# Humphrey Monthly Outreach

*What's Bothering You*

**Stephen Humphrey**
shumphrey@lincolninvestment.com

## Mergers & Acquisitions: What's in the Deal for Investors?

Merger and acquisition (M&A) activity in North America and Europe reached its second highest level on record in 2018. There were 19,501 deals worth $3.6 trillion — a 6.3% increase in deal volume over 2017. There was also a rise in mega deals exceeding $10 billion.[1]

Collectively, U.S. corporations had plenty of cash to spend after a long string of solid profits and a significant tax cut.[2] High stock prices also provided plenty of equity for deals involving the exchange of stock, while relatively-low borrowing costs made it possible to finance acquisitions.

The primary goal of a merger or an acquisition is to boost earnings growth by expanding operations, gaining market share, or becoming more efficient. Here's a closer look at these important transactions and some possible implications for investors.

### Deal-making terms

An acquisition is the purchase of one company by another that is paid for with stock, cash, or both. The target firm is absorbed by the buyer, and the buyer's stock continues to trade. The target firm's shareholders may receive stock in the buying company and/or have the option to sell their shares at a set price.

A true merger occurs when two companies of roughly equal size combine into one and issue new stock. In this case, stockholders of both companies generally receive shares in the new company. Some transactions that are technically acquisitions are announced as mergers when the deals are friendly, with both sides agreeing to fair terms. When one company purchases a controlling interest in another against the wishes of the target, it's known as a hostile takeover; these transactions are typically announced as acquisitions.

### Benefits and opportunities

Synergy is the financial benefit that is expected from the joining of two companies. This might be achieved by increasing revenue, gaining access to talent or technology, or cutting costs. Bigger corporations typically benefit from economies of scale, which enables them to negotiate lower prices for larger orders with suppliers. In addition, combining two workforces into one often results in headcount reductions. Some mergers result in industry consolidation, but government regulators may scrutinize deals and/or block mergers that threaten competition. In other cases, companies may join forces across industries for strategic reasons or to diversify their lines of business. Disruptive competition from technology giants is one reason companies have been pursuing large mergers and novel cross-sector acquisitions.[3]

### For better or worse

A successful merger should create shareholder value greater than the combined value of the separate companies. To accomplish this, the buyer must have an accurate assessment of how much the target company is worth.

When a deal is first announced, the share prices of both companies are likely to move up or down based solely on investor expectations. Of course, even a well-received merger could eventually be viewed as a disappointment if the merger fails to create enough value.

When a company pays more than the value of the other company's assets, the difference is recorded as "goodwill" so that assets match up with liabilities. Sooner or later, underperforming companies may have to take a write-down in that goodwill value, causing the company's share price to be discounted. Thus, only time will tell whether any particular deal will pay off in the form of future earnings growth or investor returns.

*The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve higher risk.*

[1] PitchBook Data, 2019

[2] U.S. Bureau of Economic Analysis, 2018

[3] *The New York Times,* May 3, 2018

### May 2019



HUMPHREY
WEALTH MANAGEMENT

# Alzheimer's Disease Myths and Facts Quiz

***Additional facts***

*According to the Alzheimer's Association (www.alz.org):*

*5.7 million Americans are living with Alzheimer's disease.*

*Between 2000 and 2015, deaths from heart disease have decreased 11% while deaths from Alzheimer's disease have increased 123%.*

*One in three people dies with Alzheimer's disease or another dementia.*

*Over 18 billion hours of care, valued at more than $232 billion, are provided by family and other unpaid caregivers.*

*People with Alzheimer's disease or other dementias have twice as many hospital stays per year as other older people, and almost two-thirds of Americans with Alzheimer's disease are women.*

The probability of needing long-term care is growing. According to the U.S. Department of Health and Human Services, Americans turning age 65 today have nearly a 70% chance of needing some type of long-term care services in their remaining years.[1] There are many reasons why you may need long-term care, but one of the growing causes includes forms of dementia, particularly Alzheimer's disease.

