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## **DON'T BE YOUR OWN WORST ENEMY**

One of the most well-known investors of the 20th Century, Benjamin Graham, said that “the investor’s chief problem - and even his worst enemy - is likely to be himself”.<sup>1</sup>

What Graham understood, and modern research is catching up to, is the idea that we all have emotions and biases that affect our decision-making. The innate wiring built to survive pre-modern times can be counterproductive in our modern world, especially when it comes to investing.

Let's take a quick look at a few of the human emotions and biases that can adversely impact sound investment decision-making.

### **Fear and Greed**

These are the two most powerful emotions that move investors and investment markets. Each emotion clouds our capability for rational and dispassionate decision-making. They are the emotions that lead us to believe that prices may continue to rise (*think the Tulip price bubble of 1636*) or that everything has gone so wrong that prices may not recover (*think Credit Crisis of 2008-2009*).

Some investors have found a way to conquer these emotions, be brave when everyone else is fearful and resist the temptations of a too-exuberant market.

### **Overconfidence**

Peter Bernstein, a noted economic historian, argued that the riskiest moment may be when we feel that we are right.<sup>2</sup> It is at that precise moment that we tend to disregard all information that may conflict with our beliefs, setting ourselves up for investment surprise.

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## WHAT TO LOOK FOR IN A LONG-TERM CARE POLICY

Long-term care coverage can be complex. Here's a list of questions to ask that may help you better understand the costs and benefits of these policies.

- **What types of facilities are covered?** Long-term care policies can cover nursing home care, home health care, respite care, hospice care, personal care in your home, assisted living facilities, adult daycare centers and other community facilities. Many policies cover some combinations of these. Ask what facilities are included when you're considering a policy.
- **What is the daily, weekly or monthly benefit amount?** Policies normally pay benefits by the day, week, or month. You may want to evaluate how (and how much) eldercare facilities in your area charge for their services before committing to a policy.
- **What is the maximum benefit amount?** Many policies limit the total benefit they'll pay over the life of the contract. Some state this limit in years, others in total dollar amount. Be sure to address this question.
- **What is the elimination period?** Long-term care policy benefits don't necessarily start when you enter a nursing home. Most policies have an elimination period - a timeframe during which the insured is wholly responsible for the cost of care. In many policies, elimination periods can range anywhere from zero to 100 days after nursing home entry or disability.<sup>1</sup>
- **Does the policy offer inflation protection?** Adding inflation protection to a policy may increase its cost, but it could be very important as the price of long-term care may increase significantly over time.
- **When are benefits triggered?** Insurers set some criteria for this. Commonly, long-term care policies pay out benefits when the insured person cannot perform 2 to 3 out of six activities of daily living (ADLs) without assistance. The six activities, cited by most insurance companies, include bathing, caring for incontinence, dressing,

eating, toileting and transferring. A medical evaluation of Alzheimer's disease or other forms of dementia may also make the insured eligible for benefits.<sup>1, 2</sup>

- **Is the policy tax qualified?** In such a case, the policyholder may be eligible for a federal or state tax break. Under federal law and some state laws, premiums paid on a tax-qualified long-term care policy are considered tax-deductible medical expenses once certain thresholds are met. The older you are, the more you may be able to deduct under federal law, you must itemize deductions to qualify for such a tax break.<sup>1, 3</sup>
- **How strong is the insurance company?** There are several firms that analyze the financial strength of insurance companies. Their ratings can give you some perspective.
- **What other policy options are available?** Some insurers offer long-term care coverage permitting waiver of premium, which allows payments on the policy to end once benefits are triggered. In many states, policies are required to have a third-party notice feature, which prompts the insurer to notify a designated relative of the insured or a trusted advisor when premiums have been missed, so that the situation may be addressed and payments may resume.<sup>2</sup>

There are many factors to consider when reviewing long-term care policies. The best policy for you may depend on a variety of factors, including your own unique circumstances and financial goals.

