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Financial Outlook

WINTER 2021

Organizing Your Estate

Estate planning is an ongoing process that rightly entails careful recordkeeping, review, and updates for the rest of your life to keep up with changes in the markets, laws, and your family. When you've finished creating the plan, the next step is to make it possible for your survivors to activate it easily and confidently when the time comes. This means organizing your estate so all those documents are readily available.

While it isn't necessary or even desirable to keep every piece of paper documenting your financial life, keeping the most important documents well-organized can save significant time for settling your estate.

Recognize that it's not just the estate documents you've created that you have to organize. It's also a wide array of documents that serve as proof of purchase and ownership of your assets as well as document yours and your spouse's key life events. One of the best ways to organize them all is to collect them by category. Create another master document that explains what they are, where they are, the first steps your spouse needs to take to get the settlement of your estate started, and contact information for all the advisers he/she needs to connect with.

Below is a description of all the categories of documents your spouse needs, with examples of specific documents in each category. After collecting them by category, put them in a separate, labeled file folder, binder, or envelope for each category, and store them in a place

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Teaching Your Children about Investing

It's never too early to begin teaching your children about money. Children as young as three can begin grasping basic financial concepts, while older kids can handle more advanced concepts than adults may give them credit for. Yet too many parents neglect to educate their children about how money works, which does them a serious disservice. When you teach lessons about money, you give your children a valuable gift that will serve them well throughout their lives and put them on the path to financial independence.

Not convinced your children need to know how investing works? Here are five good reasons to teach your children about investing.

Because Someday They'll Need to Do It on Their Own

You teach your children to ride a bike, swim, or safely cross the street because you want to be confident that they'll eventually be able to do them without you holding their hand. The same goes for investing. Once your children are on their own and have jobs, they'll have to make decisions about investing for retirement and other goals. If they come armed with good lessons from childhood, they're more likely to make smart decisions.

Because Good Money Habits Start Early

Children's core money habits may be ingrained as early as seven years old. While it may not be reasonable to expect a second grader to understand the intricacies of derivatives and hedge funds (especially when most adults aren't familiar with those concepts), you can start to teach children about concepts related to investing, like the idea that

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that protects them from fire and water — either a home safe or a safety deposit box at a bank.

- **Estate planning documents:** Your last will and testament, living will, all trust documents, power of attorney declarations, and any funeral instructions.
- **Personal documents:** Certificates of birth, marriage, and death of other key relatives, divorce and separation agreements, adoption papers, and military records. In addition, make copies of your driver's license, Social Security card, health insurance and/or Medicare card, and any organ donor cards.
- **Other legal documents**: Examples include pre- and post-nuptial agreements, corporation or partnership agreements, and leases.
- **Financial account statements and securities certificates**: Keep and periodically refresh all your bank, brokerage, mutual fund, and other investment account statements. Also include any stock, bond, or saving certificates.
- **Copies of your life insurance policies:** Make sure that you include copies of the beneficiary designations and recent statements of any cash values.
- **Real estate documents:** These should include all deeds, mortgage, and title insurance documents as well as copies of your homeowners insurance policies for all properties you own.
- **Retirement plan documents**: Be sure to include all plan and account documents, beneficiary designations, and statements of all workplace retirement plans, IRAs, annuities, and pension plans you own and statements of your Social Security benefits.
- **Vehicle documents:** All documents related to the automobiles, motorcycles, scooters, boats, and airplanes you own. Include all titles, loan statements, and insurance policies for each vehicle.
- **Credit card and outstanding debt documents:** Keep and periodically refresh copies of your credit card, education, and any other outstanding personal loan balances.
- **Tax returns**. This file should always contain full copies of at least three years of federal, state, and local income tax returns. ❍❍❍

Stock Selection Tips

Consider the following tips when selecting stocks for your investment portfolio:

