



GUIDING CLIENTS
TO FINANCIAL SECURITY

Should I Loan Money to My Children?



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As financial advisors, we are asked by clients about whether or not it is a good idea to assist family members. As many of you know, we have our own bias as to the answer, but at the end of the day, each individual situation is unique and no one answer fits all. Here are some helpful ideas to consider as you ponder the situation for yourself.

When Your Child Asks for a Loan, Should You Say Yes?

You raised them, helped get them through school, and now your children are on their own. Or are they? Even adult children sometimes need financial help. But if your child asks you for a loan, don't pull out your checkbook until you've examined the financial and emotional costs. Start the process by considering a few key questions.

Why does your child need the money? Lenders ask applicants to clearly state the purpose for the loan, and you should too. Like any lender, you need to decide whether the loan purpose is reasonable. If your child is a chronic borrower, frequently overspends, or wants to use the money you're lending to pay past-due bills, watch out. You might be enabling poor financial decision making. On the other hand, if your child is usually responsible and needs the money for a purpose you support, you may feel better about agreeing to the loan.

Will your financial assistance help your child in the long run? It's natural to want to help your child, but you also want to avoid jeopardizing your child's independence. If you step in to help, will your child lean on you the next time, too? And no matter how well-intentioned you are, the flip side of protecting your child from financial struggles is that your child may never get to experience the satisfaction that comes with successfully navigating financial challenges.

Can you really afford it? Perhaps you can afford to lend money right now, but look ahead a bit. What will happen if you find yourself in unexpected financial circumstances before the loan is repaid? If you're loaning a significant sum and you're close to retirement, will you have the opportunity to make up the amount? If you decide to loan your child money, be sure it's an amount that you could afford to lose, and don't take money from your retirement account.

What if something goes wrong? One potential downside to loaning your child money is the family tension it may cause. When a financial institution loans money to someone, it's all business, and the repayment terms are clear-cut. When you loan money to a relative, it's personal, and if expectations aren't met, both your finances and your relationship with your child may be at risk.

For example, how will you feel if your child treats the debt casually? Even the most responsible child may occasionally forget to make a payment. Will you scrutinize your child's financial decisions and feel obligated to give advice? Will you be okay with forgiving the loan if your child is unable to pay it back? And how will other family members react? For example, what if your spouse disagrees with your decision? Will other children feel as though you're playing favorites?



If you decide to say yes

Think like a lender. Take your responsibility, and the borrower's, seriously. Putting loan terms in writing sounds too businesslike to some parents, but doing so can help set expectations. You can draft a loan contract that spells out the loan amount, the interest rate, and a repayment schedule. To avoid playing the role of parent-turned-debt-collector, consider asking your child to set up automatic monthly transfers from his or her financial account to yours.

Pay attention to some rules. Having loan documentation may also be necessary to meet IRS requirements. If you're lending your child a significant amount, prepare a promissory note that details the loan amount, repayment schedule, collateral, loan terms, and includes an interest rate that is at least equal to the applicable federal rate set by the IRS. Doing so may help ensure that the IRS doesn't deem the loan a gift and potentially subject you to gift and estate tax consequences. You or your child may need



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to meet certain requirements, too, if the loan proceeds will be used for a home down payment or a mortgage. The rules and consequences can be complex, so ask a legal or tax professional for information on your individual circumstances.

If you decide to say no

Consider offering other types of help. Your support matters to your child, even if it doesn't come in the form of a loan. For example, you might consider making a smaller, no-strings-attached gift to your child that doesn't have to be repaid, or offer to pay a bill or two for a short period of time.

Don't feel guilty. If you have serious reservations about making the loan, don't. Remember, your financial stability is just as important as your child's, and a healthy relationship is something that money can't buy.

First Quarter in Review:

"The future ain't what it used to be."

—The Great Yogi Berra



"I own some stocks, I read the paper and browse the internet every day. If I believed everything I read, according to the experts I will lose everything in the stock market, my grandchildren will not be able to buy bread and they will go hungry. This morning I also read *when*, not if, we have a major earthquake in Northern California, we will not have access to water in Southern California for many years to follow. If I believed everything I read about the future doom and gloom, it makes no sense to me to put my money in my mattress like they say. Why? Because they have never been right about predicting the future! So, I still own stocks, I still buy bread and I still have drinking water. I guess, "the future ain't what it used to be." (Source: Peter)

If we could only predict the future, how wealthy could we actually become? In working with our clients over the past 27 years, we know our clients do not come to us because they believe we have the proverbial crystal ball. In fact, we believe they come to us because we are honest in sharing that we don't. What we do have

and share with our clients is our belief in our "evidence based investment philosophy" that uses history and facts as our guide to expect both bad and good times in the future with the ultimate goal of providing for your financial future for the remainder of our lifetimes. In short, we help provide financial peace and happiness, because life is too short.

So far, 2015 has brought continued volatility in the equity (stock) markets with the US Indices currently lagging behind International Indices through the first quarter. For every positive day in the capital markets in 2015, we've had an equal number of negative days which has led to a sideways moving first quarter. Don't expect to see much gain coming from the quarterly statements in the next few days.

Although there are several predictions being forecasted for better returns ahead, there are an equal number of analysts proposing future declines. What we do know is somebody will be right. But we don't know who that will be. This should not concern us at all as the day-to-day movements of the markets are normal and efficient. Another solid truth is stocks "historically outperform bonds in the long run." (Jeremy Siegel) This does not mean one should own stocks exclusively. However, one should continue to shrug their shoulders about the day to day volatility in the markets knowing their investment approach is built upon a solid foundation focused on their long-term objectives knowing we will have ups and downs along the way.

As you meet with your advisor at KFM in the upcoming quarter, we will once again be reviewing your short-, mid- and long-term goals to make sure we have captured all of your recent goals and dreams. We look forward to seeing many of you at our upcoming Putting Contest in May. In the interim, please do not hesitate to contact us if you have any questions or if your financial situation has changed. We invite you to continue enjoying life to the fullest and look forward to talking to you soon! Remember, "The future ain't what it used to be."

Join us for fun & friendly competition and a BBQ Dinner at the Kemp Financial Putting Contest.
4:00 pm on Friday, May 15th
at Golfer's Paradise in Fullerton.
See you there!

