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Bonds at Every Stage of Life

Many think bonds are for the very conservative investor. In actuality, bonds are an important component to a well-balanced portfolio throughout every stage of an investor's life.

They can provide stability during volatile markets, provide an income stream, help with tax liability, and provide higher rates of return for capital growth. Regardless of your life stage, you should consider having bonds in your investment portfolio.

At the Beginning

As a beginning investor in your 20s or 30s, you have a long time to maximize capital and you are probably in the best position to assume risks for larger returns. Even at this early stage of investing, you should develop a portfolio that also balances risk and market volatility. While higher-yield investments are important, you will still want to balance them with some lower-risk investments, including bonds. At this stage, you can:

✔ **Grow capital** with bonds that offer higher yields if you assume higher risk. Although higher-risk bond investments have potential for loss because of interest rate and credit risk, they are typically still a safer investment than equities. You should make sure you understand the terms and conditions, including the bond's rating, call features, and if it is insured.

✔ **Protect your savings** for a large purchase, such as a car, a wedding, or a house. Lower-risk bonds can be a better investment than a traditional savings account to save for large purchases. Bonds will pay a higher interest rate and offer a safe way to protect your savings. You may want to consider Treasury or corporate bonds with maturity dates that align with the time frame in which you will need the money to ensure that you don't encounter a loss in investment value.

✔ **Diversify your employer-sponsored retirement plan**, such as a 401(k) plan. Your plan most likely offers a variety of mutual funds, and bond funds are a good way to diversify your portfolio and

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Frankly Speaking

Will history repeat? Will you benefit?

Since 1950, the average return for the S&P 500 in the 12 months after a midterm election is 15%, surprisingly with no down years. Stocks performed better in the six months following the election than in the six months preceding it seventeen out of nineteen times. And a split government has historically produced a roughly 13% annual return.
-USA Today, November 6, 2022

> "Holidays are a time to count your blessings, one by one, as each relative goes home." -Melanie White
>
> Mankind must put an end to war before war puts an end to mankind." -John F. Kennedy
>
> "Every child is an artist until he's told he's not." -John Lennon

It's February! How are you doing with those New Year's Resolutions? Did you make many? Have you kept any? Are you doing all you can to make life better this year or falling into the same old rut of complacency? Wouldn't a real financial plan benefit you and your family? If so, please contact me for help in establishing yours TODAY!

Bonds at Every Stage

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spread your risk within your plan. The stock and bond markets do not typically move in the same direction, so bonds can stabilize and help with your overall returns.

In the Middle

Your mid-30s to late 40s should be a time of accumulating wealth and investing for retirement and other long-term goals. At this point in your life, you should rebalance your portfolio on a regular basis to ensure your allocation is keeping pace with your goals and is still appropriate for those goals.

Many experts agree that at this point you should consider more medium-risk investments in combination with your higher-risk investments.

Bonds should become a larger portion of your asset allocation than when you were younger, because they will offer more predictable income and continue to balance higher-risk equities.

Following are some bonds to consider at this stage in your investment life:

✔ **Tax-advantaged bond investing** is a good way to help offset taxes if you're in a higher tax bracket. Municipal bonds, which are issued by state and local governments, are an attractive investment in your income-earning years because they are exempt from federal income taxes. And, if you live in the same state as the issuer, they are free from state and local taxes as well. In most cases, you should not include this type of investment in a tax-deferred retirement or college savings account because you would be wasting the tax exemption feature.

✔ **Zero-coupon bonds can be a good cost-effective investment for specific goals,** such as paying for college or investments for retirement. They are sold at a steep discount from their face value, and when they mature, the face value will include both the principal and the accumulated interest earned. These bonds also work well in a tax-deferred account because the interest is taxable when it is credited to the bond, but you can't spend it until it matures.

Approaching Retirement

Now that you're getting closer to retirement, you will want to take fewer chances of losing a large portion of your portfolio.

Many experts recommend that at this point you should begin increasing the bond portion of your portfolio to 50% or more to lower your risk.

Some issues to consider when evaluating bonds for your portfolio:

✔ **Managing interest rate risk** is important because when interest rates rise, bond prices fall, and vice versa. One way to manage this risk is with a bond ladder. This strategy allows you to invest in a portfolio of bonds with different maturity time frames to help your investments do well in any interest rate environment. When rates rise, you will have short-term bonds that mature so you can then invest the principal at higher rates. And when rates fall, you will have the longer-term bonds paying higher returns.

