



THE RSF REPORT

Rewald, Sebranek, & Frawley | An Independent Firm

July 2024

LET YOUR FEES REFLECT YOUR SERVICE...

About ten years ago I was introduced to financial advisor Roy Diliberto and his book, *Basic Truths for Financial Life Planners*. One of the last chapters of the book – only five pages in length – was the most meaningful and transformative for me and subsequently our group. It was the start of the “snowball effect” of our group, changing our compensation model - from a 1% of assets fee to a three year flat fixed fee retainer. Because Roy did such a wonderful job, I felt the need to share the highlights of what I read almost a decade ago.

Imagine yourself visiting a physician who tells you: “If you hire me as your primary doctor, I will diagnose all of your illnesses, treat you when you are ill, help you with your dieting, recommend a program for preventive care, prescribe any drugs you may need, monitor your progress, refer you to competent specialists when needed, and be available to help you with any questions or concerns you may have about your health. In short, I will be your personal medical advisor.” By now, you are overwhelmed and thinking this is too good to be true in this age of managed care, but you ask the obvious question: “How much will this cost?” And the doctor replies, “All you need to do is buy the drugs from me.”

How are you feeling about that? What thoughts are running through your head? What has the doctor communicated as the most important thing he does? Are you concerned he will be compelled to prescribe drugs in order to be paid? Are you worried you may not

need those drugs? Would you rather pay him a retainer for medical advice and let you buy the drugs on your own? Of course, doctors no longer sell drugs and they get paid for their core competencies: their ability to diagnose and treat illness. Why should financial planning be any different? Why does a financial advisor earn most of their compensation from the commodities offered and get paid little or nothing for the most valuable services and advice they offer? If you were to list what you do for clients and compare them to what physicians do, how would you rank them in importance?

- Discovering clients’ needs and goals (performing the physical exam)
- Analyzing a client’s current situation and determining whether there will be shortfalls (diagnosing the illness)
- Recommending financially viable solutions (prescribing the patient)
- Helping the client implement the recommendations (treating the patient)
- Monitoring the client’s progress (annual physical exams)
- Building a portfolio (prescribing drugs)
- Implementing investment decisions (buying the drugs)

I would postulate that the least important service listed is implementing investment decisions, yet this is still how most financial planners get paid.

(continued on next page)

2024 Index Returns (Year-to-Date)

Major Stock Indices (As of 6/28/2024)

S&P 500	+15.35%
Dow Jones Industrial	+4.82%
Nasdaq	+18.56%
MSCI World ex USA	+6.01%

Major Bond Indices (As of 6/28/2024)

U.S. Aggregate Bond Index	-0.76%
U.S. High Yield Bond Index	+2.57%
U.S. Government—Long	-5.13%
Consumer Price Index	+2.28%

*Source: MSCI Net Returns, Barclays Capital



LET YOUR FEES REFLECT YOUR SERVICE... (CONTINUED)

by Kaleb Frawley, Financial Advisor

kaleb@rsfwi.com

People can find and implement investments on the Internet, but they'll never find the wisdom of a competent and caring financial planner who can make the difference between financial success and failure for so many people.

Rationale for Flat Retainers

- **Reduction of Conflicts of Interest:** While it is virtually impossible to avoid all conflicts of interest, we believe fees that are not adjusted each quarter based on the assets managed reduce these conflicts.
- **Emphasis on the Holistic Nature of Financial Life Planning:** While you may find our total fee similar in amount to firms that charge a percent of assets, we believe that a fee that is represented by only one element of your life, i.e., investments, may inevitably result in some of the other areas that are so important to your success being ignored. Someone once said, "Follow the money."
- **Advisors Should Be Paid for What They Can Control:** What if the market increases by 35% in a year and your portfolio experiences a similar increase? While we would all be gratified that the markets cooperated and that equaling market returns can often be difficult, why should your advisory firm get a 35% increase for something over which it had little or no control? Of course, this also works the other way in a down market, which is the time your planning firm is arguably more valuable to you. We do control your allocation and the advice we provide in all areas of your financial life; and those services do not change simply because the markets are experiencing gains or losses. Nor should the fees you pay.

