SFE&PD
SOCIETY FOR FINANCIAL EDUCATION AND PROFESSIONAL DEVELOPMENT
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1800 Diagonal Road, Suite 600
Alexandria, VA 22314
(703) 920-3807 • (703) 647-6009 Fax
www.sfepd.org

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Objectives Help Focus Investing

On a broad basis, there are a few main investment objectives to help you accomplish your goals. Understanding these objectives is important because certain investment strategies and products are appropriate for one type of goal but perhaps not for others. The following will provide an overview of the main investment objectives.

Goal: Capital Appreciation

Capital appreciation is an objective for achieving long-term growth. If saving for retirement is one of your objectives, the strategy to meet it would most likely be to invest in a qualified retirement plan where the investments work for many years.

This objective is not only limited to a qualified retirement plan; it can also be about wealth building over many years. With a capital appreciation objective, you need to be confident that your portfolio is going to grow over time, and not concern yourself with day-to-day fluctuations. Watch for any changes with the companies you are investing in that could affect your long-term growth. And you should rebalance your portfolio if it strays from your asset allocation strategy.

Goal: Current Income

If your objective is to generate current income, you would most likely invest in stocks that pay a high dividend on a consistent basis, as well as highly rated bonds. People that pursue a current income stream may be retired and use the income for living expenses. Others may use this strategy to pay for certain needs, such as a college education, where they use the interest to pay without touching the principal.

Goal: Capital Preservation

The objective is typically for those who want to make sure they don't outlive their money. Security is extremely important even if that means giving up return. To meet a capital preservation goal, the strategy would be to invest in bank certificates of deposit, U.S. Treasury issues, savings accounts, and fixed income bonds, such as municipal bonds, other government bonds, and corporate bonds.

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Lower Your Homeowners Insurance

✔ **Increase your deductible.** Raising your deductible can significantly lower your premium. If you do so, however, keep an adequate emergency fund to cover higher out-of-pocket costs for any claims.

✔ **Combine insurance coverage with one company.** Often, you can obtain discounts for purchasing more than one insurance policy at the same company, such as auto and homeowners insurance.

✔ **Install an alarm and other safety features.** Since these features help reduce claims, insurance companies will often offer discounts.

✔ **Stay with the same company.** Insurance companies will often give loyalty discounts to customers who have stayed for years.

✔ **Maintain a smoke-free environment.** Insurance companies will often lower premiums for households that are smoke free.

✔ **Review how much coverage you need.** Your homeowners insurance should be sufficient to completely rebuild and refurnish your home in the event of a total disaster. Even if your home is totally destroyed, you won't have to replace the land. ❍❍❍

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Objectives Help

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How to Set Your Own Goals

Most experts agree that goals-based investing is the best approach to reach investment goals. With this method, you set investment goals based on reaching specific life goals. You consider each goal individually to set a time horizon and a risk level.

To help you determine your comfort with risk and time horizon, ask yourself these questions:

- ✔ What is your intent for investing this money?
- ✔ When would you like to withdraw your money?
- ✔ Do you want your money to achieve substantial capital growth by the time you withdraw it or are you more interested in maintaining the principal?
- ✔ What is the maximum decrease in the value of your portfolio that you are comfortable with?

Setting Your Goals

Once you have a better understanding of why you want to invest and what you are hoping to achieve, you want to be very specific when developing your goals. Your investment objectives are the foundation of your investment plan, so don't take them lightly.

There are various methods for setting goals, but one of the best to consider is the SMART goals format, which will help guide you through the process of setting your investment objectives. Following are the elements of the SMART format:

- ✔ **Specific** — make each goal specific and clear
- ✔ **Measurable** — make sure you define goals that can be measured
- ✔ **Achievable** — make sure it is realistic
- ✔ **Relevant** — make sure the goals relate to your life
- ✔ **Time-based** — assign a timeframe so that you can track your progress and know when it is achieved

After you have defined your goals, you will then want to determine a timeframe for each goal. You are not going to achieve all of your goals at once, so break them down by goal categories such as short, medium, and long term. You will then want to set a specific number of months/years in which you want to achieve each goal.

Once that is complete, the final step is to determine a dollar figure for each goal. Some goals will be easier than others to define a dollar amount. For longer-term goals, such as retirement, education, or starting a business, spend the time to research what each of these could cost.