- Purchase stocks that fit your investment goals and criteria. A growth stock may be a good investment, but it doesn't belong in your portfolio if you have a low tolerance for risk and are investing for income.
- Don't worry about the overall stock market and whether it is at a high or low level. Instead, concentrate on purchasing stocks for the long term at a fair price.
- Don't invest based solely on a stock tip. The tip may be valid, but you need to carefully research the company to be sure of that.
- Invest in stocks whose businesses you understand. Good candidates for investment include products, stores, or restaurants that impress you.
- Carefully research a company before investing in its stock. People spend weeks researching a new car, refrigerator, or house, but often spend little time reviewing investment options. Read the company's annual report, Form 10-K, and analyst reports. Investigate the company's business, new products, financial position, debt structure, competition, and management.
- Don't rush into purchasing a stock. Good stocks can rise in value for years, so it shouldn't be necessary to buy one within a very tight timeframe.
- While diversification is an important portfolio strategy, only purchase as many stocks as you can reasonably monitor.
- Monitor your stocks after purchase. Read quarterly and annual reports to ensure the stocks remain good investments.
- Maintain realistic expectations. High expectations often result in frequent trading, as you continually look for investments to meet those expectations.
- Set target selling prices — both high and low — when you purchase a stock. You don't have to sell when the stock reaches those prices, but you should at least reconsider the investment.
- Analyze and learn from your mistakes. Understand why you lost money on a particular stock so you can try to prevent the same thing from happening in the future.
- Review all your stocks at least annually. Look at them as a whole to make sure they are still compatible with your overall investment objectives. ❍❍❍

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wealth builds over time. One way to do this is by having children open a savings account that earns interest. Or you could reward their saving on your own, perhaps by matching a certain percent of their savings, just like your employer matches your 401(k) contributions.

So They Can Make Mistakes

Making mistakes is a part of the learning process. Most people have to make their investing mistakes as adults, when losing money often hurts a bit more. But by exposing your children to investing at a young age — and by letting them make their own decisions when it's appropriate — they'll learn valuable lessons now, when losing money hurts less. So let your child invest a small amount in that questionable stock. When it tanks as you expect it will, junior will have learned a valuable investing truth.

So They Can Start Building Wealth Early

Consistent, focused investing is one of the best ways for most people to build wealth. If your children start young, you'll be giving them an important leg up for their financial future. Even if you aren't prepared to give children the reins yet when it comes to managing their money, you can show them how you're giving them a solid foundation by putting their birthday cash and other gifts in an investment account like a Roth IRA. As long as a child has earned income from a job, he/she can put money in a traditional or Roth IRA. Even if it's just a few hundred dollars, by starting early, their money will have decades to grow. If they continue those good habits as adults, by the time they reach retirement, your child could accumulate a significant sum.

If you're ready to teach your children about investing but aren't sure where to start, please call. ❍❍❍

Principles of Stock Diversification

Despite the natural pull investors may feel toward stocks similar to those they've had good experiences with, the best way to reduce risk in stock portfolios is to diversify. Diversification is a practice investors use to reduce risk in their stock portfolios, as well as maximizing returns by investing in various industries that will most likely react differently to the same event in the market.

To make wise investment decisions, investors must be aware of the two types of risk they face: **undiversifiable risk,** or market/systematic risk, like inflation, interest rates, exchange rates, political instability; and **diversifiable risk**, which is the unsystematic risk specific to a company, industry, market, or country. Undiversifiable risk is assumed by all investors and nothing can be done to mitigate it, but diversifiable risk can be managed with a diversified portfolio.

How to Diversify

To reach your long-term financial goals and avoid taking risks that threaten those goals, most experts agree that diversification is key. A properly diversified equity portfolio should contain stocks from different industries, valuations, growth rates, countries, and even company sizes to reduce volatility and exposure to loss of capital. The more unrelated the stocks in your portfolio, the less likely they will be subject to the same risk that is common in the same industry.

One example of this risk would be the effect an automotive worker strike would have on automotive stocks. If your portfolio is made up of mostly automotive stocks, this kind of event could lead to a considerable drop in its value. However, a diversified and balanced portfolio could weather these events because they'd only affect one or two of your stocks.

How Many Stocks Should You Own?

Like most things, there is no definitive number of stocks that applies to all situations, but most experts agree that 15 to 20 stocks across different industries is optimal. And while diversification is a crucial part of a good portfolio, overdiversification leads to its own complications.