- **Advisory Firms Should Not Be Encouraged to Place Their Clients in Risky Portfolios.** We believe clients should be exposed to only enough market fluctuations and volatility necessary to reach their goals. And since we are not being compensated as a percent of assets, we have little incentive to increase our clients' level of risk. We build portfolios and allocations with only one thing in mind: helping our clients reach their long-term goals by advising them on all aspects of their financial lives.



A BOY'S DREAM AND A MOTHER'S NIGHTMARE

In early May, construction started on our home remodel and garage addition. The kids have enjoyed the process – dirt piles to wood scrapes to learning and using new tools to everything in between. It's really been a life-sized sandbox. As for Maggie, it only took a few days before she lamented "I give up." As a result, when the boys go outside, clothing is optional.



SPENDERS AND SAVERS

by Joseph Brown, Financial Advisor

joseph@rsfwi.com

As you all know, my wife and I have been blessed with four kids (two boys and two girls). Like most parents I've spoken with, it's shocking how each of them can be so different despite the same genetics, diet, home life, and family expectations. My two boys, for example, enjoy making money. However, their objectives with the money they earn is very different.

Peyton (14) likes to "enjoy his money". He works, to earn spending money that will buy him "cool" things, such as a necklace or a new pair of Jordan's. (Shoes priced beyond what mom and dad deem a "reasonable" threshold.)

Cameron (12), on the other hand, likes nice things too but likes to hold onto his money "just in case". Often he struggles with buying one thing vs another even if he can afford both. (These aren't complicated decisions - it's usually baseball gear or other sporting equipment.)

When it comes to money, there are really only two types of people:

1. People who spend too much.
2. People who save too much.

Obviously this is a broad generalization, as Peyton isn't going into credit card debt over tennis shoes and Cameron isn't eating rice and beans with several hundred thousand sitting in his bank account. There are plenty of people in the middle—But I think you get the idea.

Researcher Scott Rick, from the University of Michigan, looked into the psychology behind the two types of people, he refers to as "tightwads" and "spendthrifts". "Tightwads" experience too much pain when considering spending and therefore spend less than they would ideally like to spend. By contrast, "spendthrifts" experience too little pain and therefore spend more than they would ideally like to spend.

Neither are happy with how they handle money. Both extremes worry about money, but for different reasons.

On one side, there is the never-ending feeling of uncertainty, from the risk of running out of money, be that due to rising healthcare costs, long-term care, inflation, interest rates, bear markets, and so on. The other side of thinking is—tomorrow isn't promised (the ruler analogy Kaleb has used in the past). Why save their entire lives only to drop dead unexpectedly or to have a life altering event that leaves you piles of money and nobody to enjoy it with?

A 2023 New York Life study found that only 16% of retirees withdraw from their portfolios on a systematic basis and 30% do not withdraw any money from their investment portfolios at all. Even when retirement expenses are higher than originally planned for, retirees are still reluctant to utilize portfolio assets. According to the Society of Actuaries, they reduce their costs rather than deplete their assets whenever possible. Instead of spending down their principal, these retirees would rather cut their spending.

I think we'd all agree that having a giant nest egg but being too afraid to spend it down is better than spending everything from a smaller pile of money. But this is a real psychological phenomenon for many people. You have all of this money but fear of the unknown holds you back from enjoying it.

Our advice is simple: Take the trip, buy the boat, buy a nice house! You can't say yes to everything in retirement but the whole point of delaying gratification when you're younger is to allow yourself some gratification when you're older.

You only live once.













INVEST LIKE A BUSINESS OWNER

by Jesse Peckham, Business Manager

jesse@rsfwi.com

In Nick Murray's book, *Simple Wealth, Inevitable Wealth*, he encourages readers to think of themselves not as investors in the "stock market", but as owners of successful businesses. As Warren Buffet put it in his 2022 Berkshire Hathaway letter to investors: "Charlie (Munger) and I are not stock-pickers; we are business-pickers."

