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Financial Solutions for the Life You Are Living and the One You Want to Live

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SUMMER 2020

This Time Is Different (or is it?)

In 1933, Sir John Templeton, wrote, "The investor who says, 'This time is different', when in fact it it's virtually a repeat of an earlier situation, has uttered amount the four most costly words in the annals of investing".

This time is different. The current epidemic has most people around the world on edge, and understandably so. Most people cannot recall a similar situation. In the past when we would get sick, we would go to the nearest primary care doctor's office and go through a series of tests or prescriptions to include anti-biotics, and we are on our way. We could still go on vacation, head off to college, travel to see family, go to a place of worship etc. This time, we feel stopped in our tracks. Most people know of someone that has been affected and/or someone that has passed away. Some of our phone calls have been tough, as loved ones have been lost to this novel virus. While most that have been affected, the antidote is to stay home, quarantine, and all is well after two weeks.

Further, there were several scary days at the end of March and early April. When the world economy came to a grinding halt at the end of the first quarter this year, it scared people, governments, and just about everyone else. We are in a global economy. The United States and the European Union depend on many other countries for part of the supply chains to feed our ever increasing appetite for more goods and services. Across six of the seven continents, tourism is relied on as a major part of economic growth and even simply survival. All of this, on top of the individual fear and health effect have caused and continue to cause various behaviors that have led to serious economic disruptions. This has caused several 100 plus year old retail companies to go bankrupt.

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Encourage Estate Planning

Parenting is a never-ending job. Even when your children are grown, there will probably be lessons you'll want to teach them, such as the need for estate planning. Some items to include in that lesson are:

✔ **Explain why estate planning is important.** Your role is not to dictate what they should do with their estate, just to emphasize the need. When you children encounter major life events, such as marriage, divorce, or a child's birth, remind them to review their estate plans.

✔ **Make sure all important estate-planning documents are in place.** At a minimum, every adult should have a will, a durable power of attorney, and a healthcare proxy. A durable power of attorney designates an individual to control financial affairs if one becomes incapacitated, while a healthcare proxy delegates healthcare decisions to a third person when one is unable to make those decisions.

✔ **Coordinate estate planning across generations.** If you have a substantial estate, you may want to coordinate your estate planning efforts with those of your children. A coordinated effort can help minimize estate taxes. ❍❍❍

This Time

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For some companies, this was the last straw. It has been tough.

From an investment standpoint only, 'this time is different' can be dangerous thinking. 'This time is different' often results in making major changes to investment strategies or simply drastically reducing exposure to equities and liquidating into cash. This can be costly. Economies expand, peak, contract, and then bottom out in the trough. The markets are forward looking and do not always follow the perfect textbook economic cycle. By June, the markets had started to recover. By the end of July, balanced portfolios without many or any changes were back to where they were in early February. However, changing strategies, liquidation may well have reduced the portfolios dramatically.

So, why did the market recover so rapidly? For starters, the world realized this is a virus. We have had many viruses and this is just a new (and more dangerous) one, but it is still a virus. It too will have its own life cycle, and it too will end. Business and individual behaviors changed but did not stop. Market economies can adjust and sometimes do it quicker than we realize. People could work from home that never intended to or in some cases never wanted to. New computers, printers, and headsets have to be purchased NOW! This has caused a pop in demand for anything related to the home office. I do not know why, but with all of this home isolation (and perhaps fears of food supply issues), many people have turned to expensive organic food. This has been another unanticipated boon. Along with it, there has been a similar demand for home exercise equipment, bicycling, and new backyard pools! Good luck calling a pool person to visit your house. Recreational Vehicles (RVs) that are pretty much guaranteed to lose 30% of their value after year 1 of purchase have had a demand that has outstripped the supply. They are even called 'COVID Campers'. Good luck in finding a camping spot if you get an RV. Again, more people are hitting the road at the same time. You could not sell a barrel of oil on April 20, 2020. This was a strange day as storage had peaked for a 24 hour period. Now, as more and more folks hit the road, the price of oil is normalizing at over $40 a barrel. Has anyone been on I-95 lately? Traffic is reminiscent of most summers. During the first two weeks of August, we processed more withdrawals for college than I can remember. School is on for Fall of 2020. Whether you will be home or in the classroom, school is underway. Retailers have struggled. However, some have found a way to survive three ways: order online, curb side pickup, or now show up in the store with your mask on. This trifecta of innovation has been huge.

The last two areas that have contributed to exponential growth have been the lowering of interest rates and massive government stimulus. I can be a fan of refinancing if you continue to pay the same amount as before the refinance or change to a shorter term. Everyone is different and has their own philosophy, time horizon, and risk tolerance. Regardless, most people take cash out or 'spend' the new savings because of the new much lower monthly payment. This additional spending is an economic boom as cars, second homes, and other big expense items get purchased. The massive government spending has also softened the blow for reduced income on individuals, families, businesses, and non-profits. This newfound money has allowed for business as usual and/or possibly extra spending, as in some cases people are making more than they did before.

Not to end on a negative note, but all of this spending will eventually have to be paid back. This will most likely lead to higher taxes. Increased taxes can lead to lower growth if not done slowly or properly. It is a balancing act that to date, no political party has figured out. Many have decided to already look past this virus to the election in November. Remember, fear sells, and good news does not. There will probably be an unprecedented amount of funds spent on political Ads this fall trying to sway us. I have heard several people say they will wait for the election for one reason or another to do XYZ. However, when it comes down to it, if your car breaks down, you will replace or buy a new one. You will send your kid to college, go on vacation, visit family, go to the doctor, go out to eat (or order in!), watch a movie, and perhaps relocate. All of these are the reasons the world economies prevail. Take care of what you can control and try not to worry or fret about the deluge of headlines.

