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Financial Outlook

2ND QUARTER 2020

How Flexible Is Your Financial Plan?

Flexibility in a financial plan is a delicate balancing act: it is important to maintain enough flexibility that your financial plan can accommodate unexpected events that are out of your control. On the other hand, a sound financial plan needs to be firmly grounded by factors you can control so that even in the face of unexpected events, following your plan gets you where you want to be.

Be Flexible: There Are Assumptions You'll Have to Make about Factors You Can't Control

When you develop a financial plan, you have to make certain assumptions, many of which are out of your control:

Taxes — The U.S. tax code will affect your financial plan in a number of ways. For one, your effective tax rate will change as your income changes. Also, changes to the tax code itself can affect your financial plan. Fortunately, changes aren't typically made every year and, because Congress sets tax policy, most changes in the tax code are announced in advance of taking effect — allowing you time to plan.

Income — We all hope that our income will rise as we move forward in our careers. Typically, those kinds of income changes are predictable — maybe it's a 3% raise every year or a 10% raise every three years. More dramatic yet still predictable income changes can happen when one spouse voluntarily stops or starts working. The loss of a job or dramatic decrease in work hours can cause unexpected changes in income.

Health — Your health and your spouse's health is a significant factor in your financial plan for two reasons: first, because health is a big determinant of one's ability to earn income; second, because healthcare costs are often a large expense,

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4 Steps to Boost Financial Confidence

When it comes to being in control of your money, confidence is one of the most important attributes you can have. But many people lack that confidence. Below are four simple suggestions that can help you increase your financial confidence, so you'll know you're making smart decisions for yourself, your family, and your future.

1. Get organized. Not too long ago, it didn't take much work to organize your finances. Unless you were very wealthy, money matters were fairly straightforward — you might have had checking and savings accounts, an insurance policy, maybe some stock investments and bonds, and a mortgage. If you were lucky, you had a pension. You could easily store all your financial information in a single accordion file.

Today, things are more complicated. Credit cards, home equity lines of credit, student loans, 401(k)s and IRAs, 529 plans for college expenses — the list of information to keep track of seems endless. It's easy for things to get lost or overlooked. This can lead to mistakes that weaken your financial confidence. Getting organized will restore a feeling of control.

There are numerous strategies for getting organized. The best approach depends on your specific situation and personality. Some people stick with that old-fashioned accordion file. Others go completely

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How Flexible?

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especially for older people. As you age, it's important to think about changing your assumptions about your health. You can also take steps to mitigate the impact of health changes by saving for medical expenses in a tax-favored health plan like a health savings account (HSA) or flexible spending account (FSA) and by buying disability and long-term care insurance.

Life — Beyond job losses and health events, other major life events can have a big impact on your financial plan as well. Whether it's good or bad, expected or unexpected, events like the birth of a child, marriage or divorce, a spouse's death, or a relocation will impact your financial plan. Some you can plan for, some you can't; the point is to be aware that these kinds of events typically require a review of your financial plan.

Economy — For most of us, our financial plans are based on the assumption that our investments will earn a certain average return in the market. Those assumptions affect decisions we make about our plans; for example, the amount you need to save every month to retire at age 70 is larger or smaller the higher or lower your assumption about investment returns. The best way to make these assumptions is to base them on long-term historical returns.

That is not to say, of course, that these assumptions will always be correct; anyone with money invested in the stock market recently understands those assumptions can be turned on their heads in a single day. But given that we have to make them, using historical returns is the best way to do it.

Be Grounded: Factors You Can Control to Keep Your Financial Plan on Track

It's critical to know the factors you can control and to stay on track in those areas.

Live within your means — When you keep your expenses (including savings and investments) less than your income, you give yourself more flexibility to accommodate unexpected changes that you can't control. If you have some breathing space in your budget every month, you can more easily accommodate, for example, a higher tax rate or economic downturn without having to alter your financial plan.

Have a rainy day fund — Have at least 3–6 months worth of living expenses in an easily accessible, liquid fund that you can draw upon in the event of an emergency or unexpected situation. This fund should be set aside from all other savings and investments and only used for true emergency expenses — like in the case of a job loss or illness. With an adequate rainy day fund, you can deal with unexpected events without having to dilute or erode your financial plan.

Revisit your plan regularly — The number one key to achieving your financial goals is to review and, if necessary, revise your financial plan regularly — at least once a year. That way you can make adjustments for all the factors out of your control that have changed, for better or worse. If you haven't revisited your financial plan in the last year, or if you need to develop one, please call. ❍❍❍

Your Risk Tolerance and Retirement

To gain a better understanding of how we're affected by risk when building a retirement portfolio, it's important to learn about risk tolerance and what it means for you as an investor.