Often we hear about the growing market cap size of some the big tech companies or the fact there are now six US companies with a market cap of over a trillion dollars. I recently came across the graphic below showing the top ten US companies by revenue. How many of these companies do we spend our hard earned money at directly? In my household I think we contribute directly to the revenue streams of five of them.

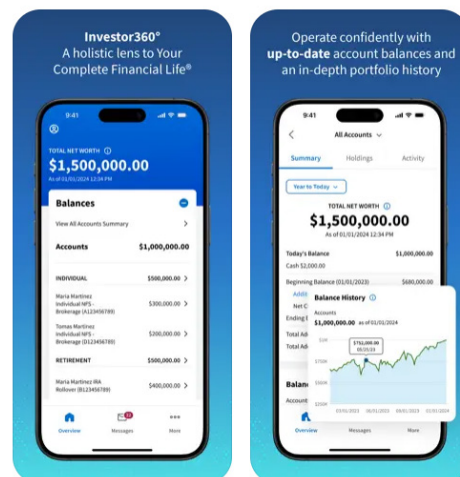
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Living in a small town, Walmart is a weekly stop for everything from groceries to household supplies. Every few years we upgrade our Apple iPhones, to Mobil to fill up our cars, and of course Amazon for virtually everything else.

The stock market is the only place where anyone can invest in human ingenuity. It is a bet on the future being better than today. Stocks can be thought of as a way to ride the coattails of intelligent people and businesses as they continue to innovate and grow. Short

of owning your own business, buying shares in the stock market is the simplest way to own a slice of the business world.

If we think of investing as owning a diversified portfolio of successful businesses, when the next market correction happens, we hope we remember that we are all owners of world class businesses. Yes, businesses will fail, but the U.S. consumer is the most resilient force in the economy.



INVESTOR360° MOBILE APP

Commonwealth has recently revamped their mobile app for Investor 360, making it more intuitive and giving it a modernized look and feel. If you use the app on your phone and haven't updated yet, we would encourage you to do so as Commonwealth has retired the old version of the app as of the time of this printing. For those of you that view your accounts online, no action is required on your part.

If you have any questions, concerns, or run into any issues with the new mobile app, please feel free to reach out to us.



ROTH IRAS FOR KIDS

A SMART START FOR FINANCIAL SECURITY

by Beth Kepler, Financial Services Professional

beth@rsfwi.com

When it comes to saving for the future, starting early is key. A Roth IRA is a powerful tool not just for adults, but for kids too. This retirement savings account uses post-tax dollars, allowing tax-free growth and withdrawals in retirement.

One of the main benefits is long-term growth. With decades ahead, kids benefit enormously from compound interest. Additionally, earnings grow tax-free, maximizing the investment potential. Managing a Roth IRA also teaches kids about saving and investing, providing valuable financial education. The flexibility of Roth IRAs is another advantage, as contributions (but not earnings) can be withdrawn anytime, useful for education or buying a first home.

My husband asked a question a couple weeks ago about IRAs and it led to how our kids should put a portion of their (earned) income into a Roth IRA. Our

oldest is 15 and has been working part-time for a few different people. If he earns \$2,000 this summer, he can contribute up to that same amount to a Roth IRA, benefiting from years of tax-free growth. If he continues to invest \$2,000 in a Roth IRA annually, by the time he is age 65, he may have well over \$400,000 if we use a 5% average annual rate of return.

To get started, we will need to open a custodial Roth IRA. Daryn's income must be reported; fixing grandpa's lawn mower and earning \$40 cash would not count as earned income. Contributions can then be made up to his earned income limit but not more than the annual limit set by the IRS, and investments should be chosen with long-term growth in mind.

