The Light

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How To Give Away Seven Million Dollars

By Tim Rowsey, CPA, Investment Advisor Rep.

Several years ago a small college in Illinois was surprised to learn that one of its alumni had left an inheritance to the college of seven million dollars. The story of the life of this donor is fascinating and can help illustrate several important financial lessons.

Grace Groner was born in 1909 in a small farming community. She and her sister were both orphaned at age 12 but were taken in by a community member who paid for her to attend college. She graduated from Lake Forest College in 1931. Grace was frugal and consistently lived below her means. She purchased many of her clothes from rummage sales and walked rather than buy a car. Having lived through the Great Depression she was very careful with her money.

Grace worked as a secretary for Abbott Laboratories for 43 years. Early in her career she made a financial move that would prove to be very successful. In 1935, she bought three shares of Abbott stock for $180 and never sold them. Over the years she reinvested the dividends from the stock back into the company. In 1935 the average household income was approximately $1,600 per year. An investment of $180 at that time would amount to approximately 11% of her annual income. Obviously this investment took a substantial portion of her income.

While Grace was careful with her money, she also traveled upon her retirement. During her lifetime she also made other gifts both to Lake Forest College and anonymous gifts to needy local residents. She lived in an apartment for many years until a friend willed her a small house. Lake Forest then and now is an upscale community with a higher than average median household income. Today the median household income in Lake Forest is nearly 2 ½ time the median income for all of Illinois. In spite of her surroundings, Grace remained frugal with her money.

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Greg Emmons Becomes CFP®

By Cheri Smeltzer, Office Manager

Greg Emmons, shareholder and Investment Advisor Representative at Lighthouse Wealth Management, has passed the exam and met the rigorous requirements set forth by the CFP board to become a CERTIFIED FINANCIAL PLANNER™ or CFP®.

To become a CFP® the CFP board requires specific levels of education and coursework including an approved college-level program of study in personal financial planning and a bachelor’s degree, adherence to a high standard of ethics including a background check, several years of experience in the finance field, and the passing of the CFP certification exam.

The CFP® designation is one of the most prestigious financial certificates a financial advisor can obtain and indicates a level of competence to insure the individual can provide an honest fiduciary benefit to their clients.

Greg looks forward to continuing to provide investment advice and financial planning services to our clients.

Lighthouse Wealth Management offers the following services:

- Investments
- Retirement planning, including 401(k) Rollovers
- Individual tax planning and preparation for our investment clients
- Financial planning and guidance

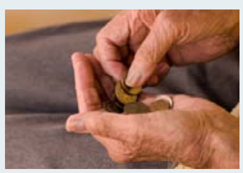
We are currently accepting new clients with a minimum of $250,000 of investable assets. **Give us a call! (419) 496-0016**

Seven Million (continued from page 1)

When Grace passed in 2010, Lake Forest College was amazed to find that she had left them seven million dollars that had largely grown from her initial Abbott stock purchase 75 years earlier. This donation is expected to generate over $300,000 per year to the college, which will provide scholarships and enhanced learning opportunities for their students.

There are two financial lessons that I believe we can learn from the example of Grace Groner. The first is one of the most basic financial planning concepts. It is so simple and yet so challenging that most people have a difficult time ever fully embracing it. This is a concept that is applicable for a student finishing school and entering the workforce, a couple raising children, or a retired person living on a fixed income. It is a concept that can enable people to build great wealth over time and also enjoy a less stressful life. It is a concept that runs counter to most Americans' popular view of life and how to live, but if it is mastered, it can be extremely fulfilling. What is this concept? Simply stated it is: **"Spend less than you earn."** This concept was exemplified in the life of Grace as she made her initial investment in Abbott stock and also as she chose not to raise her standard of living as her investments grew.

There are two possible components of this wealth building equation. The first is reducing expenditures below the level of current income. The major challenge in this method is that it requires discipline and self-denial. Much like going on a diet, the financial benefits are worthwhile long term, but may require some short-term sacrifice. The larger the margin between income and expenses, the greater the resources that become available for saving and wealth building. Most Americans today have some level of discretion on how they spend their income. The major challenge is deciding needs vs. wants. Options such as payroll deductions for 401(k) plans can make saving easier if the initial decision to participate is made.



With easy credit availability, many people today don't even realize that they are spending more than their income. Advertising and media tell us that we need to spend more, that we deserve it, that we shouldn't deny our spending wants and desires.

Recent surveys indicate that for households that have credit card debt where they don't pay off the balance each month, the average amount owed is over $8,600. For most people there are many decisions that we make that could impact our expenditures. Where or how often do we eat out? What kind of car do we drive? How large is the house in which we live?

How many cell phones do we have and what kind of plan are we on? Starbucks coffee, McDonald's coffee, or home-brewed coffee? Every day we make choices that impact the costs associated with our lifestyle.

