Investor's Edge

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An exclusive newsletter for RBC Wealth Management clients

Having the POA discussion with your family

Global events earlier this year created unanticipated market turbulence, demonstrating that it's sometimes impossible to plan for everything in life. It's a good example of why the present is a great time as a family to discuss the importance of designating a power of attorney (POA).

Designating a power of attorney is an issue that should be addressed well in advance of when you need it.

"With a POA designation in place, if you are incapacitated and unable to make decisions, somebody will be in a legal position to do so for you," says Tara Ambrose, manager for senior and vulnerable client initiatives at RBC Wealth Management. "A durable financial POA can step in to handle your financial matters when you are no longer able to, or no longer wish to retain control."

A financial POA is distinct from a health care POA, which only allows you to delegate important medical decisions.

You can become incapacitated and unable to handle your own financial affairs at any age, but the risk increases as you grow older. If you are already retired or about to be, you should give serious thought to making a power of attorney designation, and discussing your decision with your family.

Identifying the right designate

You can name a family member, friend or even a professional (such as an attorney) to take on POA responsibilities. The goal is to have a trusted and reliable surrogate in place to make key financial decisions on your behalf if you are no longer capable of doing so. The trust factor is critical, because you don't want to be exposed to a situation where the person with the POA designation takes advantage of their position.

Married couples may consider each other as their most-trusted surrogate; however, as both grow older, each person could lose the capacity to make decisions.

"It may make sense to name someone else, such as a trusted adult child, to carry the responsibility," Ambrose says. "Another option when you establish a POA designation is to name successors who can step in if the primary designate is no longer able to fulfill the role."

Roles and responsibilities

The two primary parties involved in the POA arrangement are:

- **The principal**, who identifies the individual or entity who will be responsible for making decisions if the principal is no longer able to; and

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Having the POA discussion with your family, continued

- **The agent**, the individual or entity designated to fulfill the power of attorney role.

The principal should carefully consider the specific powers granted to the agent in the POA document. Should the agent be able to change beneficiaries or gift money to themselves or others? These powers, if exploited by an agent, may lead to abuse and family disputes. Carefully read through each section of the POA document before signing.

The agent may not be familiar with the fiduciary role to which they have been appointed. It is important that the agent understands their four primary responsibilities:

- Make decisions that are in the best interest of the principal, superseding the agent's own interests or those of others.
- Manage money and property with care on behalf of the principal, being sure that bills are paid, debts are collected and all investment decisions are prudent.
- Never commingle the principal's money or property with anybody else's.
- Keep accurate records of all financial transactions, including payments, expenses and investments.

A sense of urgency is appropriate

You never know when a health issue will arise that may leave you unable to manage your own financial affairs. It may be a physical concern, or a cognitive challenge (such as dementia or Alzheimer's). If a POA is designated prior to that time, and you've communicated your decision with your family, you know you've prepared for this circumstance. With no such designation in place, significant issues can occur that may complicate your financial life.

Try to avoid doing it at the last minute, or failing to do it at all.

"The ability to establish a POA designation is something that individuals can take upon themselves without having to deal with courts," Ambrose says. "It is, however, a legal document, and in many states, you are required to complete appropriate paperwork and have all signatures notarized."

While an attorney isn't required, it's important to confirm that documents are drawn up correctly and with appropriate specifications. Each state offers a standard power of attorney form that can be used, but if an attorney is feasible for you to consider, it makes sense to enlist those services.

Planning for potential incapacity in the future should be part of your retirement and estate planning conversations. Talk to your financial advisor and your attorney to determine how to get the process started.

The importance of a process-oriented financial plan

As we adjust to new norms from COVID-19 and market turbulence, there will be some paradigm shifts in our lives, the world and the investing landscape. A financial plan that incorporates the past, as well as the new opportunities ahead, is always an imperative discussion, exercise and process.

The turbulence in the S&P 500 daily movements since the peak of the market in February 2020 was historic. Only time will tell if March 23, 2020 will prove to be the market low for the year, but RBC Capital Markets, LLC Head of U.S. Equity Strategy, Lori Calvasina, looked at 12 historical recessions and found that on average (excluding the year 2001) the S&P 500 bottomed five months before a recession ended.

A recession is defined as a fall in GDP in back-to-back quarters. The COVID-19 recession and bear market are on par with the previous five recessionary bear markets in the sense that the peak-to-trough correction (-35%) was in line with the average (-38%). The magnitude of the selloff in light of a recession should not be surprising, in our view.

However, this time was different because of the time it took for stocks to move from their late February all-time highs to the March 23 recessionary lows. Going back to 1982, equity markets have historically taken 311 days to move from peaks to troughs. The COVID-19 bear market cut the 311-day peak-to-trough average by more than 90% to just 26 days. Early 2020 saw a roughly average recessionary correction materialize in one-tenth the time it has historically taken.

Investors often experience varying emotions during turbulent markets. Having a financial plan in place may help one negotiate those emotions. An investor should reflect on his or her own appetite for volatility, short- and long-term financial goals and timeline for achievement.