✔ **Tax-advantaged bond investing** will continue to be a good way to manage income taxes, especially if you're in a higher tax bracket. Again, municipal bonds can be a good investment because they are exempt from federal income taxes, and, if you live in the same state or city as the issuer, they are free from state and local taxes as well.

In Retirement

Now your main goal becomes protecting and maximizing your income for the remainder of your life.

Social Security will most likely only replace a portion of your income during retirement, so your portfolio and retirement benefits will need to make up the rest.

Bonds can be a valuable portion of your retirement portfolio, since they will help you generate retirement income while preserving your principal.

Things to consider:

✔ **Guarding against inflation** because you are now living on a fixed income. Treasury Inflation Protection Securities (TIPS) or Treasury Inflation Indexed Securities will help you guard against inflation. TIPS have a fixed coupon rate, but their principal amount is adjusted every six months according to changes in the Consumer Price Index. When TIPS mature, you will get the higher of the original face value or the inflation-adjusted amount. You may also want to keep a small portion of your portfolio in stock for growth potential.

✔ **Spend from taxable accounts first.** When you take money from tax-deferred accounts, you will pay income tax on your distributions. By spending the tax-deferred accounts last, your portfolio will continue growing tax deferred while you are in retirement. In the long term, this can save a significant amount of taxes.

Please call if you'd like to discuss bonds and their role in your in-

Estate Planning for Complicated Family Situations

In our modern and increasingly complex society, planning for the future is not always straightforward. Divorce and remarriage, blended families, children with disabilities, or even a financially irresponsible child can complicate estate planning to the point where procrastination is tempting. If any of these situations apply to you, the reality is you should have a well-thought-out estate plan in place. While accommodating all of your loved ones is a delicate balancing act with many variables to consider, the reward is peace of mind in knowing that your spouse and children will be cared for in the best possible way following your death.

If You Are Divorced

One of your top priorities is updating your beneficiaries, last will, trusts (along with the executor/trustee), durable power of attorney, and healthcare proxy. Likewise, because you no longer have the benefit of combining your estate and inheritance tax exemptions with a spouse, you may need to consider more strategic estate planning to avoid estate taxes.

If there are children involved, you have even more decisions, including guardians of any minor children. Typically, you will not want your former spouse or his/her new blended family to receive any of your assets.

While you can name anyone as your beneficiary on life insurance policies, annuities, retirement accounts (if permitted by your plan), IRAs, and health savings accounts, your children typically cannot receive these funds until they turn 18. In the meantime, your children's appointed guardian, such as their surviving parent, could be designated by the court to manage these monies until they reach adulthood. Proper estate planning can avoid any mishandling of those funds and provide you with the reassurance that your children will be financially protected.

One way to ensure this outcome is to set up a trust with an appointed trustee, such as a grandparent, aunt, or godparent.

If You Have Remarried

While remarrying is a beautiful reminder that second chances really do exist, this can often complicate estate planning — particularly when at least one spouse has children from another marriage. The first step is to sit down with your spouse and discuss what you both feel is fair for each other and your children, perhaps categorizing what is yours, mine, and ours to reach a decision.

Because of state marital estate laws, unless you have a prenuptial agreement in place, your current spouse has legal entitlement to up to half of your estate, regardless of what your will may designate.

Assuring that your surviving spouse is provided for while leaving a legacy for your children can be a frail matter; it's important to have a plan intact that assures both your spouse and children receive what you intend. You might consider a trust, such as a marital trust, qualified terminable interest property trust (QTIP), or irrevocable life insurance trust (ILIT) that can provide lifetime income to your surviving spouse, while simultaneously ensuring that your heirs receive the remaining proceeds.

If You Have A Special Needs Child

Understandably, parents of a special needs child are often so distracted with accommodating their children's immediate needs that important financial matters are overlooked. The consequences of putting off estate planning are far worse in these situations.

The two most important factors to consider are preserving your child's eligibility for Medicaid and other essential benefits while continuing to provide the best possible lifestyle for him/her. However, without a proper action plan, an inheritance could disqualify your special needs child from vital benefits.