So, in the long run, the term 'This time is different' should be considered in the context by the long term investor.

Be safe.

Sincerely,

Andrew D. Wade, CFP®
President

Finding a Balance between Risk and Return

One of the most basic investment principles is that returns reward you for the risks you take. While investors are often uncomfortable with the concept of risk, it is this uncertainty that makes higher rates of return possible. Some basic investment principles related to risk and return include:

✔ Returns on specific investments are not known in advance. Investors can review historical rates of return, but there is no guarantee that past returns will be indicative of future returns.

✔ There is usually the possibility that an investment will not meet your return expectations.

✔ The uncertainty regarding your actual return creates risk. Greater uncertainties typically lead to greater risk.

✔ Investments are subject to many different types of risk. Cash is primarily subject to purchasing power risk, or the risk that its purchasing power will decrease due to inflation. In addition to purchasing power risk, bonds are subject to interest rate risk, or the risk that interest rates will increase and cause the bond's value to decrease, and default risk, or the risk that the issuer will not repay the principal or interest on the bonds. Stocks are primarily subject to nonmarket risk, or the risk that events specific to a company or its industry will adversely affect a stock's price; and market risk, or the risk that a particular stock will be affected by overall stock market movements.

✔ There is generally a tradeoff between risk and return. Low levels of risk are the most desirable and typically have lower return potential, while higher levels of risk are typically undesirable and must offer higher return potential to encourage investors to invest. Be cautious of claims of high returns with low risk.

There are strategies that can be used to reduce the total risk in your investment portfolio:

✔ **Diversify your portfolio.** You should diversify among several different investment categories, including cash, bonds, and stocks, as well as within investment categories, such as owning several types of stocks. A properly diversified portfolio should contain a mix of asset types whose values have historically moved in different directions or in the same direction with different magnitudes. By owning several investments rather than just one, a downturn in any one should not have a significant impact on your total return. Of course, the opposite is also true — if you have one investment with exceptional returns, your total return will be lower than if that were your only investment.

✔ **Stay in the market through different market cycles.** Remaining in the market over the long term helps to reduce the risk of receiving a lower return than expected, especially for more volatile investments, such as stocks.

✔ **Use dollar cost averaging to invest.** Rather than accumulating cash so you have a large sum to invest, invest small amounts regularly. Dollar cost averaging involves investing a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time, preventing you from making one major purchase at high prices. Since you are investing a set amount, you purchase more shares when prices are lower and fewer shares when prices are higher. While a valuable investment strategy, dollar cost averaging does not ensure a profit or protect against losses in declining markets. Before starting a program, consider your ability to continue purchases during periods of low price levels. This strategy requires the discipline to invest consistently, regardless of market prices, and can help develop a habit of regular investing.

If you'd like to discuss how to balance risk and return in your portfolio, please call. ❍❍❍

Tips for Your 401(k) Plan

It pays to understand your 401(k) plan. Here are a few tips to help:

✔ **Maximize contributions** — As soon as you possibly can, begin making contributions to your 401(k) plan, contributing as much as your budget will allow. In 2020, you can contribute a maximum of $19,500 to your 401(k) plan, plus an additional $6,500 catch-up contribution for those over age 50, provided this is offered by your plan. Employers may set lower limits to ensure the plan complies with nondiscrimination rules.

✔ **Take advantage of employer matching contributions** — If your company offers a matching contribution, strongly consider contributing enough to take advantage of the maximum amount provided.

✔ **Diversify investments** — 401(k) plans typically offer numerous investment options, so review your plan's investments carefully to make sure you select ones that fit your particular goals.

✔ **Limit company stock** — Since you know your company so well, you may feel you should make the company's stock a significant portion of your 401(k) plan. However, since your livelihood is already tied to that company, you don't want too much of your retirement funds to also be tied to the same company. Make sure you don't hold any more than 10% of assets in your company stock.

✔ **Review your plan annually** — Go over all these other factors annually to make sure your 401(k) plan is on track. Use the annual review as a time to review the performance of your investments.

✔ **Don't touch your plan for other purposes** — If you leave or lose your job prior to retirement, make sure to protect your 401(k) plan. Any loans you have taken will likely have to be repaid within a month or two of leaving your job. Otherwise, the loan will be considered a distribution and taxes and penalties may be assessed. Don't be tempted to cash out your 401(k) plan. Not only will you be reducing your retirement savings, but you may have to pay steep taxes and penalties. Instead, either leave the funds in your former employer's 401(k) plan, or roll your balance over to an individual retirement account (IRA) or to another employer's 401(k) plan.

Following these tips will help you make the most of your 401(k) plan. Please call if you'd like to discuss this topic in more detail. ❍❍❍

Should You Serve as a Guardian?

Consider the following if you are asked to serve as a guardian:

✔ **Are your lifestyles compatible?** Go over all details involved in raising the children. Consider the impact on your children, including that you will probably have less time available.

✔ **How much financial support will be available?** This involves more than making sure money is available for college and other expenses directly attributable to the children. Additional children in your house will increase many of your bills.

✔ **Are you comfortable taking on responsibility for the children's finances?** You may feel more comfortable with another person involved with the finances.

✔ **Has a contingent guardian been named?** Find out if a contingent guardian has been named in case you cannot serve. However, don't use this as an excuse to accept when you really want to decline. It is better to indicate that you do not want to take on this responsibility now, so another guardian can be chosen. Also, if your situation changes in the future, inform the parents immediately. ❍❍❍

"There are two ways of exerting one's strength: one is pushing down, and the other is pulling up."

~ Booker T. Washington