TIME TO RETHINK YOUR PORTFOLIO?

New Ideas for Changing Markets
Watch, Prepare, Adapt

To live is to adapt. Whether thinking about your investments, your financial plan, your business or your family, it’s always important to watch for change, prepare for it if you can, and adapt to turn.

Being alert to change, preparing ahead and finally adapting is the theme of this issue of Insights. Our cover story, “Time to Rethink Your Portfolio?” (page 6), explores some of the long-term trends affecting the equity and bond markets, and a few alternative investments you may want to consider in response to any shifts.

Part of adapting to change involves finding the trends that can blossom into profitable opportunities, like the ones we examine in “The Surging Global Middle Class” (page 2) and “The Upside, Underground” (page 3). But sometimes, we all know, adapting can be less about seizing opportunity and more about safeguarding against misfortune. That’s why it’s important to confront and prepare for difficult issues. Taking on potentially fraught situations before they materialize (or become worse) is the focus of “Peace of Mind” (page 4) and “When Family and Business Collide” (page 10).

So whether you’re looking for new opportunities, or looking for the changes you can make right now to protect yourself, your business and your family in the future, this issue of Insights has plenty to offer.

I hope you’ll view this issue as a chance to think about changes that may arise in your own life, and to talk with your Wealth Advisor about how you can adapt to them while still achieving your goals.

INTELLIGENCE

1 | Your Children, Your Money
What to tell your kids—and when—about how much you earn, how much you have, and more.

2 | The Surging Global Middle Class
Increases in consumer spending around the world could create investment opportunities.

3 | The Upside, Underground
The domestic oil and gas boom has increased the appeal of investing in mineral rights.

YOUR WEALTH

4 | Peace of Mind
Longevity is a blessing, but with a long life comes the specter of cognitive decline. Here’s how to protect your loved ones.

IN FOCUS

6 | To Rethink Your Portfolio?
Alternative investment options could potentially offer respite in unsettled markets.

YOUR BUSINESS

10 | When Family and Business Collide
Here’s how to protect your family-run enterprise from personal conflict, before it arises.

PERSPECTIVE

12 | Must-Have Conversations for Couples
Communication is key to achieving shared goals. Here’s what you should be talking about—today.

SPOTLIGHT

13 | Past Beauty, Present Business
Architect and business owner Honeacre Parker on the value of treasuring the best of our past.

WHAT YOU NEED TO KNOW FOR YOUR MONEY, FAMILY AND LIFE.

YOUR CHILDREN, YOUR MONEY:
What to Tell Them & When

When planning for your family’s financial future, don’t forget to involve your children, however gradually, in those plans.

E or many families, spending money is an awful lot easier than talking about it. That’s a pity, because talking honestly with your kids about money is one way to help them develop the values they’ll need to one day be stewards of your family legacy—whether it’s the values you think are most important or inherited wealth. It’s important to start talking early and often about your family’s wealth, says Bill Newburn, a Wealth Advisor at Regions Private Wealth Management in Tyler, Texas: “Over the years, my experience is that families who are intentional about creating moments to educate their children about money generally have better outcomes.”

Kindergarten to Teens. Being honest doesn’t mean talking children everything. Childhood may be too early to reveal your exact income or the family’s net worth, but Newburn says it’s a good time to give kids a broad sense of the family’s resources, as well as where the wealth came from and what your fortunate circumstances mean for them.

You can also begin creating opportunities for your hairs to learn about money. “You could pay them to do jobs around the house,” says Newburn. “This allows you to begin helping them connect work with money. Help them manage their money and talk with them about the three things you can do with it: give, save and enjoy it.”

Teens. Once children hit their teen years, consider including them in family financial decisions—or at least reveal some of the thinking that goes into your decisions. When they are planning for college is a good time to discuss the value of money and how it relates to both opportunity and responsibility. It’s also a good time to give them a glimpse of what they may inherit. “Since most families ultimately leave their assets to their children,” Newburn says, “the worst thing you can do is pretend that big life event is not out there.” One way to do this is to involve them in some meetings with your advisor, to begin teaching them about more complex financial issues.