Once you have your goals clearly defined in some type of format, it will make it much easier to develop an investment plan, as well as a budget that includes your savings goals. Please call if you'd like to discuss this in more detail. ❍❍❍

Estate Planning Tips for Baby Boomers

These tips can help baby boomers get back on track with estate planning.

1. Know what your kids expect — and what you plan to give them. Even boomers who've saved a lot may end up spending much of what they've accumulated, since retirements are likely to be long and healthcare costs expensive. Active boomers may be planning on spending much of their hard-earned money on themselves. They believe they've done a lot for their children already. That's fine, but if this is your plan, you may want to let your children know.

2. Have a plan for the end of your life. While taking steps to live a healthy lifestyle is important to enjoying a great retirement, boomers shouldn't assume they'll be healthy forever. Sickness and disability can happen, and it will be easier for you and your family to deal with if you have a plan. Not only should you think about long-term care and how you'll pay for it, you should also make sure you have end-of-life planning documents in place.

3. Make sure your estate plan is up-to-date. As you get older, your estate planning needs change. If your kids are independent adults, providing for them is no longer as critical. You may have grandchildren who you want to receive part of your estate or new property that should be incorporated into your will. Or your family composition might have changed. Boomers need to sit down and review their estate plans to make sure they are properly conveying all their wishes.

4. Decide if, and how, you want to leave a legacy. If you count yourself among those for whom leaving a legacy is important, now is the time to start thinking seriously about how to turn those legacy dreams into reality. If your goals are ambitious — like starting a foundation or charity or endowing a scholarship — you should start planning now. The more lofty your goals, the more important it is that you take clear, concrete steps to turn your dreams into reality — like meeting with the leaders of the organization you support and finding out how you can best help them. After all, you won't be able to do this work after you are gone.

Not sure how to put these estate-planning tips into action? Please call if you'd like to discuss this topic in more detail. ❍❍❍

Insurance and Financial Planning

Insurance plays a vital role in your financial plan. A comprehensive insurance plan, which can include everything from auto insurance to disability insurance, helps protect you, your family, and your wealth.

Without insurance, most people would have difficultly coping with major and unexpected financial setbacks. Insurance is a reasonable way to plan for worst-case scenarios. In many ways, it's the bedrock that supports your overall financial security. Some might even argue that if you have to prioritize, it's more important to focus on developing a solid insurance plan before you worry about issues like investing.

Where Do I Start?

Most people already have some insurance. A typical adult with a family and a job might carry auto, life, and homeowners insurance (not to mention health insurance, which is another essential coverage). But most people purchase their insurance piecemeal, picking up a policy here and there when they need it. Rarely do people have a coordinated insurance plan that aligns with their overall financial plan.

Thus, your first step in developing an insurance plan should be sitting down and taking an objective look at your total financial situation, perhaps with the help of a financial advisor. Consider your age, family situation, the risks you face, and current assets and liabilities. This will help you identify areas where you might need the peace of mind that quality insurance provides.

For example, parents with young children will almost certainly want life insurance, while people who suspect there's a good chance they'll end up in a nursing home may want long-term-care insurance. Sound complicated? It can be. Unfortunately, there is no one-size-fits-all approach to buying insurance.

Evaluating Your Risk and Determining Your Needs

Determining what kind of insurance you need to protect yourself and your family begins with an honest evaluation of the risks you face. But that's just the beginning. For example, if you have young children, you probably know you need life insurance. But how much is enough and what variety (whole or term) is best? And what about other types of coverage? Should you buy umbrella insurance or disability insurance?

Life insurance tends to be the area where people have the most questions about whether their coverage is adequate. To do this, you need to imagine the unthinkable: How would your family survive if you were no longer there to support them? Don't just pick a big number and assume it will be enough.

Consider this: You have a life insurance policy with a $1 million death benefit that you think will be more than enough to provide for your family if you pass away unexpectedly. Tragically, you die, and your surviving spouse uses $400,000 of the benefit to pay off your mortgage and some other debts, pay for your funeral, and cover other miscellaneous expenses. That leaves just $600,000 for your family.

If your survivors invest that sum in a fund that earns an average 5%, that translates to a monthly income of $2,500. That amount may not be enough to meet all your survivors' financial needs. And that assumes your financial situation is relatively uncomplicated. If you have children with special needs or who will be attending college soon, you may need even more insurance.

