In This Issue...

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Horsetooth Financial Outlook

WINTER 2020

Ways to Save for Retirement

We all know we're supposed to save for retirement. But that's often easier said than done. There are many reasons for Americans' low savings rates, including stagnant wages and an increasing cost of living. Our own behavior plays a role as well. How can you save more in a time when every dollar seems to buy a little less? Consider the suggestions below:

Get a budget and reduce spending: If you're looking to save more, the first place to look is your current budget. Cutting spending where possible will free up more money to set aside for the future. While some of your expenses are fixed — most of us need to spend money on housing, food, and transportation, for instance — others are flexible. Spending a little less on dining out, canceling subscription services, or choosing a cheaper cell phone plan could free up $50 or $100 in your monthly budget to dedicate to retirement. That may not sound like a lot, but it's a good place to start.

Get your match: If you're lucky enough to work for a company that offers a 401(k) plan and matches employee contributions, make sure you take advantage of it. Not contributing enough to get your match is essentially turning down free money.

Max out your 401(k) plans: In 2019, most people are allowed to contribute up to $19,000 a year to their 401(k) plan. Not everyone can afford to save up to the max, but whatever your income, you should contribute as much to tax-advantaged retirement accounts as you're able.

Contribute to an IRA: If you can't contribute to a retirement plan at work or you want to save even more for retirement, consider setting up an IRA. Assuming you meet

Continued on page 2

Managing Bond Risks

All investments are subject to risk, although the types of risk can vary. While you can't totally eliminate risks, you can minimize them. For bonds, consider these strategies:

Interest rate risk — Interest rates and bond prices move in opposite directions. A bond's price will increase when interest rates fall and decrease when interest rates rise. This occurs because the existing bond's price must change to provide the same return as an equivalent, newly issued bond paying prevailing interest rates. The longer the bond's maturity, the greater the impact of interest rate changes. Also, the effects of interest rate changes tend to be less significant for bonds with higher-coupon interest rates.

To reduce this risk, consider holding the bond to maturity. This eliminates the impact of interest rate changes, since the total principal value will be paid at maturity. Thus, selecting a maturity date that coincides with your cash needs will help reduce interest rate risk. However, you may still receive an interest income stream that is lower than current rates. Selecting shorter maturities or using a bond ladder can also help with this risk.

Reinvestment risk — You typically know what interest income you will receive from a bond, but you must then take the periodic income and reinvest it, usually at varying interest rates. Your principal may also mature at a time when interest rates are low.

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Continued on page 3

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Ways to Save

Continued from page 1

certain requirements, you can save up to $6,000 a year in these accounts.

Contribute to a health savings account (HSA): For people who are really intent on maximizing their retirement savings, HSAs can be a good option. HSAs are primarily intended as a way for people who have high-deductible health plans to save for medical expenses. But any money you don't use for healthcare costs now can be used to pay for healthcare in retirement.

Make catch-up contributions: Once you reach age 50, you're eligible to make catch-up contributions to 401(k) plans and IRAs. You can contribute an additional $6,000 a year to your 401(k) plan and an extra $1,000 a year to your IRA. If you consistently make those contributions over the next 15 years (assuming you retire at 65), you'll have an additional $105,000 for retirement — and that's without taking in account any growth in your investments.

Save in taxable accounts: Most people focus on saving for retirement in various tax-advantaged accounts, like a 401(k) plan. But if you can't save for retirement that way, or you want to save even more, consider saving in more traditional ways. You can put money in a well-diversified investment account, bonds, or other savings vehicles. One advantage of putting some of your money in non-retirement accounts is that you won't have to worry about things like mandatory withdrawals when you reach age 70½.

Take enough risk: Saving as much as possible is key to having a healthy retirement portfolio. But squirreling away dollars alone isn't enough. To really make the most of your money, you need to invest it. That means investing more in stocks when you're younger and gradually dialing down risk as you get closer to retirement. Being smart about risk is essential to meeting your retirement savings goals.

Don't take early withdrawals: When times get tough, people often turn to the money they've set aside for retirement to close the gap. But if it's at all possible to avoid touching that cash, you should. Not only will you fall behind on your savings — creating a gap that is nearly impossible to make up — you'll also get hit with penalties. Unless you need that money for a true emergency, like you're facing the prospect of losing your home or a major health crisis, leave it alone. You'll be glad you did when the time comes to stop working.