Adult Children. Newburn says many of his clients don’t explain the specifics of their estate plans until their kids reach their 30s or 40s. He recommends gathering the entire family for a reading of the will, which should help avoid future misunderstandings. This meeting is also a good time to go over family values while the head of the family is still alive and in charge.

“Money often magnifies who you are,” says Newburn. “That means your kids’ ultimate inheritance could be a blessing or a curse, depending on the values they’ve learned. As they grow, take the time to train them to one day carry on your family’s legacy.”
The Surging Global Middle Class

The middle class in the United States and other advanced economies may be shrinking, but it’s growing by tens of millions every year in emerging markets. This expansion is global, though largely in China and India. Check out their new strength in these numbers:

PEOPLE

The number of people expected to join the global middle class each year.

140 million

The percentage of college-aged people in college or graduate school in India in 2016, up from 12 percent in 2006.

27%

The percentage of college-aged people in college or graduate school in China in 2016, up from 20 percent in 2006.

50%

The growth in mobile phone subscriptions per 100 people in Africa’s “Big Three” (Nigeria, South Africa and Angola) from 2004 to 2014.

5X

Internet users in the developing world have increased from 4.3 per 100 people in 2002 to 35.3 in 2015.

35%

MOBILE PHONES

The percentage of college-aged people in college or graduate school in India in 2016, up from 12 percent in 2006.

VEHICLES

163 million

SAVINGS

The percentage of college-aged people in college or graduate school in China in 2016, up from 20 percent in 2006.

27%

The rate for the G7 (Canada, France, Germany, Italy, Japan, United Kingdom and U.S.)

21%

The 2016 gross national savings rate as a percentage of GDP for BRICS (Brazil, Russia, India, Indonesia, China and South Africa).

INTERNET USE

The percentage of college-aged people in college or graduate school in India in 2016, up from 12 percent in 2006.

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The 2016 gross national savings rate as a percentage of GDP for BRICS (Brazil, Russia, India, Indonesia, China and South Africa).

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Peace of Mind

As we live ever-longer lives, our risk of cognitive decline increases. Here’s how to protect your finances and those of your loved ones from this insidious disability.

Mark, a successful businessman, assured his wife, Nancy, that she would have a comfortable lifestyle when he died. But when Mark developed dementia at age 85, his will was missing, along with his financial and health-care documents in a known location is critical.

As people are living longer, dementia is increasingly part of many families’ lives. Nearly 45% of Americans ages 75 to 84 have dementia, and 37% of Americans 85 and older have been diagnosed with it.

“The story of Mark and Nancy is common, but could have been avoided if the couple had taken a few basic steps—creating a revocable trust and enacting a durable power of attorney to aid in the transition of decision-making when Mark became incapacitated,” says Dennis Tygart, Wealth Strategist at Regions Private Wealth Management. “Also, keeping the relevant documents in a known location is critical.”

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In addition to a will, many people also create a revocable living trust, which provides additional safeguards. “A will is a public document, whereas a revocable living trust is private and is much more difficult to contest,” says Thomas Lawandales, Trust Advisor at Regions Private Wealth Management.

Assets titled in a revocable living trust—property, investments and other items—also avoid the long and complicated probate process, unlike assets named in a will.

As the creator of a revocable living trust, you can serve as trustee and control all of its assets. Should you become mentally incapacitated—many trusts require two physicians to declare that you are mentally incompetent—the successor trustee you’ve appointed will manage your financial affairs while you’re living and will continue to manage and distribute your assets according to the instructions in the trust you created.

