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Review Your Portfolio's Performance

At least annually, you should review your portfolio's performance, comparing it to relevant benchmarks and determining whether you are making progress toward accomplishing your financial goals. Consider these steps in the process:

1. Measure the performance of each investment in your portfolio. Many investments and investment managers will provide you with periodic performance information. When reviewing this information, keep in mind the following points:

✔ Often, an investment's return is reported on a time-weighted basis, which does not consider when you invested.

✔ Information that reports your portfolio's return is generally expressed on a dollar-weighted basis, which measures the investment return based on when cash inflows and outflows occurred. While this is a more relevant measure when evaluating your portfolio, time-weighted returns can make it easier to compare the returns of different investments.

✔ Investments often report cumulative annualized returns over a period of time, representing the average annual performance over that

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Frankly Speaking

Bear Markets HAPPEN!

The Black Death killed 20 million Europeans in the 14th century. Venice, a major trade port, grew nervous. If a ship was suspected of harboring the plague, it had to wait 40 days before any passengers or goods could come ashore. Venice built a quarantine center on an island off its coast, where sailors from plague-infested ships were sent either to get better or, more likely, to die. This 40-day waiting period became known as quarantinario, from the Italian word for 40. -NPR January 26, 2020

"The shortest period of time known to mankind is the time between when it is too soon to buy stocks and when it is too late." -Mark Zinder

"Never let a good crisis go to waste." -Winston Churchill

You may notice slight differences in this edition of Financial Success from my old newsletter. The latter was relatively generic while the former includes financial planning topics, from establishing goals and following economic trends to retirement, estate and tax planning, insurance and investments. A longer 'sidebar' will appear in the hard copy version and as an introduction to the HTML version. If you would like to see specific topics addressed, please let me know.

By now the Covid-19 or Wuhan virus has become as much a part of daily life as was the 10+ year stock market bull run in January. Did we really think it would last forever; that trees grew to the sky or that we had become so brilliant as to be impervious to the inevitability of periodic setbacks? Question is — did you rebalance your portfolio, shift some high performers to more conservative, fixed income-oriented positions or 'guaranteed lifetime income accounts'*? Or has this 'Black Swan' event caught you entirely by surprise?

You may think there is no 'getting back' what you feel are losses, but if you haven't sold or cashed out for CDs (Certificates of Depreciation), which offer less than the current rate of inflation, PLEASE call me for a FREE no-cost, no-obligation consultation to see what we can do to improve your situation and create a brighter financial future for you and your family.

**Based on the claims paying ability of the issuing company.*

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Portfolio's Performance

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time. Since returns can fluctuate significantly on a year-to-year basis, this annualized return can help you evaluate the long-term performance of an investment.

If you invest in individual stocks and bonds, you may need to calculate those returns yourself. Conceptually, your total return on an investment equals the change in market value plus any dividends, interest, or capital gains, divided by the beginning market value. Total return can be difficult to calculate, especially if you make additional investments or withdrawals during the year. You may need the help of a computer program to calculate your total return precisely.

2. Find an appropriate benchmark to compare to each component of your portfolio. A wide variety of market indexes now exist, covering different segments of the market. Find ones that track investments similar to each component of your portfolio. Making comparisons to a benchmark should help you identify portions of your portfolio that may need to be changed or that need closer monitoring.

3. Calculate your overall rate of return, comparing it to your estimated return. When designing your investment program, you probably assumed a certain rate of return, which determined how much you need to invest to reach your financial goals. Calculating your actual return will determine if you are on track. If your actual return is below the return you estimated, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future. Performing this analysis annually should allow you to make these changes gradually.

4. Review your overall investment allocation to determine if changes should be made. This annual review is a good time to compare your actual allocation to your desired allocation. You may find you need to make changes for a variety of reasons. If certain portions of your portfolio have performed well, you may find they make up a larger percentage of your portfolio than originally planned. You may find you need to sell certain investments that are not performing well. You may also need to refine your asset allocation percentages.

You should review your portfolio's performance annually to ensure your investment strategy is on track. Please call if you'd like help with this analysis. ❍❍❍

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 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. ❍❍❍

Estate Planning and Retirement Accounts

Retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), are many people's most significant assets. While you may think you'll need every bit of money in those accounts for retirement, what would happen if you die at an early age? You should include these accounts in your estate plan so heirs inherit them with minimal estate and income tax effects. Some strategies to consider include:

✔ **Review your beneficiary designations.** These assets are distributed based on beneficiary designations, not your will or other estate-planning documents. Thus, you should name primary as well as contingent beneficiaries. Make sure you understand how your assets will be distributed if a primary beneficiary dies before you do. For instance, if your primary beneficiaries are your children, and one child dies before you, do you want that child's share to go to your remaining children or to that child's children? Review your beneficiary designations after major life changes, such as marriage, divorce, or a child's birth.