When it comes to disability insurance, you may be tempted to rely on your company's policy, but that might be a mistake as well. The coverage may not be as extensive as you expect, with a limited benefit period or a narrow definition of disability (you may only get benefits if you aren't able to work in any occupation, not just your current occupation). Robust disability insurance coverage is essential if you do not have the resources to replace your current income should you become unable to work.

Long-term-care insurance is another essential component of many people's financial plan. Given the high cost of nursing home care or a stay in an assisted-living facility, the need for these types of services in retirement would bankrupt many, even those with substantial retirement savings. If you suspect that you or your spouse might need such care, a long-term-care policy is one way to protect your assets and reduce the risk that you will run out of money paying for a nursing home stay.

Clearly, insurance and financial planning are intimately intertwined. It is difficult to separate one from the other. If you have questions about whether your current insurance coverage fits with your overall financial needs, please call to discuss this in more detail. ❍❍❍

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Cut Financial Clutter

Below are six tips to help you cut financial clutter.

1. Prepare an inventory. First, make a list of all your financial accounts. Then gather all your financial paperwork in one place and organize it into three piles: One to keep hard copies of, one to keep digital copies of, and another to get rid of completely.

2. Shred, shred, shred. Much of the paperwork you've been hanging on to for years can be thrown away. Tax returns can usually be disposed of after three years, though in some cases (like if you're self-employed) you'll want to keep them for a longer period. Credit card statements can typically be shredded once you've confirmed there are no erroneous charges. Loan documents can be shredded once you've paid off the debt.

3. Get a scanner. Invest in an affordable scanner and make digital copies of records you want to retain but don't need originals of, like health records, old tax returns, and Social Security statements.

4. When possible, consolidate accounts. Having numerous financial accounts is a major source of clutter. Do you really need multiple savings accounts at different institutions? Do you have several different 401(k)s from old employers? Do you own half a dozen credit cards but only use one or two? When possible, streamline and consolidate. Not only will this make things easier to manage, but you'll reduce the risk of forgetting accounts and eliminate extra fees.

5. Automate your finances. Reduce the amount of clutter coming in by signing up for online bank account and investment statements. However, because some banks may only allow you to access the past several months of statements, you may want to download the records and save them elsewhere. When possible, automate bill payment and paycheck deposits.

6. Get an online vault and home safe. Personal computers can be compromised or stolen, so you may want to add an extra layer of protection by storing your financial information in a secure online vault. A fireproof home safe is a good place to store items you need to maintain original copies of. Marriage and death certificates, deeds to your home, car titles, Social Security cards, and copies of your will are all items commonly stored in home safes. ❍❍❍

Factors Impacting Your Asset Allocation

While you probably won't make frequent changes to your asset allocation strategy, changes in your personal situation may necessitate periodic alterations:

Risk tolerance — Your risk tolerance is likely to change, either as you become more familiar with investing or as you age. Familiarity with investing typically makes you more risk tolerant, while aging may make you more or less risk averse. Adjust your asset allocation when your risk tolerance shifts, so you don't become uncomfortable with the risk in your portfolio.

Return needs — Your need to emphasize income or growth is likely to change over your life. Young investors typically want to emphasize growth, while retirees may want to emphasize income.

Investment time horizon — With a short time horizon, your liquidity needs may require avoiding more volatile investments. With a longer time horizon, you can wait out any fluctuations in volatile investments. Typically, young investors have longer time horizons than older investors, so they can invest more aggressively. ❍❍❍

Financial Thoughts

Approximately 57% of investable assets are controlled by investors age 60 and older (Source: *Journal of Financial Planning*, May 2020).

A study of 2.8 million trading accounts over the period from 2010 to 2014 found that individual investors tend to trade as contrarians around company news announcements. Investors sold stocks on large positive earnings surprises and bought stocks following negative large earnings surprises. During the trading period, individual investors strongly decreased their holdings of individual stocks (Source: *AAII Journal*, May 2020).

A recent study found that value investing strategies have suffered over the last decade due to a lower relevance of stock fundamentals to returns. Fundamentals matter to stock returns, but there are periods where stock prices become tenuously linked to fundamental data (Source: *AAII Journal*, May 2020).

A study found that riskier companies that hire retirement-age CEOs are more likely to increase their performance when those CEOs are hired in distressed times. These CEOs tend to take on less risky projects and cut spending to help the company (Source: *AAII Journal*, May 2020). ❍❍❍