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It's Complicated: Money and Happiness
Planned Charitable Giving
Millennials vs. Boomers: How Wide Is the Gap?
How important are dividends in the S&P 500's total returns?

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It's Complicated: Money and Happiness

Does more wealth lead to more happiness? Researchers have tackled this question for decades, and although the results have differed, one fact is certain: The relationship between money and happiness--or "well-being," as many researchers put it--is complicated.

Think before you spend

In their book, *Happy Money: The Science of Smarter Spending,* Professors Elizabeth Dunn and Michael Norton summarize their own and others' research. What they found is that it's not necessarily how much you make that matters to overall happiness (although that certainly contributes), but what you do with your money. They boiled down the findings to five "key principles of happy money."

1. Buy Experiences. Investing in memories can result in a more sustained level of happiness than buying a bigger house, a more luxurious car, or other material goods. Buying the latest technological gadget might elicit the kind of joy of a child experiences opening a new toy on the holidays, but just like that new toy, the gadget loses its novelty with time--a principle psychologists refer to as "hedonic adaptation." On the other hand, experiences--even those that are fleeting or may initially provoke trepidation, such as hang gliding--create memories that help foster prolonged contentment.

2. Make It a Treat. While you're investing in those experiences, be sure to spread them out so they don't become expectations or habits. In this way, the novelty of each new experience will be fully realized. As the book says, "Abundance is the enemy of appreciation." This is also true with something as simple as a cappuccino. If you make it a daily ritual, it becomes a habit. If you instead substitute your daily coffee once a week with a froth-covered treat, then it becomes a reward to savor.

3. Buy Time. According to Dunn and Norton, individuals should ask themselves the question, "How will this purchase change the way I use my time?" For example, will it allow you to spend more time with your friends or family, or create more "to-dos" to clog your list? Will it free you up to participate in more activities you enjoy? Investing in products or services that allow you to spend time on the things you love will lead to greater overall well-being. And, say the authors, don't fall into the trap of putting a dollar value on your time, as this leads to increased stress levels. "Simply feeling like your time is valuable can make it seem scarce."

4. Pay Now, Consume Later. Paying for a treat or experience up front, such as event tickets you buy months in advance, allows you to benefit from the extended pleasure of eager anticipation. With all due respect to Tom Petty, the waiting, it seems, may be the best part. Conversely, credit cards can be a dangerous, albeit convenient, financial tool, facilitating a "consume now, pay later" dynamic. One study cited in *Happy Money* found that all 30 people surveyed underestimated their monthly credit-card bills by a sizable average of nearly 30%.

5. Invest in Others. Regardless of your circumstances--wealthy or not, young or old--research finds that spending money on others leads to greater happiness than spending on oneself.

The danger zones

While some experts differ on whether higher incomes result in greater levels of happiness, they tend to agree on the following: Increasing debt levels are detrimental to happiness, and keeping up with the Joneses can lead to a general sense of dissatisfaction. Instead, actively managing debt while finding ways to appreciate what you already have on a day-to-day basis may help you make well-thought-out saving and spending choices that support your overall level of well-being.

Planned Charitable Giving

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts.

There may be costs and expenses associated with trusts, private foundations, and donor-advised funds. Income from charitable trusts and charitable gift annuities is not guaranteed.

Today more than ever, charitable institutions stand to benefit as the first wave of baby boomers reach the stage where they're able to make significant charitable gifts. If you're like many Americans, you too may have considered donating to charity. And though writing a check at year-end is one of the most common ways to give to charity, planned giving may be even more effective.

What is planned giving?

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts. For example, you may need to receive income in exchange for the assets you donate, or you may want to be involved in deciding how your gift is spent--things that typically can't be done with standard checkbook giving.

Questions to consider

To help you start thinking about your charitable plan, consider these questions:

- Which charities do you want to benefit?
- What kind of property do you want to donate (e.g., cash, stocks, real estate, life insurance)?
- Do you want the gift to take effect during your life or at your death?
- Do you want to retain an interest in the property you donate?
- Do you want to be involved in deciding how your gift is spent?

Gifting strategies

There are many ways to donate to charity, from a simple outright cash gift to a complex trust arrangement. Each option has strengths and tradeoffs, so it's a good idea to consider which strategy is best for you. Here are some common options:

Outright gift. An outright gift is an immediate gift for the charity's benefit only. It can be made during your life or at your death via your will or other estate planning document. Examples of property you can gift are cash, securities, real estate, life insurance proceeds, art, collectibles, or other property.

