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R E T I R E M E N T
INSIGHTS
SUMMER 2020

Avoid These Investor Mistakes

There are many potential investing mistakes. It is important to avoid these common mistakes when making investment portfolio decisions:

- ✔ **Chasing performance.** Investors often pull out of sectors that are not performing well, moving that money to high performing investments. But the market is cyclical, and often those high performers are poised to underperform, while the sectors just sold are ready to outperform. A classic example is technology stocks in early 2000. Many investors rushed to purchase technology stocks just as they reached their peak and were headed for a long slide down. Rather than trying to guess which sector is going to outperform, broadly diversify your portfolio across a range of investment sectors.
- ✔ **Looking for get-rich-quick investments.** When your expectations are too high, you have a tendency to chase after high-risk investments. Your goal should be to earn reasonable returns over the long term, investing in high-quality investments.
- ✔ **Avoiding the sale of an investment with a loss.** When selling a stock with a loss, an investor has to admit that he/she made a mistake, which is psychologically difficult to do. When evaluating your investments, objectively review the prospects of each one, making decisions to hold or sell on that basis rather than on whether the investment has a gain or loss.
- ✔ **Selecting investments that don't add diversification benefits to your portfolio.** Diversification helps reduce your portfolio's volatility, since various investments respond differently to economic events and market factors. Yet it's common for investors to keep adding investments that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor.
- ✔ **Not checking your portfolio's performance periodically.** While everyone likes to think their

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> "About 63% of consumers expect to conduct more of their financial business online within the next five years."
>
> Source: UMRA and Ernst & Young, 2019

Retirement Planning for Stay-at-Home Parents

Millions of Americans are stay-at-home parents. While they may not get paid a regular salary, they perform vital work caring for children and managing the household. Unfortunately, since this work doesn't come with a paycheck, it leaves those moms and dads in a tough spot when it comes to retirement.

A nonworking spouse is going to have a tougher time preparing for retirement. Obviously, no income means saving for the future is difficult. Plus, a person who doesn't work isn't paying into the Social Security system. Even if you're out of the workforce for just a few years while your kids are young, those nonworking years can cause you to fall behind in retirement savings. But staying home with the kids doesn't

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Retirement Planning for Stay-at-Home

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have to mean jeopardizing your financial future, provided you have a plan.

Don't Neglect Your 401(k) Plan

Many parents work outside the home for a time before they decide to stay home. If you had a 401(k) plan before you left the workforce, don't forget about those funds when you take time off. Depending on your plan's requirements and the investment options available, you may be able to keep your money where it is, or you might want to roll over your savings to an IRA. In either case, you'll want to keep an eye on your funds, making sure you have the proper asset allocation and that your investments are rebalanced as necessary.

Whatever you do, you don't want to cash out your savings unless it's truly a financial emergency. Doing so will put you even further behind.

Set Up a Spousal IRA

Usually, you must have earned income to contribute to an IRA. But the IRS has created a special exception to help nonworking spouses prepare for retirement. It's called a spousal IRA, and works just like a traditional IRA. The husband or wife who works can contribute $6,000 a year to an IRA on behalf of their spouse ($7,000 if you're over age 50). The money can go into either a traditional or Roth IRA, provided all the other requirements are met.

Essentially, using a spousal IRA allows you and your spouse to double your IRA savings. However, you do need to file a joint tax return to be eligible for a spousal IRA. One other benefit of a spousal IRA is that the assets are held in the nonworking spouse's name. That means if the couple divorces, the spouse who doesn't work has retirement assets that are already their own.

Set Up a SEP-IRA or Individual 401(k) Plan

You may be a stay-at-home mom or dad, but that doesn't necessarily mean you're not working in some fashion. Many people who don't have careers outside the home earn money through consulting, freelance work, or home-based businesses. If this applies to you, you might want to consider setting up a SEP-IRA or an individual 401(k) plan to help you save for retirement. Assuming you earn enough money, you'll be able to save more than you would in a spousal IRA.

Don't Stop Saving

Whatever you do, don't forget about retirement saving just because you're out of the workforce for a while. Set aside what you can for the future, even if it's just a few dollars a month. That can be hard to do when your income is limited, but it's still important. You can also encourage your spouse to maximize their own retirement savings so you are both on track for retirement.

