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Planning Your Financial Future

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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

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Five Things to Know Before Becoming a Landlord

Increased cash flow, property appreciation, and tax benefits are three major reasons why people want to own rental properties. But being a landlord takes time and money, so before you purchase an investment property or rent out your own home, make sure you understand what's involved.

1. Basic Duties of a Landlord

Your rental property is a business, and being a landlord comes with a great deal of financial and legal responsibility. Some of the major duties of a landlord include:

Finding responsible tenants. This includes advertising and showing your property, and screening applicants.

Preparing and executing a lease. The lease, or rental agreement, must conform to legal requirements, and include information such as the lease period, rent amount, and tenant names, and must specify lease terms and conditions.

Maintaining the property. Your property must be safe and fit to live in, and must comply with all health and building codes. You may need to be available at all hours to respond to urgent tenant issues.

Collecting rent. There may be periods when the property is vacant or your tenant hasn't paid the rent on time, so make sure you're prepared for the financial ramifications.

2. Rental Laws

Each state has its own laws designed to protect the interests of both landlords and tenants. These laws cover many areas, including security deposits, how and when you can access the property, and what rights each party has. Local laws may also apply. You'll also need to adhere to federal laws governing housing and discrimination. One of these laws is the Fair Housing Act that prohibits discrimination due to race, color, national origin, religion, sex, familial status, and disability. Another is the Fair Credit Reporting Act. You must comply with this Act if you run consumer reports such as background checks or credit reports when screening potential tenants or making decisions about current tenants.

3. Insurance Requirements

Contact your insurance company to find out what type of insurance you need to cover your rental property. You may need a landlord or rental dwelling policy that covers damage to the home's structure, and that provides liability coverage to protect against legal fees and medical costs in the event your tenant or someone else is hurt on the property.

4. Keeping Records

Keeping good records is essential. Having accurate maintenance and repair records will substantiate that you've fully addressed property issues in the event of a dispute with a tenant. Other important documentation includes legally required records such as move-in/move-out inspections and security deposit receipts, and supporting documents for rental income and expenses that will be especially important at tax time.

5. How to Get Help

There's no doubt that being a landlord is a lot of work. Fortunately, professional help is available. Hiring a property management company may be a good option when you don't have the time or the expertise to manage your property directly, or when you live out of town. A property manager can handle all the details and legal requirements of renting out your property. Of course, this know-how comes at a cost, but it may be well worth it if you want to minimize the risks and maximize the rewards of being a landlord. You may also need the advice of an attorney and a tax professional who can help you navigate the complexities of owning rental property.

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Did You Know?

Nearly all employers surveyed contributed to their employees' plans through matching contributions, non-matching contributions, or a combination of both. And it appears that employers have become more generous over time, as the average company contribution rose from 3.5% in 2010 to 5.1% in 2017. Moreover, many employers impose a vesting schedule on their contributions through which plan participants earn the right to keep the company contributions over time. In 2017, less than 40% of companies allowed their employees to become immediately vested in the company contributions.

How Does Your Employer's Retirement Plan Compare?

Each year, the Plan Sponsor Council of America (PSCA) surveys employers to gauge trends in retirement plan features and participation. Results are used by employers and plan participants to benchmark their plans against overall averages. How does your plan compare to the most recent survey results, released at the end of 2018?[1]

Participation and Savings Rates

Plan participation (that is, the percentage of participants contributing to the plan) was on the rise, increasing from 77% in 2010 to 85% in 2017. Employees in the financial, insurance and real estate, manufacturing, and technology and telecommunications sectors were most likely to contribute (more than 85% of eligible employees), while those in the transportation, utility, and energy sectors (75.6%) and wholesale distribution and retail trade sectors (59.7%) were least likely. The average amount participants contributed to their plans rose from 6.2% of salary in 2010 to 7.1% in 2017. Participants in the health-care sector contributed the most (8.7%), while those in durable goods manufacturing contributed the least (6.3%).