Charitable trust. A charitable trust lets you split a gift between a charitable and a noncharitable beneficiary, allowing you to integrate financial needs with philanthropic desires. The two main types are a charitable remainder trust and a charitable lead trust. A typical charitable remainder trust provides an annuity or unitrust interest for one or two persons for life. An annuity interest provides fixed payments, while a unitrust interest provides for payments of a fixed percentage of trust assets (valued annually). At the end of the trust term, assets remaining in the trust pass to the charity. This can be an attractive strategy for older individuals who seek income. There are a few other variations of the charitable remainder trust, depending on how the income stream is calculated. With a charitable lead trust, the order is reversed; the charity gets the first, or lead unitrust or annuity interest, and the noncharitable beneficiary receives the remainder interest at the end of the trust term.

Charitable gift annuity. A charitable gift annuity provides a fixed annuity for one or two persons for life. It's easier to establish than a charitable remainder trust because it doesn't require a formal trust document.

Private foundation. A private foundation is a separate legal entity you create that makes grants to public charities. You and your family members, with the help of professional advisors, run the foundation--you determine how assets are invested and how grants are made. But in doing so, you're obliged to follow the many rules and regulations governing private foundations.

Donor-advised fund. Similar to but less burdensome than a private foundation, a donor-advised fund is an account held by a charity to which you can transfer assets. You can then advise, but not direct, how your assets will be invested and how grants will be made.

Tax benefits

Charitable giving can provide you with great personal satisfaction. But let's face it, the tax benefits are valuable, too. Your gift can result in a substantial income tax deduction in the year you make the donation, and it may also reduce capital gains and estate taxes. With a charitable remainder trust, you generally receive an up-front income tax deduction equal to the estimated present value of the interest that will eventually go to charity.

Charitable contribution deductions are generally limited to 50% of your adjusted gross income (AGI), or 30% or 20% of AGI depending on the type of charity and the property donated. Disallowed amounts can generally be carried over and deducted in the following five years, subject to the percentage limits in those years. Your overall itemized deductions may also be limited based on the amount of your AGI.

The charity must be a qualified public charity in order for you to enjoy these tax benefits. Not all tax-exempt charities are qualified charities for tax purposes. To verify a charity's status, check IRS Publication 78, or visit www.irs.gov.

Millennials vs. Boomers: How Wide Is the Gap?

Can you tell the difference between the attitudes of baby boomers and millennials when it comes to finances? Take this quiz and see.

Texting versus email (or even snail mail). Angry Birds versus Monopoly. "The Theory of Everything" versus "The Sound of Music." "Dancing with the Stars" versus "American Bandstand."

It's no secret that there are a lot of differences between baby boomers, born between 1946-1964, and millennials, who were generally born after 1980 (though there is disagreement over the precise time frame for millennials). But when it comes to finances, there may not be as much difference in some areas as you might expect. See if you can guess which generation is more likely to have made the following statements.

Boomer or millennial?

1) I have enough money to lead the life I want, or believe I will in the future.

2) My high school degree has increased my potential earning power.

3) I rely on my checking account to pay for my day-to-day purchases.

4) I consider myself a conservative investor.

5) Generally speaking, most people can be trusted.

6) I'm worried that I won't be able to pay off the debts that I owe.

The answers

1) Millennials. According to a 2014 survey by the Pew Research Center, millennials were more optimistic about their finances than any other generational cohort, including baby boomers. Roughly 85% of millennials said they either currently had enough to meet their financial needs or expected to be able to live the lives they want in the future; that's substantially higher than the 60% of boomers who said the same thing. Although a higher percentage of boomers--45%--said they currently have enough to meet their needs, only 32% of millennials felt they had enough money right now, though another 53% were hopeful about their financial futures. Source: "Millennials in Adulthood," Pew Research Center, 2014

2) Boomers. The ability of a high school education to provide an income has dropped since the boomers' last senior prom, while a college education has never been more valuable. In 1979, the typical high school graduate's earnings were 77% of a college graduate's; in 2013, millennials with a high school diploma earned only 62% of what a college graduate did. And 22% of millennials with only a high school degree were living in poverty in 2013; back in 1979, the figure for boomers at that age was 7%. Source: "The Rising Cost of Not Going to College," Pew Research Center, 2014

