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**SPRING 2021**

# Short Term Fads are Harming Long Term Opportunities

Last month as I thought about a topic to write about, it occurred to me that I never hear anything about Financial Literacy Month (April). This was a movement started during the Tech Bubble in Year 2000. President George W. Bush and President Obama both endorsed and made strides in making the movement 'real' and part of the academic curriculum in public schools. The goals aimed to have Americans improve their understanding of financial issues such as credit management, savings, and home ownership.

I am growing increasingly concerned that after two decades, we have not made enough progress. The FED reserve published a report that stated that 40% of American cannot cover a $400 emergency expense (link below). When I hear the radio and TV airways, it is no wonder that we continue to go one step forward and two steps back.

The basics of investing appear to have been left by the wayside. The fear of missing out seams to creep into everyday decision making, which is causing long term harm. Even our 'mainstream' media has now hyped up the cryptocurrency craze. This is pure speculation with something to put funds into that is NOT an investment. Investments are supposed to produce an income or a profit. Theft is rampant and thieves love to transfer funds within various crypto currencies. These are not a good place to plan for short or long term needs.

The Commonwealth of Vir-

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## Overdiversification

Diversify. Diversify. Diversify. While this investment advice seems to be continually discussed, it is possible to overdiversify, which can lead to lackluster returns. Thus, it is important to know the difference between healthy diversification and excess diversification. The primary benefit of diversification for your portfolio is to spread market risk over different stocks in a way that will decrease the impact any one stock will have on your total return. With an appropriate level of diversification, your overall return will not be significantly impacted if one or even a few investments do not perform as expected.

Thus, it is not just the number of investments you hold that impacts your return, but how they interact with one another. If you keep adding investments that react to the market in the same way, you are not really diversifying.

Adding too many investments to your portfolio also makes them more difficult to monitor. With too many investments to keep track of, it is more likely that you will miss important information. ❍❍❍

## Short Term Fads

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ginia now has offered up licensing for online gambling beginning in July of 2021. The incessant advertisements for 'Get Rich Quick' are everywhere. Did you know that you can bet $1 and make $100? People of all generations are unfortunately getting caught up in trying to make a quick buck, without having the very basics covered.

The very basics of investing are for starters, having a sufficient safety net / emergency fund. It is critical to have three to six months of savings to live on if you lose your income. This part does take sacrifice, but has long term benefits. For people just starting out, it may mean living with a relative for six months to a year. For an older person, it may mean cutting the cord on cable or driving a less expensive car, or even moving to a less expensive area of the country. There are ways to do it, but it does take discipline.

I often talk about investing in various buckets per eligibility rules. Every person and family have different goals and means when figuring out how to add to these buckets. These buckets may include but are not limited to the Roth IRA, Traditional IRA, 401K/403b/457, non-retirement account, 529, and, of course, the emergency fund. For most individuals and families, adding to these different areas monthly or annually will increase the odds of success. Wealth is created by adding to these systematically, not investing for the short term gain into an unproven fad.

Besides cryptocurrency, there is the example from December of 2020, when it was deemed that 'value stocks are dead'. This was short lived as value has way outperformed growth so far in 2021. Be careful, to not get caught up in any hype of the day and always invest for the long term.

It is critical not to follow the herd. Remember Time in the Market is so much more important than Timing the Market.

Sincerely,

*Andrew D. Wade, CFP®*
*President*

**https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-dealing-with-unexpected-expenses.htm*

## 6 Signs You Need a Financial Plan

A clear financial plan helps you prepare for the future, brace yourself for the unexpected, and positions you to pursue your goals. Below are six signs it may be time for you to get a financial plan.

**You're planning (or just had) a big life change.** New job. New baby. New house. All of those milestones and more are signs you should take a big picture look at your finances. When your life changes in big ways, it often brings with it changes in how you approach money.

**You're worried about your finances — and your future.** If money worries keep you up at night, a financial plan can help ease your mind. Whether you have immediate worries or are just feeling uneasy about what tomorrow may hold, you can regain control over your life by having a clear direction.

**You're making good money, but you're not sure where it goes.** If you want to turn today's income into tomorrow's wealth, you need a financial plan. That way, you'll be able to take the money you're bringing in today and use it to create a secure future for yourself and your family.

**You have financial goals, but you're not sure how to make them a reality.** Does retirement seem like a distant dream? Do you wish you could upgrade to a bigger home, send your kids to college without taking on debt, or start a business? With a financial plan, you'll know what you need to do financially to make those dreams a reality.

**You and your partner are fighting about money.** If you and your partner can't see eye-to-eye on money issues, a financial plan might be part of the solution. Meeting with an objective third party can help you both recognize where you stand when it comes to your finances, and then negotiate a path forward that works for both of you.

**Your investments and finances are getting so complicated, it's difficult for you to keep track of everything.** Many people start out managing their investments and finances on their own. That often works for a time, but as your money and life get more complex, it can be difficult to manage all the details without help. ❍❍❍

# Reevaluate Your Portfolio

Periodically, you should thoroughly review your portfolio to ensure it is still helping you work toward your investment goals. Follow these steps:

**Review your current portfolio mix.** List the current value of all your investments. Determine what percentage of your portfolio is held in stocks, bonds, cash, and other investments. Take a closer look at where the stock portion of your portfolio is invested.