Need more help getting your retirement plan on track even if you're not working? Please call to discuss this in more detail. ✔✔✔

When Adult Children Return Home

Once your child has graduated from college, don't assume that your financial responsibilities are over. Adult children return home to live for a variety of reasons — they can't find a job, they have too much debt to afford living alone, or they have divorced and need financial support. Use the situation to help reinforce basic financial concepts:

- ✔ **Set a time frame.** Don't let your child move in for an open-ended time period. Financial goals should be set and followed, so your child is working toward financial independence and living on his/her own.
- ✔ **Charge rent.** There are increased costs when your child returns home — additional food, phone bills, utilities, etc. Although you don't have to charge a market rental rate, you should charge something. If you're uncomfortable taking money from your child, put the rent money aside in a separate account and use it to help your child when he/she moves out. Also decide which chores your child is expected to perform.
- ✔ **Put your agreement in writing.** While putting everything in writing may seem too businesslike, it gives you an opportunity to clearly spell out your expectations and the rules of the house. This can prevent future misunderstandings. ✔✔✔

Get Your 401(k) Plan on Track

For many people, their 401(k) plan represents their most significant retirement savings vehicle. Thus, to make sure you have sufficient funds for retirement, you need to get your 401(k) plan on track. To do so, consider these tips:

- ✔ **Increase your contribution rate.** Strive for total contributions from you and your employer of approximately 10% to 15% of your salary. If you're not able to save that much right away, save what you can now and increase your contribution rate every six months until you reach that level. One way to accomplish that is to put all pay increases immediately into your 401(k) plan. At a minimum, make sure you're contributing enough to take advantage of all employer-matching contributions.
- ✔ **Rebalance your investments.** Don't select your investments once and then ignore your plan. Review your allocation annually to make sure it is close to your original allocation. If not, adjust your holdings to get your allocation back in line. Selling investments within your 401(k) plan does not generate tax liabilities, so you can make these changes without tax ramifications. Use this annual review to make sure you are still satisfied with your investment choices. Avoid common mistakes made when investing 401(k) assets, such as allocating too much to conservative investments, not diversifying among several investments, and investing too much in your employer's stock.
- ✔ **Don't raid your 401(k) balance.** Your 401(k) plan should only be used for your retirement. Don't even think about borrowing from the plan for any other purpose. Sure, that money might come in handy to use as a down payment on a home or to pay off some debts. But you don't want to get in the habit of using those funds for anything other than retirement. Similarly, if you change jobs, don't withdraw money from your 401(k) plan. Keep the money with your old employer or roll it over to your new 401(k) plan or an individual retirement account.
- ✔ **Seek guidance.** It is important to manage your 401(k) plan carefully to help maximize your future retirement income. If you're concerned about the long-term future, call for a review of your 401(k) plan. ✔✔✔

Avoid These Investor Mistakes

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portfolio is beating the market, many investors simply don't know for sure. So analyze your portfolio's performance periodically. Compare your actual return to your targeted return. If you aren't achieving your targeted return, you risk not achieving your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

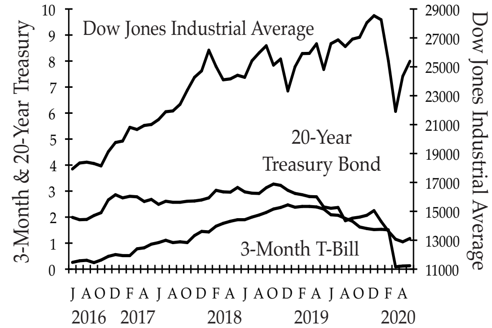
- ✔ **Letting market predictions cause inaction.** No one has shown a consistent ability to predict where the market is headed in the future. So don't pay attention to gloomy or optimistic predictions. Instead, approach investing with a formal plan so you can make informed decisions with confidence.
- ✔ **Expecting the market to continue in its current direction.** Investors tend to make investment decisions based on current trends in the market. Thus, if the stock market has been performing well for a period of time, investors tend to move more and more funds into that area. However, when the markets have an extended period of above or below average returns, they have a tendency to revert back to the average return. For instance, following an extended period of above-average returns in the 1990s, the stock market experienced a significant downturn, helping to bring the averages back in line.
- ✔ **Not understanding that saving and investing are two different concepts.** Saving involves not spending current income, while investing requires you to take those savings and do something with them to earn a return. Saving often becomes easier when separated from the choice of where to invest. Find ways to make saving as automatic as possible, then take your time to research and select specific investments.
- ✔ **Considering only pretax returns.** One of the most significant expenses that can erode your portfolio's value is income taxes. Thus, don't just consider your pretax returns, but look at after-tax returns. If too much of your portfolio is going to pay taxes, implement strategies that can help reduce those taxes.
- ✔ **Not realizing that help is only a phone call away.** The investment world has become very complex, with a vast assortment of investment vehicles now available. If you need help with your investment decisions, please call. ✔✔✔