3) Boomers. Not surprisingly, millennials are far more likely than boomers to use alternative payment methods for day-to-day expenses. A study by the FINRA Investor Education Foundation found that millennials are almost twice as likely as boomers to use prepaid debit cards (31% compared to 16% of boomers). They're also more than six times as likely to use mobile payment methods such as Apple Pay or Google Wallet; 13% of millennials reported using mobile methods, while only 2% of boomers had done so. Source: "The Financial Capability of Young Adults--A Generational View," *FINRA Foundation Financial Capability Insights,* FINRA Investor Education Foundation, 2014

4) Millennials. You might think that with thousands of baby boomers retiring every day, the boomers might be the cautious ones. But in one survey of U.S. investors, only 31% of boomers identified themselves as conservative investors. By contrast, 43% of millennials described themselves as conservative when it came to investing. The survey also found that millennials outscored boomers on whether they wanted to leave money to their children (40% vs. 25%) and in wanting to improve their understanding of investing (44% vs. 38%). Source: Accenture, "Generation D: An Emerging and Important Investor Segment," 2013

5) Boomers. Millennials may have been around the track fewer times than boomers have, but their experiences seem to have given them a more jaundiced view of human nature. In the Pew Research "Millennials in Adulthood" survey, only 19% of millennials said most people can be trusted; with boomers, that percentage was 31%. However, millennials were slightly more upbeat about the future of the country; 49% of millennials said the country's best years lie ahead, while only 44% of boomers agreed.

6) Millennials. However, the difference between the generations might not be as significant as you might think. In the FINRA Foundation financial capability study, 55% of millennials with student loans said they were concerned about being able to pay off their debt. That's not much higher than the 50% of boomers who were worried about debt repayment.

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How important are dividends in the S&P 500's total returns?

In a word, very. Dividend income has represented roughly one-third of the total return on the Standard & Poor's 500 index since 1926.*

According to S&P, the portion of total return attributable to dividends has ranged from a high of 53% during the 1940s--in other words, more than half that decade's return resulted from dividends--to a low of 14% during the 1990s, when the development and rapid expansion of the Internet meant that investors tended to focus on growth.*

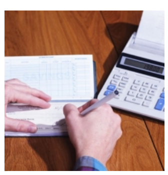
And in individual years, the contribution of dividends can be even more dramatic. In 2011, the index's 2.11% average dividend component represented 100% of its total return, since the index's value actually fell by three-hundredths of a point.** And according to S&P, the dividend component of the total return on the S&P 500 has been far more stable than price changes, which can be affected by speculation and fickle market sentiment.

Dividends also represent a growing percentage of Americans' personal incomes. That's been especially true in recent years as low interest rates have made fixed-income investments less useful as a way to help pay the bills, In 2012, dividends represented 5.64% of per capita personal income; 20 years earlier, that figure was only 3.51%.*

Note: *All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. Investing in dividends is a long-term commitment. Investors should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. A company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.*

*Source: "Dividend Investing and a Look Inside the S&P Dow Jones Dividend Indices," Standard & Poor's, September 2013

**Source: www.spindices.com, "S&P 500 Annual Returns" as of 3/13/2015



Are stock dividends reliable as a source of income?

Dividends can be an important source of income. However, there are several factors you should take into consideration if you'll be relying on them to help pay the bills.

An increasing dividend is generally regarded as a sign of a company's health and stability, and most corporate boards are reluctant to cut them. However, dividends on common stock are by no means guaranteed; the board can decide to reduce or eliminate dividend payments. Investing in dividend-paying stocks isn't as simple as just picking the highest yield; consider whether the company's cash flow can sustain its dividend, and whether a high yield is simply a function of a drop in a stock's share price. (Because a stock's dividend yield is calculated by dividing the annual dividend by the current market price per share, a lower share value typically means a higher yield, assuming the dividend itself remains the same.)

Also, dividends aren't all alike. Dividends on preferred stock typically offer a fixed rate of return, and holders of preferred stock must be paid their promised dividend before holders of common stock are entitled to receive theirs. However, because their dividends are predetermined, preferred stocks typically behave somewhat like fixed-income investments. For example, their market value is more likely to be affected by changing interest rates, and most preferred stocks have a provision allowing the company to call in its preferred shares at a set time or at a specified future date. If you have to surrender your preferred stock, you might have difficulty finding an equivalent income stream.

Finally, dividends from certain types of investments aren't eligible for the special tax treatment generally available for qualified dividends, and a portion may be taxed as ordinary income.

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The Next Bailout?

It has been five years since the newspapers exploded with stories of the Greek debt crisis, which, we were told, threatened the very existence of the Eurozone. Eventually, a variety of bailout packages were negotiated, and things seemed to return to normal.