You might also consider naming a bank or trust company as a trustee, instead of a family member or friend, suggests Tygart. “Corporate trustees are specialists who have the fiduciary responsibility to follow your instructions without bias, and they have continuity,” he says. An aging spouse or a busy adult child may not be up to the task of trustee, and choosing one sibling as trustee may cause squabbling. “You don’t want your children in conflict when they’re dealing with the emotional trauma of possible financial crises and having to turn to the courts to make the decisions that you would have wanted to make yourself,” says Tygart.

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FINANCIAL SOLUTIONS

The executor of your will is your agent only after you die, so you’ll also want to appoint a durable power of attorney to manage your financial affairs in case you’re incapacitated. Should you develop dementia and not have a durable financial power of attorney, your family will have to go to court to take control of your finances. You can revoke a durable power of attorney at any time you have the capacity.

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The last few years have spoiled investors—delivering both exceptionally high returns and low volatility. But as signs begin to emerge that the bull market may be drawing to a close, it could be time for investors to look for alternatives. By some measures, the stock market in 2018 has been exceptionally volatile. By April, there had been more up-and-down movements of at least 1% in the S&P 500 than during all of 2017. Yet to judge by a favorite measurement of financial professionals—the CBOE Volatility Index, or VIX—even this year’s turbulence has been relatively mild. “Over the past 20 years, the VIX has averaged 20,” says Brandon Thurber, Director of the Investment Research Group for Regions Asset Management. In contrast, Thurber says, the VIX spent most of 2017 below 10. “Looking ahead, you can’t assume this will continue, an environment in which you can expect to make money with little volatility or risk of drawing down your portfolio.” That perspective is critical for investors planning for long-term financial goals.

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NEW IDEAS FOR CHANGING MARKETS

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The bad news in the good news

With the current bull market in stocks nearing record length, it’s reasonable to wonder how much longer it can last, particularly as inflation and interest rates head higher, says Thurber. Inflation in particular is a growing concern, as the Consumer Price Index rose to an annual rate of 2.8% in May—well above the Federal Reserve’s inflation target of 2%. At
Fall 2018

perfectly, so we’re working with clients not impossible—to time the market Wealth Management. “It is difficult—if Carter-Prall, Head of Regions Private correction in the future, “ says Leslie believe there’s going to be a market move down can be worrisome. that stocks and bonds—or both—could yields may be welcome, especially to flag, leading to lower stock prices. And as rates rise and borrowing costs move higher, to be sure, but they put additional pressure on the Fed to keep the economy from overheating. And as rates rise to be in “great shape” are good news, in the short term to prepare for various market eventualities.” One way to be ready, suggests Th... 

Diversification, but at a cost

The risks and illiquidity of hedge funds and other alternative investments may not pose a problem for younger or wealthier investors who can afford to set aside investment dollars for several years, or who have time to recover from market setbacks. But many others may want to seek out vehicles that have fewer trade-offs. That’s where liquid, multi-strategy alternative investments, like those Ross offers to his clients, come in.

“We can customize these portfolios and take very intentional exposures to particular kinds of alternatives,” Th... 

Know the basics

When most people think of alternative investments, the first one that comes to mind is often a hedge fund. Because of how they’re structured and offered, these portfolios have more regulatory leeway than a standard mutual fund. Hedge fund managers capitalize on that added investment flexibility—the ability to pursue wide-ranging, often opportunistic strategies—to find unique advantages, says Th... 

“You can’t invest in the rearview mirror. You have to look forward.”

Brandon Thuber, Director of the Investment Research Group for Regions Asset Management

The ways an alternative investment can help you diversify a traditional portfolio of stocks, bonds and cash equivalents.

Private equity funds own or hold stakes in private companies, often providing seed capital for fledging businesses or investing in distressed companies. They have no liquid, as these funds are patient in waiting for growth or turnarounds.

Hedge funds avail themselves of a wide range of trading strategies, often using leverage and concentrated portfolios to take advantage of unique predictions about the economy, sectors or companies.

Managed futures funds invest in long and short futures contracts for commodities, energy or other assets. Managers of these funds can create portfolios with low or negative correlations to the broader markets.

