

PASSING ON YOUR FAMILY'S WEALTH – PART I

Many Keystone clients are living off of dividends (not touching principal). Let's say you would like your children and grandchildren to continue living only on the dividends for the next 70 years. What would that look like? Over the next several months, we will consider this question.

What Has Happened in the Past 70 Years?

On the last 2 pages is a list of important global events that have happened each year since 1952 (70 years ago). It has been quite a 70 years, hasn't it? Sometimes when we are tempted to think "things are different this time," we only have to look back at history to see that something similar has likely already happened.

How About an Investment Made 70 Years Ago?

Assume we have \$2 million and would like our children and grandchildren to live off the dividends but not principal. What would that have looked like over the past 70 years?

First we need to consider inflation.

Consumer Price Index (CPI) in December 1952 = 26.70

Consumer Price Index (CPI) in December 2022 = 296.797

(You read that correctly.)

The cost of living is now over 11 TIMES what it was in 1952.

Value Today = \$2 million

Inflation adjusted 1952 = \$179,921

So \$2 million today is equivalent to \$179,921 in 1952.

Let's assume we invested \$179,921 in the S&P 500® on 12/31/1952. What would it be worth today?

	<u>1952</u>	<u>2022</u>	<u>Yearly Increase</u>
Dividends	\$ 9,548	\$453,154	5.67%
Principal *	\$179,921	\$26 million	7.36%
Inflation Index	26.70	296.797	3.50%

* Assumes dividends were spent

Note the following:

- Each year you would now be collecting more than 2 times your initial investment (\$453,154 vs. \$179,921 invested).
- Over time, we would expect principal to increase approximately at the rate dividends have increased. Over this particular 70-year period, principal rose slightly faster than dividends (7.36% vs. 5.67% per year).
- Dividends increased over 2% per year more than inflation (5.67% v. 3.50%)
- Note the wonders of compounding. An investment of \$179,921 in 1952 would have grown to approximately \$26 million compounded at only 7.36% per year.

Next Month Preview...

We will continue this discussion with a projection of what \$2 million invested for the NEXT 70 years might look like for your family.

The World's Most Important Event Every Year Since 1952

YEAR	EVENT	DESCRIPTION
1952	First Hydrogen Bomb Test	U.S. detonated 67 tests in Marshall Islands
1953	The Dawn of DNA	Double helix
1954	Brown vs. Board of Education	Segregated schools unconstitutional
1955	Parks Starts a Movement	Rosa Parks; Montgomery, AL
1956	Hungary Suppressed	Russia invades
1957	The Little Rock Nine	Federal troops Central High
1958	U.S. Launches First Satellite	Explorer I three months after Sputnik
1959	Castro Takes Over Cuba	
1960	Lunch Counter Sit-in	Greensboro, NC; 6-month protest
1961	Berlin Wall Built	
1962	Cuban Missile Crisis	
1963	JFK Assassinated	Oswald in Dallas, TX
1964	LBJ's "War on Poverty"	Start of Medicare
1965	Civil Rights Turns Violent	Edmond Pettis Bridge in Selma, AL
1966	Mao Purges Rivals	Cultural Revolution
1967	Six-Day War	Israel takes Gaza, West Bank and Golan Heights
1968	King Assassinated	James Earl Ray in Memphis, TN
1969	Landing on the Moon	Armstrong, Aldrin and Collins
1970	War in Asia Widens	U.S. invades Cambodia
1971	Pentagon Papers	Published by NY Times
1972	Nixon Goes to China	
1973	Roe v. Wade	
1974	Nixon Resigns Out	Watergate
1975	Saigon Falls	U.S. dead from war - 58,202
1976	The Concorde Changes Air Travel	First time faster than speed of sound
1977	Rise of the PC	Apple II and Radio Shack TRS-80
1978	Cult's Mass Suicide	Jim Jones; More than 900 die
1979	Islamic Republic Born in Iran	Ayatollah Khomeini
1980	Reagan Elected	Was oldest President at age 69
1981	AIDS Impacts America	Estimated 35 million have died worldwide
1982	Mexico Triggers Regional Debt Crisis	
1983	The Internet is Born	
1984	Chemicals Kill Thousands in India	Bhopal
1985	Reagan, Gorbachev Meet	Geneva
1986	Shuttle Tragedy	Challenger and Christa McAuliffe
1987	Stock Market Tanks	Dow falls 22% in one day