Market Data

	Month End			% Change	
	May 20	Apr 20	Mar 20	YTD	12 Mon
Dow Jones Ind.	25383.11	24345.72	21917.16	-11.1%	2.3%
S&P 500	3044.31	2912.43	2584.59	-5.8	10.6
Nasdaq Comp.	9489.87	8889.55	7700.10	5.8	27.3
Wilshire 5000	30910.10	29396.70	25984.75	-6.4	9.2
Gold	1728.70	1702.75	1608.95	13.5	33.4
Silver	17.84	15.01	14.25	-0.4	22.3
				Dec 19	May 19
Prime rate	3.25	3.25	3.25	4.75	5.50
Money market rate	0.29	0.31	0.34	0.58	0.72
3-month T-bill rate	0.13	0.12	0.09	1.52	2.31
20-yr. T-bond rate	1.18	1.05	1.15	2.25	2.39
Dow Jones Corp.	2.63	2.72	3.81	2.84	3.63
Bond Buyer Muni	3.73	3.83	3.62	3.63	3.70

Sources: *Barron's, Wall Street Journal* *Past performance is not a guarantee of future results.*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield June 2016 to May 2020



Sources: *Barron's, Wall Street Journal*

Managing Your Nest Egg after Retirement

YOU MAY THINK that after retirement you can sit back and stop worrying about money. Well…not quite. If not for inflation and market volatility, you might be right, but you still need to keep a careful eye on your portfolio.

The current U.S. rate of inflation is a little over 2%, but it fluctuates constantly. A 3% rate of inflation per year means that after 23 years, a fixed sum of money has lost half of its value. What you may have only noticed from time to time at the grocery store and gas station before retirement, you will see as a dire threat to your savings.

Managing your portfolio in retirement can be difficult and complicated, but by doing so, you can keep it growing and combat the threat of inflation. Here are some key points to consider:

- ✔ Keep some of your portfolio invested in stocks.
- ✔ Maintain a rate of withdrawal below your annual rate of return. This is no more than 3% or 4% per year, so that the remaining balance can be reinvested to continue growing.
- ✔ Keep your essential expenses separate from nonessential expenses in your budget. Consider structuring your portfolio to have assets like dividend-paying stocks or long-term bonds pay for your essential expenses, but are otherwise untouched.
- ✔ Rebalance periodically. This means selling off a portion of the assets in an asset class or sub-class that has grown larger than your intended allocation. Use the proceeds from the sell-off to purchase assets in classes or sub-classes that have shrunk in value. While it is wise to rebalance once per year, it is also good to consider rebalancing when any category of assets has grown or shrunk by 5% to 10% of your designated allocation percentage.
- ✔ Withdraw as little as possible from your investments and review them regularly. If your investments have gone down in value, you will deplete your balance quickly by continuing the same withdrawal rate as before.
- ✔ Build up a reserve of investments not tied to the stock market, preferably totaling three or four years of retirement expenses. If you have this reserve to fall back on, you will not need to sell stock investments during periods of market decline.
- ✔ Withdraw funds in a tax-efficient way to make them last longer. For example, you should withdraw your taxable investments first so that tax-deferred investments can continue to grow. By age 72 , you will likely have to start taking minimum required distributions from tax-deferred investments, but going back to work part-time may help push that timeline back even further.
- ✔ Reassess your asset allocation periodically. Make changes gradually to increase diversification in your portfolio.

Please call if you'd like to discuss this in more detail. ✔✔✔

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