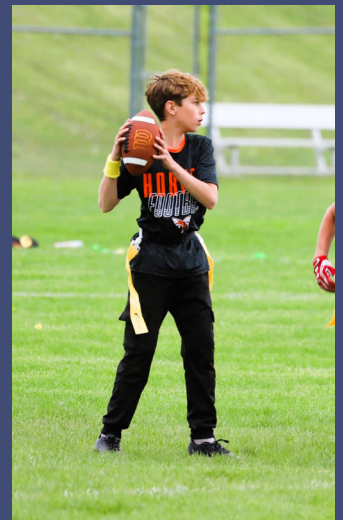
Starting a Roth IRA early sets a child on the path to financial security, leveraging tax-free growth and compound interest for a substantial future nest egg.

SPRING & SUMMER UPDATES

School is out for the summer but things have not slowed down for us. Both the boys are playing church league softball on Tuesday nights, which they seem to be enjoying more than playing on a more competitive level as they have in previous years. Daryn is working on finishing the class portion of Driver's Ed and Avery is participating in a few football camps this summer. The girls participated



in their first piano recital this month. Finley played "Under the Sea" and Alli played two short songs and a duet with her teacher! My husband has been working on getting 1st crop hay done as well as residing our rental house. Miss Larkyn turns one at the end of this month; crazy how time flies! She is very much a Daddy's girl and loves going on tractor and 4-wheeler rides with him...I may as well just be chopped liver!





BUILDING LASTING LEGACIES

GUIDING FAMILIES THROUGH THE GREAT WEALTH TRANSFER

by Terry Sebranek, Financial Advisor

terry@rsfwi.com

At Rewald, Sebranek and Frawley, we help stewards of wealth build their meaningful legacies. Those legacies involve multi-generational businesses, charitable giving, but many times it simply comes down to passing wealth that has been accumulated and grown to the next generation as tax-efficiently and effectively as possible. Over the next 20 years, it's anticipated that nearly \$100 trillion will pass from Baby Boomers to the next generation – this is often referred to as “the Great Wealth Transfer.” A solid estate plan with accurate beneficiary designations will help the transfer process, but will your children and grandchildren be equipped with the tools to navigate their own financial journey?

We have had both the honor and the privilege to witness how some of our own client families have passed along financial wisdom to future generations. By starting early, sharing stories and experiences and encouraging financial independence, you can leave a legacy that is indeed worth celebrating – we're here to help!

Start Early – Even young children can understand the importance of saving, budgeting, and investing. Good financial habits begin early in life. In our own home, our children contribute to our household with chores and responsibilities. If they earn money for extra chores (taking the trash can down to the road or emptying the dishwasher for a quarter), they put their money into a clear container so they can watch it grow. When we go grocery shopping, they scan the items and pay with cash so they can see what that cartload of food costs.

Share Stories – Grandparents, tell your grandchildren about purchasing your first stock, mutual fund, or real estate. Help them understand inflation by talking about the price of your first home, or the interest rates that you might have paid during the 1980s. Tell them stories about good decisions and poor money choices.

Encourage Giving – By witnessing parents support churches, charities, or public projects, you can share the sacrifices you're making as a family to support those less fortunate than you. We have clients who have provided “Gifts for Giving” to their children and grandchildren – you each can give \$250 to your favorite charity from our Donor Fund, and that's what you're receiving for Christmas this year!

Matching – If you contribute \$250 a month to your Roth IRA each month, Grandma might match that \$250 a month at the end of the year. If you pay \$5,000 toward your student loans, Grandpa might match that and pay off \$5,000, too. If you contribute \$1,000 to the local charity drive, we'll match it!

Foster Independence – Intentionally provide opportunities for the younger people in your family to make independent financial decisions. Start young, start small. Then, they will be able to develop confidence and have the knowledge to make informed, intelligent decisions regarding money and debt later in life.



Deferring Gratification – By patiently waiting and planning for a purchase or experience, hopefully children will appreciate it! After a month of saving quarters and building excitement, we took our kids to the local outdoor movie theater! From the back of our truck, we snuggled in and watched a movie together under the stars.



GENERATIONAL PERSPECTIVES

by Alyssa Gander, Financial Services Assistant

alyssa@rsfwi.com

If you read last quarter's newsletter, you know that I'm entering my junior year of college. With that, I'm not going to try and give you financial advice; I'll leave that to the rest of the office. Although, I have learned a lot regarding finance during my time here at the office, I may have more credibility discussing the things I have learned about life. The biggest being the different perspectives every generation has on life and especially money.