1988	When the U.S. Armed Iran	Oliver North
1989	The Berlin Wall Falls	
1990	Democracy in Poland	Lech Walesa
1991	America Goes to War in Middle East	Operation Desert Storm
1992	Cold War Ends	George H. W. Bush and Yeltsin
1993	The EU Becomes Reality	
1994	Amazon.com is Born	
1995	Domestic Terror Strikes Oklahoma	Timothy McVeigh and Terry Nichols
1996	The Dawn of Cloning	Dolly the Sheep
1997	Machine Tops Chess Champ	Deep Blue defeats Kasparov
1998	The Age of Google Begins	
1999	NATO's First Independent Strike	Kosovo
2000	International Space Station Opens	
2001	9/11	Nearly 3000 killed
2002	Homeland Security	
2003	U.S. Crushes Iraq	Shock and Awe
2004	Facebook Founded	By 23-year-old student
2005	Katrina Overwhelms New Orleans	
2006	Hussein Executed	3 years after pulled from hole
2007	The iPhone	2.3 billion sold
2008	Dow Plunges	Subprime mortgage crisis
2009	America's First African American President	
2010	Catastrophic Oil Spill	Gulf of Mexico; 3 million barrels of crude
2011	Bin Laden Killed	
2012	The "God Particle" is (Probably) Discovered	Higgs Boson
2013	Snowden Reveals Secrets	Now resides in Russia
2014	Russian Bear Bites Ukraine	Crimea
2015	NASA Flies by Pluto	New Horizons spacecraft
2016	Trump Elected	
2017	Hurricane Triple Whammy	Harvey, Irma, Maria
2018	Wildfires	California; 18,500 homes destroyed
2019	Hong Kong Protests	
2020	COVID-19	

Source: USA Today

PASSING ON YOUR FAMILY'S WEALTH – PART II

Review from Last Month...

In our previous post, “Passing on Your Family’s Wealth – Part I,” we reviewed what would have happened if you had invested \$179,921 (\$2 million in today’s dollars) in the S&P 500®.

	<u>1952</u>	<u>2022</u>	<u>Yearly Increase</u>
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We also reviewed the major world events every year over the past 70 years. There were many good events, but also many bad ones. The list of these happenings is up on our website—keystonefin.com—if you have not seen it.

Planning for the Next 70 Years...

Let’s imagine you have \$2 million in investments today. You would like your children to live off the dividends. At their death, you would like the money to pass to your grandchildren and for *them* to live off the dividends.

	<u>2022</u>	<u>2092</u>	<u>Yearly Increase</u>
Dividends	\$ 34,859	\$ 1,654,429	5.67% ①
Principal	\$ 2 million	\$ 95 million	5.67% ②
Living Expenses	\$ 100,000	\$ 1,111,599	3.50% ①

① Assumes same yearly increase as in the past 70 years.

② Assumes principal grows at same rate as dividends.

Note the following:

- These are projections based on what has happened over the past 70 years. Of course, there is no guarantee that the next 70 years will look like the past.
- Let's start with living expenses. A \$100,000 lifestyle will require \$1.1 million per year in 70 years at 3.5% inflation. You can see why the Federal Reserve is concerned about high inflation.
- A \$2 million investment in the S&P 500® would not provide enough dividends to cover a \$100,000 lifestyle today. But since dividends are assumed to be growing faster than inflation (5.67% vs. 3.50%), eventually they would. In 70 years, they would be well in excess (\$1.7 million yearly dividends vs. \$1.1 million living expenses).

How Can I Implement a Plan Like This?

To ensure your children and grandchildren (and future generations) follow a plan such as this, you may want to consider a trust.

Using a trust at your death will allow you to implement a “living off the dividends” plan for your extended family.

If you have questions about this “living off the dividends” plan, feel free to contact Brigitte at our office.