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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. ❍❍❍

The 60/40 Dilemma
The Real Investment Problem You Should Be Worried About

There is an old saw about Americans going to London, given how many of them get hurt looking the wrong way when crossing the street. "It is not the bus you see that is going to kill you." American travelers are used to looking to the left first for oncoming traffic but in London, the traffic is on the other side of the street.

So, what does this mean for investors who are fretting about 2020? According to a recent poll, confidence about having saved enough for retirement has fallen to 48% from 65% because of the pandemic.[1] We don't think investors should be overly worried about the pandemic, as it will pass and the economy is already recovering. The unemployment rate today is 8.1%. After the 2008-2009 recession, it took three years to get back to 8.1%. After this recession, it took six months.

Our primary concern is not the pandemic, it is low, current interest rates. The most common retirement target allocation by financial professionals is 60% to stocks and 40% to bonds, making up what is known as the 60/40 portfolio. Our concern, therefore, is not for the 60%, it is for the 40%. Investors seek interest income from their bonds. Thirty years ago, the 10-year Treasury rate, a key benchmark, was 8.05%. Twenty years ago, it was 5.5%. Ten years ago, it was 2.5%. Two years ago, it was 3%. Today, it is 0.68%. It is easy and straightforward to draw the conclusion that in a 60/40 portfolio, the "40" part is going to make a lot less money than in the past.

If anything, it is worse than the math would lead you to believe. If rates dropped from 5.5% to 3%, the long-term bonds in your portfolio likely appreciated in value as they typically do when bond yields go down. If you bought 10-year bonds when the rate was 2.5%, and the 10-year rate is now 0.68%, other investors will pay more for your bonds because of the higher rate. Raymond James will reflect the increased value of your bond in your portfolio, as all brokerage firms do. In other words, your bonds not only earned more interest, they also appreciated in value. That appreciation can be lost.

We have always said that we don't like to forecast rates. However, it is getting very hard NOT to think that rates will end up going higher. How much lower can they go? The 10-year Treasury rates have ranged between 8.05% and 0.50% (recently) in the last 30 years; the rate now is 0.68%. Our guess would be that rates are more likely to increase than decrease. And if they do, the bonds in your portfolio will decrease from today's values. If you buy a 0.68% 10-year Treasury and, in the future, rates rise back to 3%, you will have to sell your bond at a loss to get investors to buy it.

Therefore, if the "40" part of a retiree's portfolio is going to earn very little, or worse lose value, you have two choices. First, you can lower your spending, recognizing expected lower returns. Second, you can try to make up for it by shifting from 60/40 to an allocation that has more stocks. Can you handle the volatility?

Many clients have compared the stock market right now to a roller coaster. We don't dispute that. The website PsycholoGenie gives advice for those who fear the roller coaster:

- Try breathing techniques. Try to calm yourself down by taking long and deep breaths. You will slowly enjoy the ride instead of fearing it.
- Don't look down, left or right. Instead, just look in front of you.
- Try to get on a roller coaster with someone who is brave and not scared of the ride.

We imagine that a lot of you may be thinking, "Please don't use these roller coaster analogies with me. I don't want a portfolio that feels like a roller coaster." In fact, the evidence supports that most of you are feeling that way. According to the Wall Street Journal, bank balances have increased by $3 trillion since the beginning of 2020.[2] Investors are choosing the safety of the bank over the alternative of low bond yields and this roller coaster stock market.

Bank deposits yield even less than 0.68%. In fact, 5-year CD rates are generally well below 1%. Here is the dilemma. As much as 60/40 is the standard allocation for retirees, the old rule-of-thumb "withdrawal rate" for retirees is 4%. In order to withdraw 4%, you have to make at least 4% on your portfolio, or see the principal go down. If you are going to lose money or make near zero on the "40" portion, the "60" portion has to make about 6.7% after fees to net you 4%. That leaves no room for inflation, which we think is a mistake.

We are concerned because investment returns for investors have gotten smaller in recent years. According to the Pew Research Center's Public Pension Investment Metrics, the average Public Pension Fund earned returns of 5.27% for the year ending 2017. Some of the fund managers did much worse. The largest of those pension funds, the California Public Employees Retirement System (CALPERS) averaged 4.4%. Those returns had the benefit of higher bond rates. The "Core U.S. Aggregate Bond Index" had an average return of 3.58% over the past 10 years.[3] Doing a little math, if the pension funds averaged 40% in bonds, and going forward that portion does not make any money, an otherwise 5.27% return would drop to 3.74%.

Those pension funds typically had less money in bonds than 40%. Most pension funds invested in another category called "alternative investments." That did not help. The CALPERS manager was fired because overall returns suffered in part due to a nearly 20% allocation to those alternatives, which underperformed even the bond average.[4] We don't like that alternative.

In fact, the choices are not fun here. Over the coming months, we will be talking to you about the implications for your portfolios. On October 6, at 5:00pm ET, we will be hosting a webinar titled, "The 60/40 Dilemma". We invite you to listen in.

Given that investors come from all stages of life and with vastly different risk tolerances, we believe each investor must answer the dilemma in a way that allows them to sleep at night while hopefully attaining their financial goals. We like to think of ourselves as your brave roller coaster partner, encouraging you to take deep breaths, here to help answer the 60/40 dilemma in a way that is right for you.

Sincerely,

John B. Burke

John B. Burke, MS, CFP®
Financial Advisor

[1]Barron's, September 7, 2020, "Stocks for Post-covid Portfolios". Page 21, Reshma Kapadia.
[2]Wall Street Journal, August 31, 2020, "Banks Have Lots of Cash". Page B1, David Benoit
[3]Morningstar
[4]Financial Times, August 22, 2020, "Pension fund job looks more like a California nightmare." Page 14, Billy Nauman.