Real estate investments range from individual pieces of commercial or residential property to public or private real estate investment trusts (REITs) that invest in malls, discounters, warehouses or hospitals.

Commodities, as traded on public exchanges, give investors access to agricultural products, oil, precious metals and more. Because the prices of many commodities rise when inflation moves up, they are often used as a hedge against inflation.

Derivatives are contracts whose prices are “derived” from the value, or changes in value, of underlying stocks, bonds, market indexes, currencies and more. Their variety allows fund managers to use them to execute a nearly infinite array of finely tuned strategies.

Talk to your Regions Wealth Advisor about:

• How recent market volatility may have affected your portfolio
• Whether your current asset allocation is aligned with your risk tolerance
• The ways an alternative investment strategy may fit into your financial plan

These alternative investments can help you diversify a traditional portfolio of stocks, bonds and cash equivalents.

Get to Know Your Alternatives

The same time, the Fed increased the short-term federal funds interest rate to 2% in June. That was the second of four rate hikes planned for this year; further increases are expected in 2019 and 2020. Hedge fund managers capitalize on that added investment flexibility—the ability to pursue wide-ranging, often opportunistic strategies—to find unique advantages, says Th... 

One reason that many alternative investment vehicles can employ obscure strategies is that only “accredited investors,” who meet stringent standards for wealth and income, can allocate to those products. Most alternative funds charge significant fees, based on both a percentage of the assets invested and performance. Investors in a hedge fund, for example, might pay an annual fee equal to 2% of the value of their investments as well as an additional “incentive fee” based on the fund’s return that year. Hedge funds and other alternative vehicles are also less liquid than mutual funds and other securities. Many hedge funds and private equity funds require investors to give up access to their investment for a specified period of several years. “These are funds that require you to lock up your capital for an extended period of time, often a decade or longer,” Thuber says. It is also worth noting that the strategies pursued by many alternative investments carry risks far greater than a typical diversified portfolio. These fund managers, trying to stake out a very competitive industry and deliver attention-grabbing returns for their investors, make bold judgments about where stocks, sectors and the markets are going, and then invest aggressively, often with significant amounts of leverage to increase potential profits. When things don’t go as planned, the losses can be considerable. The risks and illiquidity of hedge funds and other alternative investments may not pose a problem for younger or wealthier investors who can afford to set aside investment dollars for several years, or who have time to recover from market setbacks. But many others may want to seek out vehicles that have fewer trade-offs. That’s where liquid, multi-strategy alternative investments, like those Ross offers to his clients, come in.

“We can customize these portfolios and take very intentional exposures to particular kinds of alternatives,” Thuber says. “We’re not trying to hit home runs; we’re trying to hit consistent singles, and we view those liquid alternatives as an in-between asset class. Our goal is, over time, to get to the same place you would be if you just owned a portfolio of stocks or bonds, but to get there with less volatility and lower risks.”

In a typical year, Thuber says, Regions liquid alternative portfolios aim to have returns—a level of volatility—that fall between those of the major indexes for stocks and bonds. The funds also provide daily liquidity. Especially during periods of extreme market volatility, liquid alternatives can help provide stability to an overall asset allocation,” Carter-Prall says. Any decision to use alternative investments depends on a range of personal factors to discuss with your Wealth Advisor, says Carter-Prall. “It’s important to evaluate where you are in life; the spending needs you’re going to have and the volatility that you can withstand as you work toward particular goals,” she says. But in many situations, an allocation of 10% to 20% in alternatives can make sense, Thuber says. “That gives you some diversification while not taking away from your larger goals, whether capital appreciation or generating income,” he explains. “Alternatives can potentially help prop up your portfolio in adverse market environments.” Thuber notes that the performance of many alternative strategies has lagged behind traditional investments in recent years. For example, managed futures, a strategy he uses in the liquid alternative portion of a client’s portfolio, have underperformed poorly during the past several years. “But historically, managed futures have had a correlation to both stocks and bonds that is close to zero,” he says. That could make it a good place to be when traditional holdings falter. “You can’t invest in the rearview mirror,” Thuber says. “You have to look forward, and the expectation is that going forward, having some exposure to alternative investments could be much more beneficial than it would have been during the past decade. It can help you stay the course as volatility increases.”
When Family and Business Collide

The stress of running a business while managing a lifelong relationship can create a volatile mix. Here’s how to head off disagreements before they create larger issues.