What Is Risk Tolerance? Risk tolerance essentially refers to an investor's ability — both emotionally and financially — to deal with major upswings and downswings in the market. If a person is said to have high risk tolerance, he or she likely tends not to worry so much about the potential risk of certain stocks or having a large amount of stocks in a portfolio. Those with low risk tolerance are on the other end of spectrum, often too cautious to deal with volatile stocks or the market in general.

Risk Tolerance and Age. While plenty of factors must be taken into consideration when considering your own risk tolerance, age is one that can be seen as an important anchor to help risk-takers avoid getting in over their heads. This is especially true of those who are working toward building an effective retirement plan. When people are young, it makes more sense to take risks with investments than when they reach retirement age.

What's important to recognize is that risk tolerance *must* shift with age to avoid making costly mistakes at a time when it may be potentially too late to recover.

Adjusting Risk Tolerance. It may seem as if adjusting risk tolerance is challenging, but often it simply means taking a realistic approach to your investments. If you're nearing 60, for example, it's generally considered unwise for your portfolio to be comprised of 70% stocks — the number should be closer to 40%. Many successful investors find moving away from stocks to bonds is an effective later-in-life strategy.

The Importance of Working with a Financial Planner. The best way to get a better sense of what is a realistic risk tolerance for you to have at this point in life is to work closely with your financial planner. Please call if you'd like to discuss this in more detail. ❍❍❍

4 Steps

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digital, taking advantage of apps and online document storage. Whatever solution you choose, you need to know all the details of your finances — how much you bring in, how much you owe, how much you're worth, and how much you're saving.

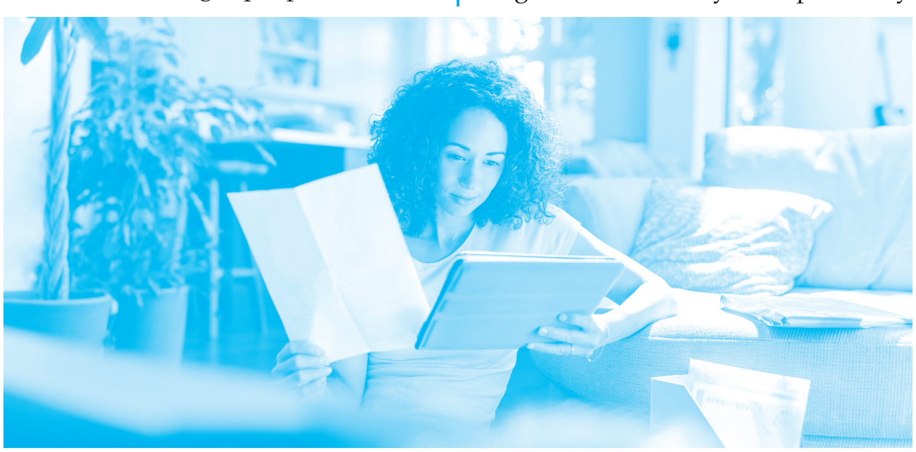
2. Get educated. When you start a new job, you may feel nervous and on edge. There's a lot to learn, and you may not be confident that you'll succeed in your new position. But if you commit yourself to learning new skills and the ins-and-outs of how your new organization functions, your confidence will gradually increase. The same holds true for your finances. Simply taking the time to learn more about finances and managing your money can do wonders for how you feel about your life.

Basic financial literary isn't really covered in most school curricula, so many otherwise savvy adults are clueless in this area. Fortunately, increasing your financial literacy is not hard; it just requires a little bit of effort. Many community colleges, churches, and nonprofit groups offer classes, or you can sign up for a class online. If you don't want to go back to school, consider watching videos or reading articles that review financial concepts.

3. Get a financial plan. Making financial decisions on a day-to-day basis with no larger purpose or focus in mind may work for some people, but it's not likely to help you become financially confident. If you don't have any idea what might (or what you want to) happen, you're not likely to be very confident about your future. To achieve true financial confidence, you need a plan. Setting goals and making meaningful progress toward those goals will do wonders for your financial self-esteem. Having a financial plan will also help you prepare to cope with an uncertain world. You'll be better prepared for the unexpected. In fact, people who engage in financial planning are more likely to report they live comfortably and are on track to meet their financial goals.

Why is a financial plan so important? It brings together all the threads of your financial life. Having a solid plan in place that covers everything from preparing for emergencies to planning for retirement is key to boosting your financial confidence.