Roth Option on the Rise

Roth contributions are growing in popularity among 401(k) plans. Unlike traditional pre-tax contributions that are deducted from a paycheck before income taxes are assessed, Roth contributions are made in after-tax dollars. The primary benefit is that "qualified" withdrawals from a Roth account are tax-free. A withdrawal is qualified if the account has been held for at least five years and it has been made after the participant reaches age 59½, dies, or becomes disabled. The percentage of plans allowing participants to make Roth contributions rose from 45.5% in 2010 to nearly 70% in 2017. Almost 20% of eligible employees made Roth contributions.

Investment Options

When it comes to your retirement plan, how many options would you prefer on your investment menu? Too few funds could limit the opportunity for an appropriate level of diversification, while too many funds might cause an overwhelming decision-making process. So what's the "right" number? According to an article in InvestmentNews, an appropriate number of investment options (typically mutual funds) is 15 to 20.[2] And according to the PSCA, employers seem to be following this guideline, as the average number of funds offered among survey respondents was 20.

The most common types of funds offered were indexed domestic equity funds (84.6% of plans), followed by actively managed domestic equity funds (83.6%), actively managed domestic bond funds (78.9%), and actively managed international/global equity funds (77.9%). Target-date funds — those that offer a diversified mix of different types of investments based on a participant's target retirement date — were offered in 70.6% of plans. Overall, the two most popular types of funds, based on percentage of assets invested, were target-date funds and actively managed domestic equity funds.[3]

[1] PSCA, 61st Annual Survey , [2] InvestmentNews, February 16, 2018, [3] The return and principal value of mutual funds fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost. A bond fund is a mutual fund that comprises mostly bonds and other debt instruments. The mix of bonds depends on each fund's focus and stated objectives. Bond funds are subject to the same inflation, interest rate, and credit risks as their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country; this may result in greater share price volatility. The target date is the approximate date when an investor plans to withdraw money. The mix of investments in the target-date fund becomes more conservative as the date grows closer. The further away the date, the greater the risks the fund usually takes. The principal value is not guaranteed at any time, including on or after the target date. There is no guarantee that a target-date fund will meet its stated objectives. It is important to note that no two target-date funds with the same target date are alike. Typically, they won't have the same asset allocation, investment holdings, turnover rate, or glide path.

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What Are Some of the Tips for Creating a Home Inventory?

Imagine having to remember and describe every item in your home, especially after you've been the victim of a fire, theft, or natural disaster. Rather than relying on your memory, you may want to prepare a home inventory — a detailed record of all your personal property. This record can help substantiate an insurance claim, support a police report when items are stolen, or prove a loss to the IRS. Here are some tips to get started.

Tour Your Property. A simple way to complete your inventory is to make a visual record of your belongings. Take a video of the contents of each room in your home and spaces where you have items stored, such as a basement, cellar, garage, or shed. Be sure to open cabinets, closets, and drawers, and pay special attention to valuable and hard-to-replace items. You can also use the tried-and-true, low-tech method of writing everything down in a notebook, or use a combined approach. Mobile inventory apps and software programs are available to guide you through the process.

Be Thorough. Your home inventory should provide as many details as possible. For example, include purchase dates, estimated values, and serial and model numbers. If possible, locate receipts to support the cost of big-ticket items and attach copies of appraisals for valuables such as antiques, collectibles, and jewelry.

Keep It Safe. In addition to keeping a copy of your inventory at your home where you can easily access it, store a copy elsewhere to protect it in the event that your home is damaged by a flood, fire, or other disaster. This might mean putting it in a safe deposit box, giving it to a trusted friend or family member for safekeeping, or storing it either on an external storage device that you can take with you or on a cloud-based service that provides easy and secure access.

Update It Periodically. When you obtain a valuable or important item, add it to your inventory as soon as possible. Review your home inventory at least once a year for accuracy. You can also share it annually with your insurance agent or representative to help determine whether your policy coverages and limits are still adequate.

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