While estimates vary, experts suggest that more than 5.7 million Americans may have Alzheimer's.[2] Alzheimer's disease is currently ranked as the sixth leading cause of death in the United States, but recent estimates indicate that the disorder may rank third, just behind heart disease and cancer.[2]

Here's a short quiz that may help you understand more about dementia and Alzheimer's disease and the need to plan for their potential onset.

## Quiz

***1. True or False: There is a way to prevent Alzheimer's disease.***

a. True

b. False

***2. Which statement is true?***

a. Alzheimer's disease affects only people in their 60s and older

b. Alzheimer's disease is always hereditary

c. Currently, there is no cure for Alzheimer's disease

***3. What is the greatest risk factor for Alzheimer's disease?***

a. Increased age

b. Gender

c. Genetics

***4. What is often one of the first signs of Alzheimer's disease?***

a. Skin rash

b. Difficulty walking

c. Difficulty finding the right words

***5. When or how can Alzheimer's disease be diagnosed with certainty?***

a. Through blood tests

b. Only after death

c. Through an MRI

***6. True or False: Some medications can be used to treat symptoms of Alzheimer's disease.***

a. True

b. False

***7. What is the approximate lifetime cost of care for an individual with dementia in 2018?***

a. $145,000

b. $879,000

c. $342,000

***8. According to latest figures, approximately how many Americans provide unpaid care for people with Alzheimer's disease?***

a. 1 million

b. 16 million

c. 5 million

***9. Which statement is true about communicating with someone who has dementia or Alzheimer's disease?***

a. Avoid eye contact

b. Interrupt the person and try to finish his or her sentences

c. Offer simple instructions and allow ample time for a response

***10. Examples of advance directives for health care include each of the following except?***

a. A living will

b. A durable power of attorney for health care

c. A deed

## Plan now

Planning for long-term care and the possibility of dementia or Alzheimer's disease is important for you and your loved ones. What type of health care would you want if you weren't able to communicate your choices? Plan ahead to make sure you get the medical care you want.

[1] U.S. Dept. of Health and Human Services

[2] National Institute on Aging

## Quiz answers

1. b (Alzheimer's Association)
2. c (National Institute on Aging)
3. a (National Institute on Aging)
4. c (National Institute on Aging)
5. b (National Institute on Aging)
6. a (Alzheimer's Association)
7. c (Alzheimer's Association)
8. b (Alzheimer's Association)
9. c (National Institute on Aging)
10. c (National Institute on Aging)

HUMPHREY WEALTH MANAGEMENT

# Reviewing Your Estate Plan

***An estate plan should be reviewed periodically, especially after a major life event. Here are some ideas about when to review your estate plan and some things to review when you do.***

An estate plan is a map that explains how you want your personal and financial affairs to be handled in the event of your incapacity or death. Due to its importance and because circumstances change over time, you should periodically review your estate plan and update it as needed.

## When should you review your estate plan?

Reviewing your estate plan will alert you to any changes that need to be addressed. For example, you may need to make changes to your plan to ensure it meets all of your goals, or when an executor, trustee, or guardian can no longer serve in that capacity. Although there's no hard-and-fast rule about when you should review your estate plan, you'll probably want to do a quick review each year, because changes in the economy and in the tax code often occur on a yearly basis. Every five years, do a more thorough review.

You should also review your estate plan immediately after a major life event or change in your circumstances. Events that should trigger a review include:

- There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren.
- There has been an addition to your family through birth, adoption, or marriage (stepchildren).
- Your spouse or a family member has died, has become ill, or is incapacitated.
- Your spouse, your parents, or another family member has become dependent on you.
- There has been a substantial change in the value of your assets or in your plans for their use.
- You have received a sizable inheritance or gift.
- Your income level or requirements have changed.
- You are retiring.
- You have made (or are considering making) a change to any part of your estate plan.