Break out your stock investments by market capitalization (small-, mid-, and large-cap), by style (growth and value), by area (domestic and international), and by sector (technology, financial, utilities, energy, etc.).

**Analyze each investment.** Determine whether it still makes sense to own each investment. Don't let emotions get in the way. Review why you purchased each investment and whether those reasons are still valid.

Emotionally, it is difficult to sell an investment at a loss, but holding on until you get back to breakeven may not be the best strategy. It may never get back to that price or may take an excessively long time to do so. You may want to sell the investment and reinvest in another with better prospects. Instead of worrying about what you paid for the investment, decide whether you would buy it today at its current price.

**Determine if changes are needed to your current allocation.** If we've learned anything over the past few years, it's that your portfolio should not be highly concentrated in one area or sector. Instead, look to broadly diversify your portfolio. Some points to consider include:

✔ **Decide how much to allocate to stocks and bonds.** Your stock and bond mix is a major factor in determining your expected portfolio return and how much your portfolio will fluctuate with market movements. However, be careful not to let recent events cause you to allocate too much to bonds just to avoid stock market fluctuations. Make this decision based on your financial goals, risk tolerance, and time horizon for investing. If you are investing for the long term — say, 10 years or more — you probably still want a major portion of your investments allocated to stocks.

✔ **Reassess your stock allocation.** Is your stock portfolio too heavily weighted in technology stocks or blue chip stocks? Have you selected only growth stocks, ignoring value stocks? Do you prefer large-cap stocks, ignoring smaller stocks? The stock market moves in cycles, with different sectors outperforming other sectors at different times. Since no one can predict when one sector will outperform, it is typically best to broadly diversify your stocks over all areas.

**Move your allocation closer to your desired allocation.** When making changes, first consider the tax ramifications of the transactions. If you can make changes without incurring tax liabilities, you may want to make the changes immediately.

If substantial tax liabilities will be incurred, look for other ways to get your portfolio closer to your desired allocation. For instance, any new investments should be made in underweighted areas of your portfolio. Or you may be able to reallocate in your tax-deferred accounts, such as individual retirement accounts and 401(k) plans, where you typically won't incur tax liabilities.

However, if you can't get your allocation in line within a year using these approaches, you might want to sell some of the poor performers and reinvest the proceeds.

If you'd like help reevaluating your portfolio, please call. ❍❍❍

## Tips to Teach Children to Save

Think of all the lessons parents teach their children, but what about learning to save? Short- and long-term savings are important life lessons that should start early and remain an ongoing conversation. Here are some tips you can use:

**Wants versus Needs**: To a child, most everything is a need. A toy, a new bike, and a video game are all needs to them, so the first important lesson of saving is helping them understand the difference between wants and needs. You'll want to explain that needs are the basics, such as food, housing, and clothing, and that anything beyond the basics are wants. You could use your own budget to help illustrate that wants are secondary to needs.

**Their Own Money**: To help your child become a saver, they need to have their own money. Giving your child an allowance in exchange for chores will be a step in helping them learn to save as well as understanding the value of work.

**Set Goals**: Setting savings goals is a way for your child to understand the value of saving and what a savings rate is. For example, let's say one goal is a $40 video game, and they get a weekly allowance of $10. You can help them understand how long it will take to reach that goal based on how much of their weekly allowance they put toward the goal.

**A Place to Save**: Kids need a place to save their money, so take your child to a bank or credit union to open a savings account. This will allow them to see how their savings grows over time, as well as the progress they are making toward their savings goals.

**Track Spending**: Knowing where your money goes is a big part of being a better saver. Have your child write down their purchases and then at the end of the month add them all up. Just like adults, this can be an eye-opener. Help your child understand that if they change their spending habits, they will be able to more quickly reach their savings goals.

**Mistakes Are a Good Lesson:** A parent's natural reaction is to step in to prevent mistakes, but part of learning to control money is letting your child learn from their mistakes. A bad purchase decision can be a great lesson to understanding that a savings goal will now take much longer than they thought based on decisions they made. ❍❍❍

## Beneficiary Designations Override Wills

When was the last time you looked at your beneficiaries on your retirement accounts, insurance policies, annuities, and bank accounts? Many people forget to update their beneficiaries, especially if they've held the accounts for a long time. If you marry, divorce, or have other changes to your family situation, you need to update your beneficiaries.

Some people think their will or trust is all they need to ensure their assets go to the desired recipients. A beneficiary designation is a legally binding document that supersedes a will or trust. That means that regardless of your current family status or what your will or trust says, the assets will go to the beneficiary you named when you last updated it. And if you don't have anyone named as your beneficiary on these types of accounts, state laws will determine who receives the benefit.

It is also a good idea to get into the habit of reviewing them on an annual basis to ensure your assets will be distributed based on your wishes. ❍❍❍

*"Character is Power."*

**~ Booker T. Washington**