THE NORTHWEST QUADRANT

Event-Driven Funds – A new alternative asset class

Larry Solomon, MBA, CFP®
Director of Investments and Financial Planning

There are two alternative investment categories that have been receiving a lot of attention recently, **Event-Driven** and **Factor-Based** strategies. We thought it would be helpful to provide background on each of these, and plan to cover **Event-Driven** strategies this quarter, and **Factor-Based** investments in next quarter's column.

Event-Driven investing focuses on capturing the value gap created when companies undergo transformative events or "catalysts." The premise is to make an investment in a company that has announced or expects to undergo a material change, such as a merger, acquisition, restructuring or spinoff. These investments tend to move less with day-to-day market fluctuations and more with the outcome of each event.

To illustrate, consider what happens during a potential acquisition. When a company signals its intent to buy another company, the stock price of the company to be acquired typically rises. However, it usually remains somewhere below the acquisition price — a discount that reflects the market's uncertainty about whether the acquisition will truly occur.

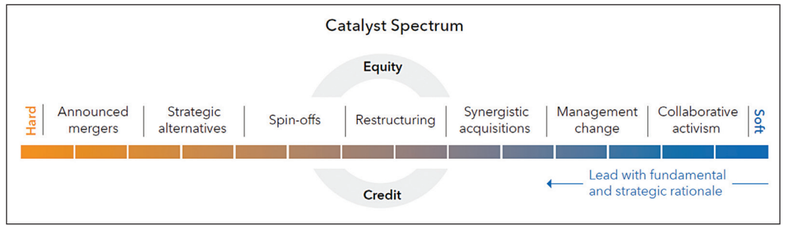
That's where **Event-Driven** investors come in. They analyze the potential acquisition-looking at the reason for purchase, the terms, and any legal issues-and determine the likelihood of it actually occurring. If it seems likely to close, the **Event-Driven** investor will purchase the stock of the company to be acquired, and sell it after the acquisition, when its price has risen to the acquisition price (or greater).

Some **Event-Driven** funds can only own stocks, but others are more flexible, and buy or bet against stocks or bonds, buying shares of companies that are expected to benefit from the corporate event, and shorting (betting against) those expected to decline. If they are successful, the result is an "all-weather" strategy with consistent returns in rising and falling markets.

The events these funds invest around, called catalysts, range from "hard catalysts" like mergers to "soft catalysts" like management changes (see chart below from Blackrock).

We used to think of **Event-Driven** as a hedge fund strategy, but these days, like almost every alternative investment, there are many available as mutual funds with strong track records, reasonable expenses, and daily liquidity.

In today's environment of high stock prices, slow growth and surplus corporate cash from the tax cuts looking for somewhere to go, merger and acquisition activity is ramping up. **Event-Driven** funds may be in a good position to leverage those opportunities. ■



Financial Trends.
Professional Opinions.
Economic Horizon.
Opti-4 e-News Takes You There

If you like to stay on top of financial trends and learn what the professionals are saying about economic and financial issues, please be sure to go to our website and follow us on our new social media pages, going forward. All you need to do is hit the image icons on the top right corner of our websites (www.optifour.com / www.cohenandburnett.com). Once subscribed, you will be able to follow us on Twitter, Facebook and LinkedIn to get daily and/or weekly updates, blogs and news from us.

The Compass Rose newsletter is published quarterly by:
COHEN & BURNETT, P.C.
OPTIFOUR INTEGRATED WEALTH MANAGEMENT, L.L.C.
7601 Lewinsville Road, Suite 205 | McLean, VA 22102
Tel: (703) 847-8900 | Fax: (703) 847-8902
www.cohenandburnett.com | www.optifour.com
www.lessonstomychildren.com

A compass rose is a figure displaying the orientation of the cardinal directions, north, south, east and west on a map or nautical chart. We found it fitting to name our newsletter after this recognizable symbol of navigation and direction. If you prefer not to receive our quarterly newsletter or if you have any feedback or ideas for topics, please email Wes Burnett: wes@optifour.com.

THE COMPASS ROSE

COHEN & BURNETT, P.C. OPTIFOUR INTEGRATED WEALTH MANAGEMENT, LLC

Summer 2018 Volume 38 ESTATE AND FINANCIAL PLANNING UPDATE

FOUNDING PARTNER

I. Mark Cohen, J.D., LL.M., CFP®

I am writing this article in the middle of a week of warm, heavy rains here in Virginia. The kids and granddaughter are all doing well. No changes from the last quarter to report, except that Dana is now working here as our First Impression Specialist.

