Financial Planner (CFP®) who joins the team as a Wealth Advisor. Fred brings more than five years of financial planning experience and tax strategy expertise from his prior role with a global tax firm. He enjoys finding creative solutions to complex problems and makes technical concepts easy to understand for clients.

Fred lives in Washington, DC with his wife, Cecelia. He has a passion for American History and enjoys the outdoors. When he is not at work, Fred can often be found exploring the many historical sites in and around the nation's capital.



Kate Niemiec is a Client Service Manager based in Chicago, supporting clients and advisors in both Chicago and Northern Virginia. Kate processes client paperwork and works behind the scenes with our custodian to manage all administrative details.

Kate has more than fourteen years of industry experience and prior to entering the financial world, was an opera singer and lived and toured in Europe. When she is not in the office, you will find her performing with Chicagoland community theatre groups, church choirs and big bands. She and her husband, Joe, live in Burr Ridge, IL.

Hemington Supports Lawyers in DC & Chicago

Our team is honored to have had the opportunity to provide CLE to several law firms this past year.

Kirkland & Ellis

Michael Best

Harrison & Held

Mayer Brown

Drinker Biddle

Vedder Price

DLA Piper

Chuhak & Tecson

**Please contact us if we can provide financial advice
and education for your team of lawyers.**

PLEASE SAVE THE DATE!

Hemington will be hosting
a 5-Year Anniversary Party

THURSDAY, OCTOBER 4TH

Early Evening at Our Office
7651 Leesburg Pike
Falls Church, VA

About Hemington Wealth Management

Hemington Wealth Management provides high net worth individuals and families with a broad range of wealth management services including portfolio management. We are collaborative, accessible and responsive, making it easy for clients to work with our team.

Hemington Wealth Management

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