<sup>1</sup>. NerdWallet, May 2019.

<sup>2</sup>. AllAboutLongTermCare.com, June 21, 2019.

<sup>3</sup>. The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties.

# GREG'S CORNER

Happy New Year to all! When I was young my grandma would say how “time flies”. I thought that was silly at the time, but the older I get, the more I realize how she was right. It’s hard to believe it is 2020, hard to believe I have kids who are 20 and 18, and really hard to believe that in February it will be 28 years since I started working in this business. I guess time does fly!

The kids are both doing well. Cal finished the first semester of his sophomore year and is doing great academically. He is playing baseball and learning a lot of life lessons. I enjoy seeing him grow up, take more responsibility, and handle more things on his own.

Tyler finished all his college applications and got accepted to every place he applied. We are very proud of his great academic achievements. He is still thinking that he will go to St John’s, but he



**Cal and Tyler**

was accepted to the Carlson School of Management at the U. Now he wants to go visit the campus one more time before he decides. Tyler started captains practice for baseball and is playing “house” basketball with a group of friends.

Lisa and I are good. We both play in a cribbage league on Monday nights and I joined a golf (simulator) league on Tuesday nights.



**Making lefse**

We still get up to our cabin quite a bit in the winter to ice fish, snow-mobile and just hang out. It is a lot quieter in the winter which is nice for doing puzzles or reading a book. Over the Christmas break our family also made lefse, (Lisa and I are “officially” licensed by the King of Norway as lefse makers!) and played whirleyball. If you have not played whirleyball you should give it a try as it was a lot of fun.

We all had a relaxing and fun holiday and I hope you all did as well.



**Making cookies**

## ENEMY CONT....

### Selective Memory

Human nature is such that we tend to recast history in the manner that emphasizes our successes and downplays our failures. As a result, we may not benefit from the valuable lessons failure can teach. Indeed, failure may be your most valuable asset.

### Prediction Fallacy

Humans have an innate desire to recognize patterns and apply these patterns to predicting the future. We erroneously believe that because “A” occurred and “B” happened that if

“A” happens again, we can profit by anticipating the “B” will repeat. Market history is littered with examples of “rules of thumb” that have worked, until they no longer worked.

Financial markets are complex and unpredictable. Our endeavors to tap their opportunities to pursue our financial goals are best realized when we don't burden the enterprise by blindness to the inherent behavioral obstacles we all share.

<sup>1</sup> Quoteswise.com, 2017

<sup>2</sup> Strategy in Practice, George Tovstiga. 2013 John Wiley & Sons, Ltd.

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## Client Survey Results

Thank you to all of our clients who participated in our recent survey. We are happy with the results and really appreciate you taking the time to share your thoughts.

Overall about 90 surveys were returned for a 45% response rate. Surveys were mailed to a random selection of households, not all of you received a survey.

One of our primary goals is great service and we are excited to report that scores for service remain high. One area that we need to keep working on is "understanding your risk tolerance". We will continue to encourage you to complete the risk tolerance questionnaire every few years. It is important that you are comfortable with how your money is invested.

Survey results show you are happy with the frequency of communication with us, but know you can call or email us anytime with questions about your portfolio. Sometimes changes in your life will affect how your money should be invested.

Financial subjects that you are most interested in remain consistent in every survey: retirement, taxes, long-term care insurance, market updates etc. We try to include articles

of interest in our newsletter and you can always find recent market updates on our website and on Greg's LinkedIn page.

We were happy to see that the majority of respondents are very likely to refer friends, family or colleagues to us. We have a good team in place and would love to help more people like you. Anyone you refer to us will be treated with the highest level of integrity. Our success is based on the successes of our clients.

Our survey is conducted every 2 years but please share your feedback with us at any time. We are committed to maintaining long-lasting relationships and high standards of professionalism. Thank you for being such great clients.