Most years, Leigh leads a "Volunteer Vacation" through the American Hiking Society where a team of about 12 volunteers spends a week working with the US Park Service clearing and fixing hiking trails. This year was no exception – except that I joined her team as a volunteer. So, in mid-July we were at North Manitou Island, which is part of Sleeping Bear Dunes National Lake Shore, on the north-east coast of Lake Michigan. The island is reachable only by a one-hour-plus ferry ride and is a designated wilderness area. That means all you have on the island is what you bring with you. We spent the week sleeping in tents and preparing our own food. There were no power tools allowed. There was also no cell service or internet. We were completely "off the grid." Each day we were assigned a few miles of trails to "brush" and repair. We set out with our day packs, Lopers, Hand Saws, McClouds, and Pulaski's, walked to the start of our assigned trail and worked until it was time to walk back. We were exhausted by the end of the day and ready to sit and watch the sun set over the water.

The color and clarity of the water at North Manitou island makes you think you are at a Caribbean island instead of north of Latitude 45. And, after a hot and sweaty day clearing trails, nothing refreshes you like jumping in the water. If you are in the area and enjoy being in the wilderness, I highly recommend a visit to this island and its nicely maintained trails. ■

Introducing Dana Plourde

By Dana Plourde

Dana Plourde joined the firm in May 2018, as its new First Impression Specialist. She graduated with honors from Lynchburg College in 2009, with a bachelor's degree in Biology. She moved to the metro DC area that summer and had been working as a dual veterinary assistant and receptionist at Seneca Hill Animal Hospital in Great Falls, for the last 8.5 years, before coming to Cohen & Burnett and OptiFour.

Dana enjoys spending time with her family, which consists of her husband, Joe; 20-month-old daughter, Hayleigh; and 3 pets (1 dog and 2 cats). Her mother and stepfather also live nearby, which makes family get togethers that much better. Dana enjoys spending time outside hiking and bicycle riding, but also enjoys being inside, watching a good movie or reading a great book.

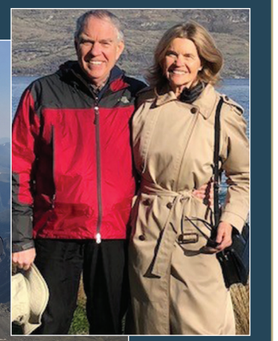
Dana is thrilled to be part of the team and looks forward to developing relationships with many of you in the future. ■

MANAGING PARTNER

Weston D. Burnett, J.D., LL.M., CFP®

We are planning several workshops for the fall which we hope to announce soon. One will be on the 2018 tax code changes, another on health issues and the final one on protecting yourself from cyber theft and identity theft.

In late June, Barb and I flew to Australia and New Zealand. The weather was crisp, sunny, and cold. We snorkeled on the Great Barrier Reef, visited Ayers Rock and the aboriginal culture in the center in the country, watched penguins come ashore at night south of Melbourne, and numerous other special experiences. The second part of the trip we spent in New Zealand, and that was the prettiest country of the 91 we have ever traveled to. The picture below shows us in winter attire down under with snowcapped mountains in the background looking past the lake for Queenstown, New Zealand. A lot of the movie series "Lord of the Rings" was shot on location there as the country is so pristine. Later, we saw geothermal lakes and their version of Old Faithful blow at 10 am in Rotorua and the glowworm caves of Waimo. After our return, we spent a long weekend in Colorado where I hiked two more 14,000 footers, Mt Evans and Mt Grays (see picture). I had planned to do a third one, Mt Torrey, but the weather turned nasty and I turned downhill just ahead of the hail and sleet. If you want to hear an amusing story ask me about the "wild" goat patrol I encountered. I hope to do more 14ers next summer.



On the personal side, before we left for Sydney, we welcomed the newest grandchild, Mahira Isobel Pradhan Burnett, to the family on June 23, 2018. The parents Edward and Alka, are happy and sleep deprived. All is well. ■

529 Plan Transfers

Rasheda Nipu, J.D.

Though tax season has come to a close (for most), we cannot forget the ways in which the relatively recently enacted Tax Cuts and Jobs Act of 2017 will affect the upcoming season. One way in which taxpayers are choosing to take advantage of the new tax provisions is through the benefits provided by the expansion of 529 savings plans.

Traditionally, 529 college savings plans are tax-deferred investment accounts, distributions from which can be treated as tax free withdrawals so long as the funds are used for "qualified expenses." Qualified expenses include certain expenses incurred while enrolled in eligible postsecondary schools including (but not limited to) tuition, fees, books, supplies and equipment. As an education savings investment strategy, many taxpayers have taken advantage of this vehicle as a tool to ensure that higher education is not financially out of reach for their descendants.