To avoid this situation, parents often leave special needs children out of the inheritance equation, listing other siblings or a designated guardian as heirs with the intention that their special needs child will be provided for as he/she continues to receive necessary medical benefits. The truth is, misuse of these intended funds is always a possibility, as intentions and reality often do not mesh. A much more reassuring path is to consider a special needs trust, which can assure that your child continues to qualify for medical benefits while providing a sound financial future that can include special trips, therapeutic lessons, and life-enhancing activities.

An Irresponsible Adult Child

It's quite common for parents to worry that a child could get into serious trouble when presented with a large sum of money. This depends on a variety of factors, such as age at the time of inheritance, lifestyle, or even addiction issues. Consider establishing a trust — such as a spendthrift trust or even an incentive trust — where the appointed trustee can limit your child's inheritance to several installments throughout the course of his/her lifetime (even on an annual basis if you so wish), place conditions such as good behavior on the disbursements, or even appropriate the funds for something as specific as college tuition.

Please call to discuss this topic in more detail. ❍❍❍

When to Sell Stocks

Most of the information you read about stock investing seems to discuss buying, but to actually profit from a stock investment, it must be sold. For many investors, selling a stock is the most difficult decision.

The reason that selling is so difficult for some investors is the fear of missing out on future profits. A good selling decision may leave some profit on the table, but it should be determined by a rational analysis of valuation and price. The most successful investors focus on buying at one price and selling at a higher price.

If you have a difficult time with selling, you should consider using a limit order. This type of order will automatically sell the stock when it reaches your target selling price.

You should decide when to sell stock when you purchase it. Following are times when you should consider selling:

✔ If you are losing sleep over a particular investment, it may be worth reducing your emotional distress to sell it.

✔ If you need money in the next three years to purchase a home or send a child to college, you should pull the money out while you know you have it.

✔ To help you reduce the taxes you will pay, you may want to look for investment losses to offset other gains.

✔ If your portfolio is shifting from your original asset allocation, you will want to rebalance it.

✔ Watch your stocks for a high price/earnings (P/E) ratio. If the P/E ratio is high, it can be an indicator that the stock is overpriced.

✔ Keep an eye on the company's competitive advantage. If others have come up with a new product or technology, they can take their market share.

✔ If the company makes a drastic change in direction or management, it may indicate a problem with their business model. Research the changes.

✔ If a company's sales are falling, it may be signaling a problem.

✔ When there is a trend of shrinking profits, it means the company's expenses are rising faster than their revenues, and they are having a hard time with profits.

✔ If a company cuts its dividend payment, it may be a signal that they are expecting lower earnings and less growth. ❍❍❍

Borrow Wisely

✔ Use debt only for items that have the potential to increase in value, such as a home, college education, or home remodeling. Avoid incurring debt on items like clothing, vacations, or other luxuries.

✔ Consider a shorter term when getting loans. Even though your monthly payment will be higher, you will incur less interest.

✔ Make as large a down payment as you can afford. If you can make prepayments without incurring a penalty, this can also significantly reduce the interest paid.

✔ Consolidate high interest-rate debts with lower-rate options. It is typically fairly easy to transfer balances from higher-rate to lower-rate credit cards. Another option is to obtain a home-equity loan to pay off your consumer debt.

✔ Compare loan terms with several lenders, since interest rates can vary significantly. Negotiate with the lender. Review all your debt periodically, including mortgage, home equity, auto, and credit card debt, to see if less expensive options are available.

✔ Review your credit report before applying for a loan. You then have an opportunity to correct any errors that might be on the report. ❍❍❍

Financial Thoughts

In a recent survey, when asked what the best long-term investment is, 35% of Americans said real estate, 21% indicated stocks/mutual funds, 17% said savings accounts/CDs, 16% indicated gold, and 8% said bonds (Source: Financesonline.com, March 2022).

As of March 2022, the six biggest companies comprised 25% of the total stock market index — Apple, Microsoft, Alphabet, Amazon, Meta, and Tesla. These same six companies represented 40% of the total value of Nasdaq (Source: *The Ultimate List of Investing Statistics for 2022*, March 2022).

Approximately 26% of students under age 40 who attended private for-profit colleges were behind on student loan payments in 2020 (Source: Federal Reserve, 2022).

About 35% of Americans changed their retirement timeline due to COVID 19. Almost 24% plan to retire later than initially planned, while 11% plan to retire earlier (Source: Northwestern Mutual, 2022).

In 2020, 82% of married couples considered themselves doing at least okay financially, while only 67% of single individuals felt the same way (Source: Federal Reserve, 2022). ❍❍❍