Overdiversification occurs when the investor holds a large number of stocks, which makes it very difficult to know the individual companies well. When there are too many different companies to keep track of, the investor is at greater risk of making irrational decisions that could negatively impact the portfolio's return. If your portfolio contains 100 stocks, there may be less overall risk that one stock loss harms your return, but there will also be less benefit from a great investment. Striking an appropriate balance that keeps you knowledgeable about and engaged with your investments across a varied amount of industries is essential to reaching your long-term goals.

Diversifying your stock portfolio will help you manage the risk of the price movements of your assets, but it can't completely eliminate risk and volatility. Please call if you'd like to discuss diversification in more detail. ❍❍❍

Financial Data

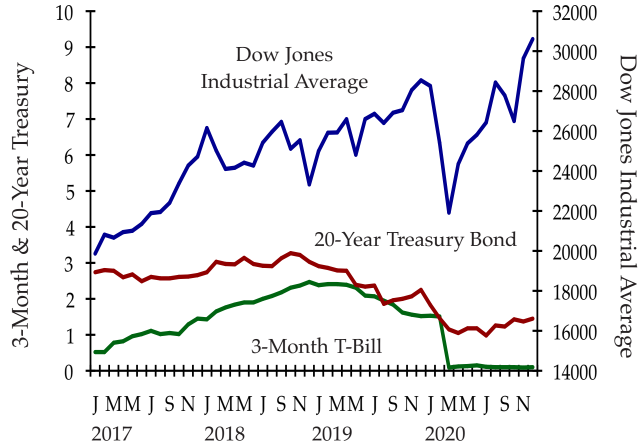
Indicator	Oct-20	Nov-20	Dec-20	Dec-19	Dec-18
	Month-end				
Prime rate	3.25	3.25	3.25	4.75	5.50
Money market rate	0.19	0.21	0.20	0.58	0.56
3-month T-bill yield	0.10	0.09	0.10	1.52	2.47
20-year T-bond yield	1.43	1.37	1.45	2.25	3.03
Dow Jones Corp.	2.23	2.01	1.93	2.84	4.40
30-year fixed mortgage	1.92	1.89	1.91	3.31	4.16
GDP (adj. annual rate)#	-5.00	-31.40	+33.40	+2.10	+2.20

Indicator	Oct-20	Nov-20	Dec-20	2020	2019
	Month-end			% Change	
Dow Jones Industrials	26501.60	29638.64	30606.48	7.2%	22.3%
Standard & Poor's 500	3269.96	3621.63	3756.07	16.3%	28.9%
Nasdaq Composite	10911.59	12198.74	12888.28	43.6%	35.2%
Gold	1881.85	1762.55	1887.60	23.9%	18.8%
Consumer price index@	260.28	260.39	260.23	1.2%	2.1%
Unemployment rate@	7.90	6.90	6.70	91.4%	-5.4%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

January 2017 to December 2020



Past performance is not a guarantee of future results.

The Need for an IRA

Even if you have a retirement plan at work, it may not be enough to provide the retirement you had in mind. Thus, you may also want to contribute to an individual retirement account (IRA) for some or all of the following reasons:

- **You'll probably need the additional funds for retirement.** Even with Social Security and pension or 401(k) benefits, you'll probably need other savings to fund your retirement. There are a variety of ways to save, but an IRA can be a good alternative for retirement.
- **You'll lower your taxes.** You can lower your taxes currently by contributing to a traditional deductible IRA or in the future by contributing to a Roth IRA. With a traditional deductible IRA, you receive a tax deduction on your current year income tax return. When you withdraw the funds in the future, you'll owe ordinary income taxes on the contributions and earnings. With a Roth IRA, you don't receive a current year tax deduction, but qualified distributions are withdrawn without paying any federal income taxes.
- **You're more likely to use the funds for retirement.** If you save in a taxable account, it's easy to use the funds for other purposes. However, the government discourages the use of IRA funds for other purposes by assessing a 10% federal income tax penalty when funds are withdrawn before age 59½ (except in certain limited circumstances). That makes it more difficult to withdraw the funds and more likely they'll stay in the IRA.
- **You have a wide variety of investing options.** With a 401(k) plan, you typically have a limited number of investment options. However, with an IRA, you can invest in a wide variety of investments. ❍❍❍

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