Please call if you'd like to discuss saving for retirement in more detail. ❍❍❍

Avoid These 401(k) and IRA Mistakes

When it comes to saving for retirement, many people take a set-it-and-forget-it approach. But not paying attention to your 401(k) and IRA accounts could cause you to miss valuable savings opportunities. Avoid these seven mistakes:

- **Not contributing enough to get your full employer match.** If your employer matches your contributions to your 401(k) plan, you should try to stretch enough to at least meet their maximum match amount.
- **Neglecting to maximize your contributions.** While you may not be able save up to your 401(k) contribution limits (for most people, that's $19,000 in 2019 plus an additional $6,000 catch-up contribution for those over age 50), you should save as much as you are able. If there's any extra room in your budget or expenses, consider dedicating that money to retirement.
- **Playing it too safe by investing in an overly conservative way.** If you only choose safe investments like cash or CDs, you run the risk inflation outpacing the low returns and thus being worth less over time.
- **Not reviewing your investment allocation regularly.** Your asset allocations will inevitably need to change as you age, as the risk you're willing to tolerate in your twenties will likely not be the same as your fifties. This means you should review your portfolio at least annually.
- **Not taking advantage of catch-up contribution options.** Once you turn 50 years old, your maximum annual contributions go up another $6,000 for a 401(k) and another $1,000 for your IRA.
- **Forgetting about old retirement accounts.** If you've changed jobs, there is a chance that you left an old 401(k) plan with your former employer's plan provider. Of course, the money is still yours, but you should consider rolling it into an account you are actively managing now.
- **Taking too much of a do-it-yourself approach.** Managing your own retirement planning can be confusing if you do not have the knowledge and skills to make the best choices. Seeking the help or guidance of a finance professional can remove the doubt and emotion from your investment decisions and ensure you are on track for the retirement you are working toward. ❍❍❍

Bond Risks

Continued from page 1

period of time (laddering) can lessen reinvestment risk. Since the bonds in your ladder mature every year or so, you reinvest principal over a period of time instead of in one lump sum. You may also want to consider zero-coupon bonds, which sell at a deep discount from par value. The bond's interest rate is locked in at purchase, but no interest is paid until maturity. Thus, you don't have to deal with reinvestment risk for interest payments, since you don't receive the interest until your principal matures.

Inflation risk — Since bonds typically pay a fixed amount of interest and principal, the purchasing power of those payments decreases due to inflation, which is a major risk for intermediate- and long-term bonds.

Investing in short-term bonds reduces inflation's impact, since you are frequently reinvesting at prevailing interest rates. You can also consider inflation-indexed securities issued by the U.S. government, which pay a real rate of return above inflation.

Default and credit risk — Default risk is the possibility the issuer will not be able to pay the interest and/or principal. Credit risk is the risk the issuer's credit rating will be downgraded, which would probably decrease the bond's value.

To minimize this risk, consider purchasing U.S. government bonds or bonds with investment-grade ratings. Continue to monitor the credit ratings of any bonds purchased.

Call risk — Call provisions allow bond issuers to replace high-coupon bonds with lower-coupon bonds when interest rates decrease. Since call provisions are generally only exercised when interest rates decrease, you are forced to reinvest principal at lower interest rates.

U.S. government securities do not have call provisions, while most corporate and municipal bonds do. Review the call provisions before purchase to select those most favorable to you.

Keep in mind the assumption of risk is generally rewarded with higher return potential. One of the safest bond strategies is to only purchase three-month Treasury bills, but this typically results in the lowest return. To increase your return, decide which risks you are comfortable assuming and implement a corresponding bond strategy. Please call if you'd like help with bond investing. ❍❍❍

Principles of Stock Diversification

Diversification is a practice investors use to reduce risk and maximize returns by investing in various industries that will most likely react differently to the same event in the market.

When investing, there are two types of risk one faces:

- **Undiversifiable** — Also known as systematic or market risk, this is risk that all companies are exposed to and includes inflation, interest rates, exchange rates, political instability, etc.
- **Diversifiable** — Also known as unsystematic risk, this is risk that can be specific to a company, industry, market, or country. Diversification can help manage and reduce this risk.

A properly diversified equity portfolio should hold stocks from different industries, company sizes, valuations, growth rates, and countries to help reduce volatility and limit exposure to a permanent loss of capital.

The more uncorrelated the stocks in your portfolio are, the more you are limiting your risk exposure.

Let's say you have a portfolio of only automotive stocks and it appears there will be a strike. Most likely, all of the automotive stocks will experience some drop in their share prices, and in turn, you will see a noticeable drop in value.

However, if you have stocks in other industries that are performing well, you will be able to offset some of that loss and the mental anguish that goes along with it.

While there is always debate about how many stocks to own in a well-diversified portfolio, most experts agree that 15 to 20 stocks across different industries is optimal. This portfolio size is manageable, yet it allows you some room for losses.

The other extreme is overdiversification where investors hold too many stocks, which makes it almost impossible to know the companies well. Not being knowledgeable about your stock investments can lead to making irrational decisions, which will negatively impact your portfolio returns. The key is to strike an appropriate balance.

Another impact of overdiversification is that an investor can become indifferent regarding his/her investment decisions. If you're holding over 100 stocks, any individual stock might represent only a small percentage of the total portfolio. If the stock turns out to be a loser, it won't cost you very much; but if it provides great returns, you won't reap the benefits either.