A thriving family-owned business can provide financial security and a closeness that comes from relatives working together through multiple generations. But the day-to-day mix of lifelong relationships and the stress of running an enterprise has the potential to create an emotional combination that can threaten the stability and future of a company.

There are areas for potential conflict in every business—from succession planning to profit sharing, from compensation to reinvesting for expansion, and from organizational strategies to marketing decisions. But with a family business, sibling strategies to marketing decisions. But with a family business, sibling expansion, and from organizational planning to profit sharing, from relatives working together through multiple generations. But

and non-family employees, one vital way to prevent problems is to have an established decision-making hierarchy. That’s especially important in cases where two or more family members have equal or almost equal parts of the business—a scenario Holloway has witnessed more than once.

“Nobody has the votes to make a decision,” says Holloway. “The business is then paralyzed by gridlock. Someone needs to have the ultimate say-so. Or the business needs to be organized so there is a way to always break an impasse and get things done.”

TALK IT OUT OR WRITE IT OUT

Even with a structure in place, people will always have their own opinions on how a business should be run. And in families, people feel uniquely comfortable sharing those opinions, which can make conflict very difficult to avoid. That’s why Holloway recommends having an advisor outside the family to consult and mediate disputes. It can be a banker, a lawyer, or just someone trusted by all the members of the family business.

If that problem arises, you have to fire a family member just like you’d fire any other employee,” he says. “It has to be very well documented. You have to have put them on probation and have a development plan in place.”

Most employees who are fired for cause are well aware a problem exists before they are terminated, says Holloway. “Succession planning is not an easy subject to bring up. You are invariably talking about the death or departure from the business of a patriarch or matriarch who is devoted to their work,” says Philip Blaylock, Commercial Relationship Manager, also in Regions’ Jackson office.

He suggests three ways to create retirement income from a family enterprise: Transition the business to the next generation, with profit sharing for the retiree; arrange an employee buyout of the business; or sell the company outright—each might end the “family” part of the business.

But making any of those moves at the last minute is a dangerous proposition. That’s why ignoring retirement planning is “a big mistake,” says Holloway. “Owners owe it to themselves, their families and their employees to make those plans early—and to communicate them clearly.”

Family Members Should Pay Their Dues

Bringing on new family members can also create friction, especially with non-family employees who may feel slighted or marginalized. That’s one reason Holloway advocates making all new family members start out at the bottom of the business.

“Children that come into the business should learn it from the ground up. This helps them understand every aspect of the company and also shows employees they are willing to get their hands dirty. That, in turn, gives them more credibility down the road,” Holloway says.

Not alienating non-family employees when new family members leapfrog over them is a balancing act. Clearly defining roles for employees and providing performance-based rewards are two ways to smooth things over, says Holloway. “Making an employee feel part of the team can be as important as awarding a bonus or giving someone extra days off.”

TOUGH LOVE

All companies are susceptible to making bad hires. In a family business, the pain of that bad hire can be multiplied when the problem employee is a family member. That’s just one reason that Holloway says blood shouldn’t be thicker than common sense when it comes to running any business.

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Talk to your Regions Wealth Advisor about:

• Succession planning strategies
• Ways you might organize a family meeting to discuss governance concerns
• How your personal financial strategy meshes with your family’s business

1110 REGIONS INSIGHTS
**Must-Have Conversations for Couples**

Talking about finances early and often can keep couples on track and in harmony.