These qualified expenses now include expenses incurred at eligible elementary and/or secondary schools. Specifically, these qualified expenses can include up to $10,000 of elementary and high school expenses per year per child, meaning taxpayers can reap the benefits of investing in these accounts as early as their beneficiaries' enrollment in elementary school. This is particularly appealing to taxpayers who plan to send their children to private elementary or high school, and / or whose beneficiaries will not be entering school for a number of years.

Additionally, the new law allows taxpayers to roll over up to the annual gift tax exemption amount ($15,000 for 2018) from an existing 529 account into a 529 ABLE account for the same beneficiary. This is beneficial for parents of children with disabilities who had previously opened traditional 529 plan accounts for those children. Rather than needing to take taxable nonqualified withdrawals from the existing 529 account or having to make new contributions to a 529 ABLE account, the rollover allows for a transitioning of the traditional 529 account into a 529 ABLE account (which would offer more benefits for a beneficiary incurring certain qualified disability expenses).

Consequently, these new features have meant dramatic changes to taxpayers' current tax plans and spending behavior in 2018. ■

Choosing Your Trustee

Jeremy Laughton, J.D.

When creating an estate plan, one of the most important decisions is deciding who should serve as your trustees. Frequently, people will choose to be the trustees of their own trusts, however, it is always important to name backups to serve after the original trustees are unable to continue.

When deciding, it is important to keep in mind the responsibilities that the trustee will have. First, the trustee must read and implement the terms of the trust agreement. The terms of the trust contain your instructions to your trustee, and you should select someone who can understand and follow them. Second, the trustee is responsible for caring for the assets of the trust and you should select someone with the expertise and diligence to do so. For physical property, such as a house, the trustee must perform maintenance and care for the property. For other assets, such as money and investments, the trustee must balance the need to protect the assets against the duty to make them productive. Third, your trustee will need to be organized. He or she will need to be able to keep records showing how all the trust assets have been used and will be responsible for filing the trust's tax returns. Lastly, your trustee must be loyal to the interests of all the beneficiaries. Even if your trustee is themselves a beneficiary, they must be fair and impartial towards all the beneficiaries.

Many people choose to use a willing friend or family member as their trustee. Arguably the greatest advantage of choosing a friend or family member is that they will generally charge less than a professional trustee. On the other hand, a professional or corporate trustee will generally have a much greater degree of expertise and sophistication. A professional might also be more impartial to the beneficiaries than a family member. For trusts that are not highly complicated, a non-professional trustee will be able to make up much of the difference in sophistication by consulting attorneys and financial advisors where necessary.

The choice of trustee often makes the decisive difference in whether a trust can successfully achieve its creator's goals. Because the choice is so important, we are always happy to discuss it with people who are either establishing a trust or are having second thoughts about the trustees on their existing trust. ■

Stay Alert and Safe While Online

Ryan R. Berges

Most (but not all) of us make use of online banking, financial applications and transactions on a regular basis. What are some simple steps we can take to remain safe and aware when using online financial resources?

DON'T USE A PUBLIC Wi-Fi NETWORK. Though public Wi-Fi networks are easily accessible, you can't trust their security. These Wi-Fi networks are often not encrypted making it easier for hackers to steal information from unsuspecting users. To mitigate this weakness, never log in to your bank over a public network. Save any financial transactions for browsing at home, when you can use your private network. Or use the cellular-data connection provided by your smartphone or your own mobile hotspot.

USE ONLY SITES WITH "HTTPS://" IN THE ADDRESS. Encrypted sites, which convert data into unreadable gibberish before sending it, keep your private information safe online. Your bank's website should already be encrypted, although you can double-check by looking for a padlock symbol in your web address bar and the letters "https" at the beginning of the web address.

ENABLE TWO-FACTOR AUTHENTICATION WHERE AVAILABLE. Many financial firms offer an extra layer of security known as two-factor authentication (2FA) to protect account holders. Two-factor authentication prompts you to enter an extra verification credential before you can access your account. Anytime someone tries to log in to your account, the bank will send you a text or email with a unique code that must be entered into the bank's website along with your username and password. We bristle at extra steps to login, but this one is worth it.

DISABLE AUTOMATIC LOGIN. Do not allow your web browser to store private username and password information for your online banking websites. Some web browsers automatically store login credentials, so if that's the case for your browser of choice, disable this feature for your bank's website.

Many times we are our own worst enemy when it comes to online security, but these simple steps will help keep you safe and aware online! ■