As a 20-year-old, I have my own perspective on many situations in life. Spending a portion of my week with the RSF team, which they refer to themselves as "old people" (30 and 40-year-olds), I have recognized another perspective on these same situations. In addition, I have sat in on meetings with clients who are of the generation(s) before them, who have yet another perspective. Outside of work, I spend much of my summer living with Jenna and Terry at the lake, observing life from the perspective of their two 6-year-olds. This being said, every day, I see perspectives from several generations, and with this, comes interesting conversation regarding what is of value.

I wake up in the morning as a member of Gen Z, whose life consists of worry about school, work, what I am going to wear that day, and whether I tuck my shirt in or not. I then get to work and surround myself with the next generation. Here I watch as they balance work with who's in charge of taking kids to their practices and after school activities, and who's making dinner. I sit in on meetings with clients and observe conversations regarding the crazy grandkids, where we're living in the winter, and what to do with money. Then, I go to the lake and watch as Desi and Declan's biggest worry is if they get to go to the pool or not.

With that, we can see everybody has different focuses and definitions of life. As Kaleb would say, "We are stuck in our own bubble." Meaning, many of us go about our lives stuck in this reality of our own life, or circle of people, but lack perspective of those outside it. I came into the office with a somewhat mature perspective for a 20-year-old girl but have been challenged daily to see situations from other perspectives.

My dad is a business owner here in town, and with today's workforce, he struggles to keep employees. Where he once had three crews, he now has himself and two - three employees. Twenty years ago, he would look at this as a concern. However, now as he approaches 50 years old, he sees this as an opportunity for less stress and more freedom. He doesn't have to accept as many jobs and can spend more time doing the things he enjoys.

With these altered perspectives, I reflect on my own experiences and decisions, and wonder, does it really matter? While I am worried about getting a B on an assignment, others are deciding who should get their assets when they die. Or, while I am worried about not having enough money to buy my first home, others worth millions of dollars are avoiding the purchase of a "toy". That being said, everyone has different perspectives on life and specifically money. At my age, money and time are two things that you can never have enough of. Therefore, my only advice is for those of you that have more than enough money, make use of it while time allows.

RSF

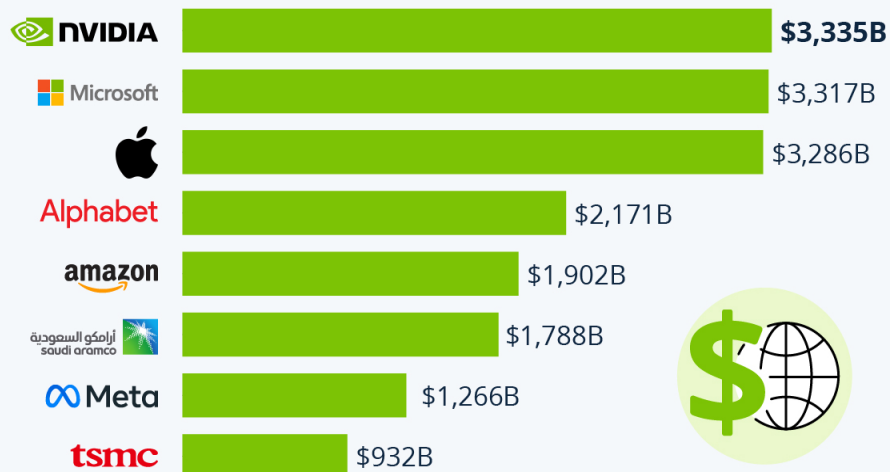
REWALD, SEBRANEK & FRAWLEY

45 E Robb Road
Richland Center, WI 53581
(877) 647-3745 | team@rsfwi.com

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AI Boom: Nvidia Becomes Most Valuable Company in the World

Market capitalization of the highest-valued public companies in the world*



* As of market close on June 19, 2024
Source: Companiesmarketcap.com