Diversifying your stock portfolio will help you manage the risk of the price movements of your assets, but it can't completely eliminate risk and volatility. Please call if you'd like to discuss diversification in more detail. ❍❍❍

Financial Data

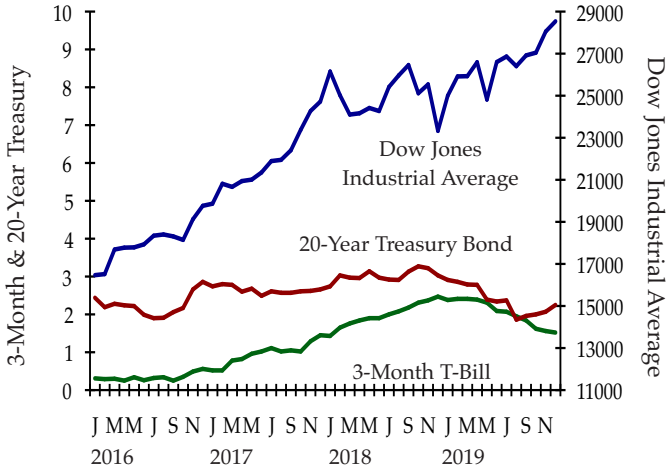
Indicator	Month-end Oct-19	Nov-19	Dec-19	Dec-18	Dec-17
Prime rate	4.75	4.75	4.75	5.50	4.50
Money market rate	0.71	0.57	0.58	0.56	0.33
3-month T-bill yield	1.62	1.56	1.52	2.47	1.45
20-year T-bond yield	2.00	2.07	2.25	3.03	2.66
Dow Jones Corp.	2.90	2.85	2.84	4.40	3.13
30-year fixed mortgage	3.33	3.28	3.31	4.16	3.51
GDP (adj. annual rate)#	+3.10	+2.00	+2.10	+2.20	+3.40

Indicator	Month-end Oct-19	Nov-19	Dec-19	% Change 2019	2018
Dow Jones Industrials	27046.23	28051.41	28538.44	22.3%	-5.6%
Standard & Poor's 500	3037.56	3140.98	3230.78	28.9%	-6.2%
Nasdaq Composite	8292.36	8665.47	8972.60	35.2%	-3.9%
Gold	1510.95	1460.15	1523.00	18.8%	-1.1%
Consumer price index@	256.76	257.35	257.21	2.1%	2.2%
Unemployment rate@	3.50	3.60	3.50	-5.4%	-9.8%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

January 2016 to December 2019



Past performance is not a guarantee of future results.

2020 – A Visionary Year

Having skipped my last newsletter, largely to see what the year-end had in store, I find myself acting nostalgic, and trying to come up with some pearls of wisdom that will be both relevant, and meaningful to my client relationship.

Clearly, the performance of the stock market and my client accounts reflect one of the top 3 years since I have been in the business (since 1984). The last equivalent period of U.S. stock market results goes back to the late 1990s, nearly 20 years ago.

What are the differences and similarities, and what should we be concerned about?

In 1999, the 30-year Treasury bond yielded over 6%; today, less than 2.5% (macrotrends.net/1-7-2020). This means that even if you weren't engaged with the stock market as an investment option, you could still get a reasonable rate of returns in bonds. Today that is not the case. Short-term yields on Treasury and corporate bonds are miniscule by historical standards, and today, the 30-year bond is no longer considered a "bellweather" of the bond rates, having been replaced with the 15-year Treasury.

Simply stated, bonds are not an effective allocation consideration for most investors today.

Stock market valuations have a similar disparity. In 1999, the forward PE (price to earnings) ratio of the S & P 500 was about 30; heading into 2020, it is about 19.06 (Yardeni Research/1-7-2020). The historical PE average of the S & P 500 is about 16. With the recent tax cuts, corporations continue to reflect higher earnings growth, low unemployment, and low inflation.

In 1999, the U.S. Debt rang in at 5.6 Trillion, and about a 58% Debt/GDP ratio (thebalance.com/Amadeo/12-31-19). In 2019, the national debt had risen to about 22.7 Trillion, and a disturbing 106% Debt/GDP ratio. For me, this is one of the most concerning changes that will potentially affect all areas of the U.S. economy in the future.

The valuation of the U.S. stock market is always a near-term issue, and in 2020, I will be encouraging clients to be using more defensive investment selections. Value stocks and turnaround companies will likely be better choices than the major index growth stocks. If the U.S. economy can continue to grow and reach GDP growth rates in the 3.5-4.00% range again over the next few years, we may be able offset the consumption of our federal budget by entitlements. If not, we will need to make significant changes to our entitlement spending very soon.

Currently, "entitlements," which include Social Security, Medicare, Medicaid, unemployment insurance, and Obamacare already absorb 70% of the federal budget (*Forbes*, Ezrati, 2-9-2018). That percentage is likely to increase at a faster rate as baby boomers latch on to their social security and interest payments on the public debt accelerate as interest rates rise. It is clear that future generations will be either receiving their social security in the future at later qualified ages, or will be receiving less, so planning for retirement will become more difficult for future Americans.

For me, these statistics show that government spends our money much less efficiently than we do in our personal lives. The true stewards of our American culture, in the future, will be facing a more competitive world landscape, and need to promote the independence of business and creative thought like never before.

To 2020, and beyond . . . and Happy New Year! ❍❍❍