Trying to meet your financial goals without regularly communicating with your spouse is like trying to get in shape without a fitness plan—it’s far less likely to work. That may sound simple, but lack of communication is one of the biggest financial mistakes I encounter in my work with couples. To combat this, I suggest that couples make time for regular “money dates”—a time to review their finances together. Here are three relationship milestones when these kinds of conversations are particularly important.

1. **Getting Married.** It’s easy to get swept up in the excitement of a new relationship. As you’re getting to know your new love’s history and quirks, it’s also important to understand how he or she approaches money. Before you start planning a wedding or moving in together, it’s important to have an in-depth summit about finances. In an ideal world, you’ll both be on the same page about money. Often that’s not the case. Instead of trying to convince the other person to approach money the way you do, focus on trying to understand where your partner is coming from.

2. **Starting a Family.** Kids are game changers, especially when it comes to finances. As you prepare to grow your family, it’s essential to get very honest and specific about the ways that a child will affect your monthly cash flow and how you plan to shift your budget to accommodate the changes. Don’t forget to include fun money in your financial plan. I advocate that parents make room in the budget for the things that increase their enjoyment of life as they navigate the immense transition to parenthood.

3. **Entering Retirement.** With a full work and family life, couples sometimes lose sight of long-term goals or just assume that their goals align. I’ve worked with clients who have unknowingly entered retirement with very different goals in mind: for instance, the husband is eager to spend a chunk of the nest egg on a private plane, while the wife’s priority is preserving a financial legacy for children and grandchildren. As you approach retirement, communicate with each other about how you envision this next phase of life. Take the time to communicate about your finances and to understand each other’s hopes and fears. Those conversations will help you get on the same page and make you better equipped to meet your goals.

### Must-Ask Questions

**Before Marriage**

- What are your existing incomes, expenses and debts?
- What are your short- and long-term financial goals?
- How do you approach saving, and what do you expect from your partner?

**Before Children**

- Will one parent stay home with the child? If so, who, and for how long?
- How much does child care cost?
- How much do you want to set aside for the child’s future education?

**Before Retirement**

- What do you want your daily life to look like in retirement?
- Does it include traveling? Relocating to be closer to your children and grandchildren? Do you plan to downsize your home?
- What financial concerns keep you up at night?

### A Sustainable Upbringing

I grew up in a family that did not believe in throwing things away. We repurposed and recycled before it was mainstream, and I carry this philosophy into all aspects of my life. When I got into restoration architecture and design, I found it preposterous that buildings were being torn down left and right, and all that history and craftsmanship was going to be lost. I couldn’t wrap my head around why we would throw away our past. Environmentally and culturally, it was an utter disaster.

### Filling a Void

After many years in architecture, I realized how difficult it was to find historical materials for my large-scale projects. I didn’t want to buy all new fixtures, and other professionals were just as frustrated with the lack of variety and quality. So I went around Savannah, buying materials from old structures before they were torn down, and I opened a warehouse where we could stabilize, restore and resell the pieces. It wasn’t long before I became known as the person who was hoarding unique old building materials—and the business grew from there. I also consult with businesses about what elements are worth saving. For example, a building that was constructed in 1890 doesn’t automatically need to be completely torn down.

### Overcoming Stereotypes

When I started in the mid-1980s, a woman couldn’t get a business loan without a male cosigner. Instead of giving in, I scraped my way to success—all while dealing with the stereotypes of being a woman in this industry. Even today, some people are surprised to find out the owner is “Mrs.” Parker, not Mr. Parker. I can usually turn the situation around with humor—as I do with many of life’s difficulties—but I also have no problem showing a customer to the door if they aren’t willing to work with me.

### Passing the Torch

Preserving architecture doesn’t just save a building. It retains the historical handiwork and heritage of the artisans who built this country, honoring their dedication to their work, the craft and treasuring our limited natural resources. Understanding history and where you came from is key to ensuring a successful future. I do this work to save History, to educate and to create a more conscious society—one that relies less on buying new things and more on preserving what we’ve already been given.
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