## Some things to review

Here are some things to consider while doing a periodic review of your estate plan:

- Who are your family members and friends? What is your relationship with them? What are their circumstances in life? Do any have special needs?
- Do you have a valid will? Does it reflect your current goals and objectives about who receives what after you die? Is your choice of an executor or a guardian for your minor children still appropriate?
- In the event you become incapacitated, do you have a living will, durable power of attorney for health care, or Do Not Resuscitate order to manage medical decisions?
- In the event you become incapacitated, do you have a living trust or durable power of attorney to manage your property?
- What property do you own and how is it titled (e.g., outright or jointly with right of survivorship)? Property owned jointly with right of survivorship passes automatically to the surviving owner(s) at your death.
- Have you reviewed your beneficiary designations for your retirement plans and life insurance policies? These types of property pass automatically to the designated beneficiaries at your death.
- Do you have any trusts, living or testamentary? Property held in trust passes to beneficiaries according to the terms of the trust. There are up-front costs and often ongoing expenses associated with the creation and maintenance of trusts.
- Do you plan to make any lifetime gifts to family members or friends?
- Do you have any plans for charitable gifts or bequests?
- If you own or co-own a business, have provisions been made to transfer your business interest? Is there a buy-sell agreement with adequate funding? Would lifetime gifts be appropriate?
- Do you own sufficient life insurance to meet your needs at death? Have those needs been evaluated?
- Have you considered the impact of gift, estate, generation-skipping, and income taxes, both federal and state?

This is just a brief overview of some ideas for a periodic review of your estate plan. Each person's situation is unique. An estate planning attorney may be able to assist you with this process.

HUMPHREY
WEALTH MANAGEMENT

**Stephen Humphrey**
shumphrey@lincolninvestment.com



## What is a college income-share agreement?

A college income-share agreement, or ISA, is a contract between a student and a college where a student receives education funding from the college today in exchange for agreeing to pay a percentage of future earnings to the college for a specified period of time after graduation. The idea behind ISAs is to minimize the need for private student loans, to give colleges a stake in their students' outcomes, and to give students the flexibility to pursue careers in lower-paying fields.

Purdue University was the first college to introduce such a program in 2016. Under Purdue's ISA program, students who exhaust federal loans can fund their education by paying back a share of their future income, typically between 3% to 4% for up to 10 years after graduation, with repayment capped at 2.5 times the initial funding amount.[1]

A handful of other colleges also offer ISAs; terms and eligibility requirements vary among schools.

ISAs are considered friendlier than private student loans because they don't charge interest, and monthly payments are based on a student's income. Typically, ISAs have a minimum income threshold, which means that no payment is due if a student's income falls below a certain salary level, and a payment cap, which is the maximum amount a student must pay back relative to the initial funding amount. For example, a payment cap of 1.5 means that a student will pay back only 1.5 times the initial funding amount. Even with a payment cap, a student's payment obligation ends after the stated fixed period of time, regardless of whether he or she has fully paid back the initial loan.

[1] *U.S. News & World Report,* September 26, 2018


## How much money should a family borrow for college?

There is no magic formula to determine how much you or your child should borrow for college. But there is such a thing as borrowing too much. How much is too much? One guideline is for students to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and/or job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned in the housing crisis by taking out larger mortgages than they could afford, families can get burned by borrowing amounts for college that seemed reasonable at the time but now, in hindsight, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years (possibly longer). A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car expenses come into play? What if a borrower steps out of the workforce for an extended period of time to care for children and isn't earning an income? There are many variables, and every student's situation is different. A loan deferment is available in certain situations, but postponing loan payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently $27,000 for four years of college. Over a 10-year term with a 5.05% interest rate (the current 2018-2019 rate on federal Direct Loans), this equals a monthly payment of $287. If a student borrows more by adding in co-signed private loans, the monthly payment will jump, for example, to $425 for $40,000 in loans (at the same interest rate) and to $638 for $60,000 in loans. Before borrowing any amount, students should know *exactly* what their monthly payment will be. And remember: Only federal student loans offer income-based repayment (IBR) options.

As for parents, there is no one-size-fits-all rule on how much to borrow. Many factors come into play, including the number of children in the family, total household income and assets, and current and projected retirement savings. The overall goal, though, is to borrow as little as possible.

HUMPHREY WEALTH MANAGEMENT