Psychological influences on financial plans

Behavioral finance principles may influence investor decision-making in both bear and bull markets. However, the outsized daily changes in portfolio values, as investors have experienced recently, presents a good opportunity to highlight the psychological influences and biases that may cause problems for investors. They often are accelerated when the market has outsized daily movements clustered together, as we have seen recently.

There are several concepts, influences and biases within behavioral finance, and the following points are prudent in this market.

Loss aversion — The idea that losing money is more painful than the joy of gaining the same amount. Many investors remember the years their portfolios may have decreased 10%, but can't remember the exact years their portfolios grew 10%.

Disposition bias — This centers on the idea that investors are often more willing to sell investments that have performed well and keep those that have not, even if the initial facts around those money-losing investments have changed.

Confirmation bias — The theory that investors often lean on or cherry-pick information to support an already-developed investment decision they formalized.

Familiarity bias — When investors invest in what they know—including products they use or places they shop.

Experiential bias — When memories of historic events influence investors that one of those events could occur again, such as a global financial crisis.

Most people engage in these thoughts and practices. Life events, goals and the unexpected occurrences in the market—which happen more often than investors would like—make having a well-defined process-oriented plan an imperative necessity when investing for the future.

Work with your financial advisor to confirm your financial plan is meeting your risk tolerance, goals and timeline, and to discuss if changes are needed within your portfolio.

Past performance is no guarantee of future results.

Life insurance considerations when estate planning

Estate planning is a great opportunity for your family to plan for the financial security you want to provide your heirs. As you look into developing a will or trust to determine how your assets are distributed, life insurance is another option to include in the planning process. It may help provide financial security for your loved ones after your death and proceeds are passed based on the beneficiary designation.

If you already have your estate plan established with life insurance included, it's important to review your existing coverage for both performance and alignment with your plan. For example, perhaps you initiated your plan when your children were young, with the intent life insurance would help cover rearing and college expenses if you were to pass away. Now your children are adults with children of their own, and that funding may no longer be needed, but you have financial concerns should you need long-term medical care.

For blended families, reviewing your insurance focusing on the beneficiary designation is important. Naming a spouse (or anyone else) as the beneficiary of your insurance policies puts that person in total control of the assets when you pass away. In blended family situations, making the surviving spouse or one set of children beneficiary for everything could set the stage for a great deal of discord. Careful estate planning can help mitigate the issue.

With the onset of the COVID-19 pandemic, many families started reviewing their existing life insurance policies, or have been reviewing their estate planning documents to confirm their goals are the same, and that their needs continue to be met. September is National Life Insurance Awareness Month, which is a great reminder to periodically review existing needs and coverage while validating that they are being met.

Life insurance proceeds can provide survivors with funds to cover final expenses such as medical and funeral costs, as well as pay off debts and even potentially settle estate and state taxes.

When properly structured, heirs who are listed as beneficiaries may receive the funds free of income tax. During one's living years, life insurance may also cover long-term care or other medical expenses.

Financial coverage for unexpected expenses

Unfortunately for many families, suvivors are surprised with the expenses when their loved-one passes away. This may result in the need to sell assets, perhaps when the market is not favorable. An estate plan should include strategies and solutions to help cover those expenses, giving survivors the time to settle the estate without having to make emergency decisions.

Connect with your financial advisor to review your estate plan and current life insurance coverage. If you haven't established an estate plan yet, your financial advisor can help you get the process started.

Women investors: Identify your money identity

Everyone has a different approach to money, which could influence how they invest. Some people are frugal, while others identify with owning the latest that life has to offer. The money mindset you have defines how you behave with your overall finances throughout your life, and should help determine the wealth plan you and your financial advisor establish to achieve your financial goals. For women investors in particular, understanding your money behaviors can help you become stronger and more confident in your financial investments.

Women and wealth: A planning workbook (www.rbcwealthmanagement.com/us/en/cmp/women-and-wealth), created by RBC Wealth Management for female investors, highlights four money scripts identified by financial psychologist Dr. Brad Klontz. Women are encouraged to know with which mindsets they best connect.

These money scripts identify the emotional relationship you have with money. Often emotions can override rational behavior when it comes to money matters, making it important for women to identify if they are responding to emotions or rational thought when making investing decisions.

All money scripts have strengths and weaknesses when they're applied to strong investing techniques. If you find yourself centered specifically in one mindset, you may have too much focus on some of the negatives. Plus, you miss out on positives found in other mindsets—positives that could strengthen your overall wealth plan.

Knowing what your natural money script tendencies are, and identifying new money scripts you want to achieve, allows you to make better investing and financial choices at every opportunity. Your new money script may be more balanced, allowing you to better meet your investing goals.

As you identify your current money script and the money script you're working toward, it's good to bring your financial advisor on board, especially if your investing goals change in the process.

Work with your financial advisor to develop an updated wealth plan centered around your targeted money script behaviors. You can also ask your financial advisor for a copy of *Women and wealth: A planning workbook*, which also includes worksheets for planning your spending, retirement expenses and legacy.

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