As it turns out, the current rescue package will run out at the end of June. The European Union finance ministers and leaders of the newly-elected Greek government appear to be far apart in their negotiations on extending the bailout. The European Central Bank, International Monetary Fund and the European Commission have demanded that Greece institute another round of economic reforms, meaning austerity in government spending and services, higher value-added taxes, pension cuts, and a continuing decline in the Greek GDP and standard of living for ordinary citizens. The citizens, naturally, have been reluctant to endure any more pain, and elected leaders from the Syriza Party who ran in opposition to any more austerity, promising instead to cut a better deal, spend more and generally use Keynesian economic theory to restart the economy.. The Greek government recently rehired 4,000 public sector workers in a clear display of independence from the creditor demands.

Greece's finance minister has agreed to make the next 750 million euro loan repayment to the International Monetary Fund, which staves off immediate default. But there is no question that the country will have to refinance 172 billion euros of debt. No deal means default and, possibly, what people are calling a "Grexit" from the Eurozone. You can expect to suddenly see headlines about the looming "crisis" and once again hear intimate details about the financial situation in Greece. If the negotiations succeed, and Syriza officials win concessions, it could bolster the strong anti-austerity populist movements in Spain, Portugal and Ireland.

Should you be concerned? If you're holding a Greek bonds, or are receiving a government pension from the nation, then you should be following these developments closely. If not, then there is probably little about the negotiations which will change the long-term underlying value of European stocks and bonds in most American portfolios. The headlines could cause a selloff, particularly in the event of a Grexit, but corporate earnings and valuations will ultimately prevail, whether Greece is given a grace period, whether it remains part of the Eurozone—or not.

The Harm In Financial Journalism

In most areas of our lives, the more information you get, and the more up-to-the-minute it is, the better we can do business and make astute decisions. It is interesting that investing is one area where the opposite is true.

We're not talking here about the second-by-second blips on a Bloomberg terminal that traders and computer algorithms use to make quick-twitch buys and sells. We're talking about the normal news reports, cable TV investment reports and investing articles that you're bombarded with on a daily basis. In general, the news and data supplied by consumer journalists is almost always harmful to your financial health.

How? Consider profiles of mutual funds and mutual fund managers. The quarterly profiles in Barron's and the articles in Money, Kiplinger's and the Wall Street Journal tend to focus a bright spotlight of attention on the hot funds—that is, funds that outperformed their peers (and the market) in the previous quarter. Three months worth of track record is statistical nonsense, but the hot fund manager is interviewed with breathless deference normally given to a certified genius. It is interesting that seldom if ever is the next quarter's genius the same as the last one. Anyone who invests with the fund of the hour is in grave danger of suffering a regression to the mean—which means losses when compared with the indices.

Even one-year and five-year rankings have no predictive value, particularly when the focus is on outliers who were well ahead of their peers. Meanwhile, when we aren't reading about hot managers, we're hearing about what the stock market did (or is doing) today. Today's price movements are, to a statistician, meaningless white noise, indicative of nothing remotely significant about the future. The markets go up today, down tomorrow, up for a week, down for a week, and during each of these time periods, analysts try to tell us the causes of these random bounces. They would be more productively employed trying to explain the "causes" behind each of the waves in the ocean, yet we can't help listening to their plausible explanations as to why this earnings report, that jobs report, or some other speculation on what the Federal Reserve Board will or will not do has affected our investment outlook.

And, of course, at market tops, when new money is chasing returns at the most dangerous possible time, the news reports are telling us how the markets have been going up, up, up. When markets are depressed, and it is the best possible time to put new money to work, the news reports are telling us all the bad news about months of market losses. Swimming against that tide is nearly impossible, even for professionals.

There may be meaningful information among this chatter, but it's unlikely that most of us will see it amid the noisy background. Back in the late 1990s, one analyst who couldn't believe how much people were paying for tech stocks finally broke through the background noise by pointing out that Amazon's share price had reached approximately the same level as the entire yearly economic output of the nation of Iceland, plus a few 747 cargo jets to carry it all back to the U.S. Of course, few listened, and the bursting tech bubble cost a lot of investors a fortune.

Today, we're being told that the current market rally is long in the tooth, that the Fed is going to raise rates soon, that market valuations are kind of high, and of course that certain fund managers did really well last quarter and yesterday's market was up or down. The problem is that we were hearing exactly the same things last year and the year before (remember?), and still the market churned ahead, cranking out new record highs.