4. Get help. Getting reliable advice from an outside expert can do wonders for your financial confidence. Just like a doctor supports and guides you in making decisions about your health, and a personal trainer is there to encourage and motivate you to get fit, a financial advisor is there to make sure you're sticking to your financial plan. Even if you're organized and financially savvy, there are many decisions that are difficult to make on your own, from deciding how much to save for retirement to choosing investments for your portfolio. If you're unsure about what to do next, please call. ❍❍❍



Sharing an Inheritance

Married individuals who receive a large inheritance face a tough decision — should you share the assets with your spouse or hold them separately? Legally, you aren't required to share the inheritance, even in community property states where almost all other income must be split equally. Even if all other marital assets are owned jointly, you might want to consider keeping an inheritance separate for a couple of reasons:

- Should you get divorced, you probably wouldn't have to split a separately held inheritance with your spouse.
- When you die, you control who receives the inheritance. If the inheritance is owned jointly, it goes to your spouse. If your spouse remarries, there is a chance the inheritance will ultimately go to a second spouse or children from a second marriage. You can get around that result through the use of a trust, but it may be simpler to just keep the assets separate.

While there may be sound financial reasons for keeping the inheritance separate, those reasons may be difficult to explain to a spouse. Rather than remaining evasive, discuss the inheritance and your concerns openly. Even if you decide to keep the inheritance separate, that doesn't mean you can't share some of the assets for common goals. ❍❍❍

FINANCIAL DATA

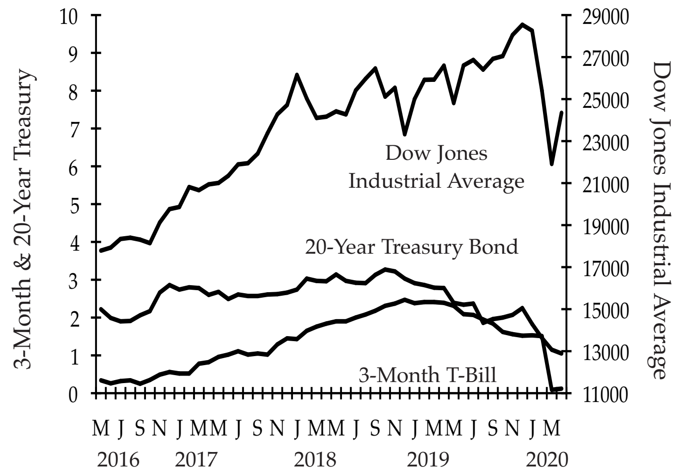
Indicator	Month-end Feb-20	Mar-20	Apr-20	Dec-19	Apr-19
Prime rate	4.75	3.25	3.25	4.75	5.50
Money market rate	0.50	0.34	0.31	0.58	0.65
3-month T-bill yield	1.51	0.09	0.12	1.52	2.39
20-year T-bond yield	1.46	1.15	1.05	2.25	2.78
Dow Jones Corp.	2.52	3.81	2.72	2.84	3.74
30-year fixed mortgage	2.73	2.41	2.36	3.31	3.75
GDP (adj. annual rate)#	+2.10	+2.10	-4.80	+2.10	+3.10

Indicator	Month-end Feb-20	Mar-20	Apr-20	% Change YTD	12 Mon
Dow Jones Industrials	25409.36	21917.16	24345.72	-14.7%	-8.5%
Standard & Poor's 500	2954.22	2584.59	2912.43	-9.9%	-1.1%
Nasdaq Composite	8567.37	7700.10	8889.55	-0.9%	9.8%
Gold	1609.85	1608.95	1702.75	11.8%	32.8%
Consumer price index@	257.97	258.68	258.12	0.4%	1.5%
Unemployment rate@	3.60	3.50	4.40	25.7%	15.8%

— 3rd, 4th, 1st quarter @ — Jan, Feb, Mar Sources: *Barron's, Wall Street Journal*

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

MAY 2016 TO APRIL 2020



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

STAGGERED RETIREMENTS

No matter what the reason, keep these points in mind if you and your spouse don't retire at the same time:

❍ **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. It's a good opportunity to test your retirement budget and to reduce your expenses.

❍ **UTILIZE ALL AVAILABLE BENEFITS FROM THE WORKING SPOUSE'S EMPLOYER.** One of the most significant retirement expenses, especially if you don't qualify for Medicare, is health insurance. So, before one spouse retires, find out if he/she is eligible for health insurance benefits through the working spouse's employer. If that spouse is not currently on that plan, find out how he/she can enroll.

❍ **DELAY SOCIAL SECURITY BENEFITS.** Especially if you are retiring before full retirement age, it typically makes financial sense to delay Social Security benefits. For a significant number of married couples, the man is older, has higher earnings, and will not live as long as the woman. Because the surviving spouse can elect to receive 100% of the other spouse's benefit, it typically makes sense for the man to wait until age 70 to claim Social Security benefits, to provide his wife with the highest possible benefit after his death. On the other hand, there is usually no reason for the woman to wait, provided she can claim benefits on her own earnings record. While the wife's benefit may be lower when her husband is alive, she will receive his higher benefit after his death.

❍ **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. ❍❍❍ FR2020-0115-0040