✔ **Consider rolling your 401(k) plan assets over to an IRA.** Now that most 401(k) plans and IRAs have similar distribution periods for beneficiaries, there is not as much need to roll 401(k) plan assets over to an IRA. However, with IRAs, you will often have many more investment options for your plan assets. You may also want to roll the plan assets over to a Roth IRA, but will first need to roll over to a traditional IRA.

✔ **Understand the new distribution periods when naming beneficiaries.** In the past, beneficiaries could take distributions from an inherited IRA over their lifetimes. However, the SECURE Act, which is effective starting on January 1, 2020, drastically changed those rules. Now, for individuals dying after December 31, 2019, designated beneficiaries (humans with a life expectancy) must withdraw all funds within 10 years. However, eligible designated beneficiaries can still withdraw funds from inherited IRAs over their life expectancy:

1. Surviving spouses
2. Minor children
3. Disabled or chronically ill individuals
4. Individuals who are not more than 10 years younger than the deceased IRA owner

Once a minor child reaches the age of majority, the remainder of the distributions must be completed within 10 years after that date. Withdrawals do not have to be taken out in equal installments over the 10-year period. The only requirement is that the entire balance must be withdrawn at the end of the 10-year period. This provision is expected to significantly increase tax revenue from inherited IRA distributions. It may be a particular problem for children who inherit parents' IRAs and are in their peak earning years. Some strategies to consider include:

1. Name younger or more lightly taxed beneficiaries for IRAs.
2. Name more beneficiaries so each receives less taxable income.
3. Gift IRAs to charities.
4. Buy life insurance to help beneficiaries fund the taxes from the distributions.
5. Utilize Roth IRA conversions. Even though Roth IRAs are still subject to the 10-year distribution rule, the distributions are not taxed.

✔ **Make sure your spouse understands the rules for inheriting an IRA.** The SECURE Act did not change the rules for spousal IRA inheritances. Your spouse should be careful not to roll the balance over to a spousal IRA too quickly. Once the balance is rolled over, some planning opportunities are lost. For instance, spouses under age 59½ can make withdrawals from the original IRA without paying the 10% federal income tax penalty. Once the account is rolled over, withdrawals before age 59½ would result in a 10% federal income tax penalty. Also, spouses who are older than the original owner can delay distributions by retaining the IRA. The spouse may want to disclaim a portion of the IRA, which must be done within nine months of the original owner's death. If the account is rolled over, that disclaimer can't be made. Thus, it is usually best for the surviving spouse to determine his/her financial needs before rolling over the IRA balance.

✔ **Consider rolling your traditional IRA balances over to a Roth IRA.** All taxpayers can now convert from a traditional IRA to a Roth IRA, regardless of income levels. You must pay income taxes on the taxable amount of the conversion, but those taxes can be paid with funds outside the IRA. That preserves the IRA's value and reduces your taxable estate. With the new 10-year distribution rule, this may be a valuable strategy for your beneficiaries. ❍❍❍

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.

Managing your portfolio in retirement can be difficult and complicated, but by doing so, you can keep it growing. 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.

✔ Keep your essential expenses separate from nonessential expenses in your budget. Consider structuring your portfolio to have assets like dividend-paying stocks 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.

✔ 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.

✔ 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.

✔ 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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Staggered Retirements

Frequently, one spouse may retire before the other. If you are in this situation, keep these points in mind:

✔ **Try to minimize withdrawals from retirement accounts.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working.

✔ **Utilize all available benefits from the working spouse's employer.** One of the most significant retirement expenses is health insurance. Before one spouse retires, find out if he/she is eligible for health insurance benefits through the working spouse's employer.

✔ **Delay Social Security benefits.** Especially if you are retiring before full retirement age, it typically makes financial sense to delay Social Security benefits.

✔ **Consider all defined-benefit plan payment options.** If you are lucky enough to be covered by a traditional pension plan at work, make sure to consider all the payment options carefully before selecting one. Typically, you will have numerous options, but your choice will be irrevocable. ❍❍❍

Financial Thoughts

Approximately 64% of individuals surveyed said it was hard to know which sources of financial advice can be trusted (Source: TIAA, 2019).

According to a recent study, whether institutional investors have a long-term or short-term outlook influences the management principles of the corporations in which they are invested. Institutional investment managers with low portfolio turnover and concentrated positions outperformed managers without these two characteristics by 2.3% to 3.5% per year over 20-plus-year observation periods (Source: SSRN, May 2019).

A recent study found that those retiring because of poor health experienced comparatively worse physical and mental health later in life relative to the full sample of retirees studied. Higher childhood cognitive ability was shown to have a stronger correlation to better physical, but not mental, health in retirement. An advantage in childhood cognitive ability may help individuals to access occupations in which voluntary and statutory retirement is more likely (Source: *AAII Journal*, October 2019). ❍❍❍