Unlike just about any other activity you might pursue, the best, most astute way to invest is to turn off the noise and let the markets carry you where they must. The short-term drops tend to become buying opportunities in the long run, and over time, the U.S. and global economies reflect the underlying growth in value generated by millions of workers who go to work each day and build that value. Investor sentiment will swing around with the unhelpful prodding of journalists and pundits, but people who stay the course have always seen new market highs eventually, while people who react to every positive or negative report tend to fare much less well. When it comes to the markets, wisdom trumps up-to-the-minute knowledge every time.

Maybe somebody should tell that to the journalists.

What's Next For Oil Prices?

Last year, the big news in the U.S. economy was the dramatic fall in Brent crude oil prices, from just under $110 a barrel last July to something less than $45 a barrel in mid-March. Since then, oil prices have jumped back up to more than $60 a barrel. Does that mean the era of cheap oil is over?

Probably not, say the experts. Bill O'Grady, at Confluence Investment Management, points out that U.S. energy production, when you add 9.2 million barrels per day of oil production to 1.0 million barrels per day (equivalent) of natural gas, is the highest it has ever been, even higher than the production levels during the OPEC oil embargo in the 1970s. Meanwhile, Saudi Arabia appears to be pursuing a multi-pronged political agenda by keeping its pumps working overtime: when the world's largest oil exporter drives down the global price of oil, it harms the economies of Russia and Iran (which need higher oil prices to prop up their domestic economies) and also discourages even higher oil production in the U.S. At the same time, the Saudi effort to suppress oil prices also suppresses the economic drivers of alternative energy, by making solar and nuclear power seem expensive compared with oil-generated electricity.

Meanwhile, more oil is on the way. Iran's oil minister recently announced that if/when sanctions on the country are lifted, it will raise its oil production from 2.7 million barrels a day to four million over the subsequent eight months.

The recent Confluence report also offers a couple of very interesting statistics. First, the average citizen of planet Earth consumes about 4.7 barrels of oil a year in energy use. That in itself may not be surprising; what is striking is that this number has barely fluctuated since 1983, and is down from 5.3 barrels in the late 1970s. There are huge differences among countries. U.S. citizens, on average, consume 21.8 barrels a year, while the average Chinese resident consumes 2.9 barrels.

The other interesting statistic is the declining amount of energy required to produce an inflation-adjusted dollar of economic production in the world. In 2013, the most recent year this data has been collected, the figure was the lowest it has ever been, and is more than 50% lower than in 1980. (See Figure 2) The world economy, in other words, is at least 50% more efficient in its energy use than it was 30 years ago, and that efficiency has been increasing steadily over that three-decade period. Last year, European oil use hit its lowest level since the mid-1990s, and U.S. oil demand peaked in 2007, and is expected to fall by between 1.8 million and 2.7 million barrels a day by 2035. In an op-ed piece in the Wall Street Journal, economist Steve Yetiv says that as economic growth becomes increasingly disconnected from oil in the next 20 years, attention will shift to scarcities in food, water and minerals.

None of this guarantees that oil prices will fall back to their mid-March lows, but it does suggest to energy experts that the recent rise in prices won't take us back to last year's $100+ prices either. Yetiv speculates prices in the range of $52 to $68 a barrel for the foreseeable future. Translated, that means the days of (relatively) cheap oil could be with us for a while.

Blog Updates for May: Articles of Interest

Education Planning Articles

How To Choose A Student Loan Repayment Plan
How To File A Financial Aid Appeal
Use These 8 Loans To Pay For College in 2015-2016
How To Nail Down A Great College Financial Aid Package
Getting The Best Private College Deal Without Going Into Debt
Understanding Public Service Loan Forgiveness (PSLF)
When To Pay For Education-Related Financial Help

Estate Planning Articles

None this month

Financial Advisor Articles

None this month

Financial Planning Articles

Talking With Your Kids About Money
Are You Overspending On Rent?
Raise Children To Be The Opposite Of Spoiled – Using Money To Teach Values

Insurance Planning Articles

Freelancers, Here's How To Protect Your Business Assets From Liability

Investment Planning Articles

The Six Worst Retirement Investing Mistakes To Avoid
6 Fear-Driven Money Moves That Sabotage Your Net Worth

Retirement Plan Articles

None this month

Retirement Planning Articles

Why The New Retirement Involves Working Past 65
5 Vital Questions To Ask Before Retirement

Tax Planning Articles

None this month