In retirement planning for clients, we see a wide range of income levels that people expect in their retirement years. One family may be happy with an annual income of $35,000 per year, while another may need $100,000 per year. Obviously the retirement assets and income stream needed by the second family will be much larger than the first and will require much more savings to achieve.

One of the first steps in spending less than you earn is to know exactly how much you earn and spend. For most people the income side of the equation is relatively easy to determine. The challenging part is to determine where all the money goes. One of the steps that we commonly suggest to clients is to track all of their expenses for one month. Many people are shocked to see how much they spend on various categories if they actually commit to documenting every dollar spent for one month. This information can be very helpful in making informed choices about what to adjust. Once the outflows are known, a budget can be used as a tool to help keep expenses below income.

The other component of this equation is the income side. If the income can be raised, this is another way for the income to exceed the expenses. Some options for increasing income might be to work more hours, get a second job, or if retired already, take a part-time job. One trend we are seeing more and more is retired people working at least part-time, both to increase the household income and also to have an outlet to interact with other people and get out of the house. Another consideration is to sell an asset or something of value that you no longer really need. Today, there is a market for almost anything through eBay or other venues.

While this concept of spending less than you earn may seem easier as income rises, we have been amazed through the years to see people with a relatively low income stream spend less than their income and accumulate significant assets over their lifetime. Many people in their seventies and eighties who grew up during the depression learned early how to control their expenses. Grace is an excellent example of this.

The second major lesson we can learn from Grace is the incredible power of compounding investment over time. Fortunately for Grace, the $180 that she invested was placed into a strong company that continued to grow in value over time. Her initial investment averaged over a 15% return for 75 years! Since she largely left the investment alone, the compounding of the investment grew to in excess of seven million dollars. Since she chose to reinvest dividends, every year she purchased more Abbott stock as dividends were paid out and purchased more shares. In reality this was a choice to continue to invest rather than take those dividends and spend them as they were received.

While we would never encourage anyone to invest only in one stock, Grace was fortunate (or lucky) that her choice did well over the 75-year time frame. Had she invested in another stock such as General Motors, she might have seen tremendous growth, only to see it all disappear when GM went bankrupt in 2009.

For most people, investing on a regular basis in a company 401(k) plan or annually funding a ROTH or IRA is the most practical way to consistently invest in the market. Generally, a diversified portfolio would be recommended over placing all your investments in one company as Grace did. Consistent long-term investments, which allow time and compounding to work, can help even small investments grow to large balances.

Even if your goal is not to ever give away seven million dollars, Grace can help guide us toward some smart life choices. If we can spend less than we earn, and invest consistently in strong investments and give those investments time to grow, we too can reap the rewards of these investment principles. ■

Market Recap

How the major indices performed in the 2nd Quarter 2018

DOW JONES INDUSTRIAL AVERAGE
2nd Quarter return 1.26% YTD return -0.70%

S & P 500 COMPOSITE
2nd Quarter return 3.43% YTD return 2.67%

RUSSELL 2000
2nd Quarter return 7.75% YTD return 7.67%

BARCLAYS AGGREGATE BOND
2nd Quarter return -0.16% YTD return -1.69%

*All indices are reported Total Return which includes Dividends

Market Update

By Tim Rowsey, CPA
Investment Advisor Rep.

The second quarter saw some gains for equities.
Stocks increased during the second quarter in spite of some trade war jitters. Some nice gains from earlier in the quarter were partially given back in the last three weeks of June. The Dow Jones Industrials lost over 4% in the last three weeks. For the quarter the Dow Jones Industrial Average gained 1.26% on a total return basis (including dividends). The S & P 500 gained 3.43% for the quarter. Small cap stocks, as represented by the Russell 2000 were even stronger with a 7.75% gain.

Bonds were relatively flat for the quarter.
The Barclays Aggregate Bond Index fell by 0.16% for the quarter. The Fed increased the benchmark interest rate another .25% in June as was widely expected. Two more rate increase are projected for the balance of the year. Ten year treasuries topped the 3% yield rate temporarily before falling back to a 2.87% yield.

A potential trade war is negatively impacting the market.
Potential tariffs on China have impacted the Dow Jones Industrial stocks more than the other broad indices. Many of the Dow stocks receive significant revenue from outside the U.S. The S&P 500 has a much smaller foreign revenue component. This has helped with better performance in the S & P 500 and the Russell 2000 so far this year. While the global market may be slowing, the U.S. economy continues to be strong. This may help domestic stocks to continue to perform well for the balance of the year. Many U.S. companies continue to show strong growth. ■

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To learn more about the benefits of working with an independent advisor go to http://www.findyourindependentadvisor.com.

Lighthouse Wealth Management believes in giving back. We give 10% of our profits to charities, including several local charities and CURE, International. www.cure.org

Our Services

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Helping individuals navigate their financial lives.