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THE ADVISOR

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How Investing for Income is a 'Permission Slip' to Enjoy Retirement

There's a question that sometimes comes up regarding our income-based approach to retirement planning that we'd like to address in a couple of different ways. The question is basically this: what if I don't need more income? That's simplifying it a bit, but there are instances in which we'll help a couple assess their income needs, and it appears they'll be able to meet those needs without changing their portfolio to focus more on protection and income.

We stress "appears" because obviously there are no guarantees when it comes to investing, and circumstances can change dramatically—especially in today's unprecedented age of economic uncertainty. That, in fact, is the first point we make when addressing the original question: investing for income isn't just about protection; it's about overprotection. It's about having an extra layer of security against the kinds of major market drops that have devastated investors twice so far this century, and against the risk of cannibalizing your portfolio when it comes time to take your required minimum distributions or pay for a major medical event.

That extra layer of security exists with the investing for income model because it shifts the focus of your total investment returns from growth (which comes in the form of capital appreciation) to income (which comes in the form of interest and dividends). While capital appreciation depends on market growth (which sometimes turns to shrinkage), the income portion of your total return is, with the right strategies, achievable at the same competitive rates regardless of market conditions.

In other words, overprotection is possible without sacrificing return. Investing for income is simply an alternative way to get a competitive return with less risk. Thus, our first response when faced with the question, "What if I don't need more income?" is to ask a question of our own: "If you can achieve that same level of return with less risk,

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Preventing Identity Theft

It's a common assumption that most identity thefts occur as a result of Internet usage. But online problems typically result from the user's carelessness — responding to an email message asking for financial information or clicking on links in an email message. A far greater percentage of identity thefts occur as a result of a lost wallet or stolen mail.

Armed with your name, Social Security number, and birthdate, thieves can obtain credit cards, get loans, purchase a car, or apply for a job in your name. This information can be obtained from a variety of places. Many people get checks printed with their Social Security number, driver's license number, and birthdate. Mail theft frequently results in something with a Social Security number. Calls to credit bureaus, posing as prospective landlords, employers, or lenders, often yield information. Computer-literate thieves can find many ways to garner information over the Internet.

While you typically aren't responsible for anything charged by an identity thief, you will have to work to restore your credit and close all fraudulent accounts. That can be time-consuming and expensive. If you are a victim of identity theft, inform the three major credit bureaus so a fraud alert can be placed on your account. That way, no new credit will be issued without first contacting you. Also file a police report in case a creditor wants proof of the crime. Make sure to report the theft on the Federal Trade Commission's website at ftc.gov/idtheft, which advises many companies and organizations about the theft, and includes pertinent forms.

To help prevent your identity

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Permission Slip

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doesn't it make sense to do so now that you're retired or near retirement?"

Some people see the practicality and common sense in that idea right away, and quickly take steps to lower their risk. Others may see the sense, but they don't feel emotionally driven to act. Change of any kind is daunting and a little scary, and it's rarely motivated by logic alone. Emotion is what really drives the decision-making process. So, with that in mind, here's a little story for people who feel they "don't need more income" that may help motivate them emotionally to make a change.

'Permission Slip'

We recently heard about a classic car auction where many iconic models from the 1970s were being sold for between $40,000 and $70,000. These were the same cars many men probably dreamed about owning when they were in high school. How many of these same men would likely feel comfortable spending that much money on their dream car now, even if they had a sizable portfolio? The answer is: not many—and the reason is probably that most of them are invested in traditional financial strategies that don't allow them to see their retirement income as a renewable resource.

Put yourself in the place of one of these men and think about it: if you had $500,000 in a mutual fund and it went up, you might feel happy; but would you be likely to sell shares to make an impulsive major purchase, like a restored '72 Mustang convertible? Probably not, because you'd realize that right after you did, the market might go up, and that withdrawal might never be recovered—and, consequently, your wife might be a little upset with you! You'd realize, in other words, that your mutual fund is not a renewable resource.

Now, by contrast, think about that same $500,000 invested in bonds and bond-like instruments, reliably generating $25,000 in income this year and every year for the life of the bond. Think about the fact that your $500,000 is guaranteed to be returned to you if you hold the bond to maturity and there is no default. Now think about this: in just two years, this investment could have generated enough income for you to buy your dream car in cash! In other words, it would be like having a permission slip from your wife to spend the money because you'd both know that, with this strategy, the income is a renewable resource, much like wind or solar power.

Now, if you're the wife in this situation, you might get the same kind of permission slip from your husband to buy a new kitchen or take a big trip with your grandchildren. The point is, by making income a renewable resource, income-based strategies can give retirees permission to do what they want financially, not just what they think they need to do. For many people, that realization can be emotionally powerful.

Clear Conscience

By the same token, investing for income offers people a way to better enjoy their income with a clear conscience and peace of mind. That's based on the psychological reality that most people won't change their goals or plans when faced with good financial news, but they will change them when faced with bad news. For example, a $500,000 mutual fund increasing by $250,000 probably wouldn't change your life or motivate you to take a big trip; but that account dropping by the same amount might—indeed—prompt you to curb your spending or even cancel an expensive trip or major purchase. That's true even if the trip was already set to be paid for with income generated through Social Security or a pension, and really had nothing to do with the savings account. It's simply human nature: psychologically, you would still feel compelled to be cautious. Even if you did take the trip, you probably wouldn't enjoy it as much because you'd simply "feel poorer" as a result of the reverse wealth effect.

So, if you have friends or loved ones who feels they "don't need more income" but may still be carrying too much risk in their portfolio, share some of this information. Explain that investing for income is not just a way to ensure you'll have the income you need to meet your retirement goals, it can also be a "permission slip" to enjoy that income with a clear conscience!

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Loan Carefully

Responding to a request for a loan from family members or friends can be difficult. Often, the reason they're asking is because a bank or other lending source has turned them down, making them a less than ideal credit risk. Consider these points:

- **Make sure the loan won't damage your relationship.** Loaning money can put significant stress on relationships. You may feel uncomfortable asking about missed payments. They may expect you to be more lenient about enforcing repayment terms. And if they can't repay the loan, misunderstandings and resentment can occur on both sides. You don't have to loan, but explain your reasons for not doing so to prevent hurt feelings.
- **Put the arrangement in writing.** If you decide to loan the money, put all terms in writing. You may even want to have a lawyer draw up a formal agreement for significant amounts. With a formal repayment schedule, you may feel more comfortable asking about repayments.
- **Exercise caution before cosigning a loan.** When you cosign a loan, you sign a legal document accepting responsibility for the entire debt. If the primary borrower falls behind in payments, the creditor can come to you immediately looking for payment. The debt will be listed on your credit report, which may impact your ability to obtain another loan.
- **Ask for collateral.** Don't be afraid to ask for a lien on a house or car if you are loaning a significant amount. That way, if the person files bankruptcy, your claim will have precedence over general creditors without liens.
- **Don't keep the loan a secret.** If you make a loan to a family member, inform other close family members of the loan and repayment terms, so they don't feel you are giving preferential treatment.

Identity Theft

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from being stolen, follow these tips:

- **Protect your Social Security number.** This is the primary piece of information needed to steal your identity, so only give it out in situations where it is absolutely required, such as on tax forms, employment records, and for banking, stock, and property transactions. Request a personal identification number for phone access to financial information. Don't print your Social Security number on your checks.
- **Only carry essential items in your wallet or purse.** Don't keep anything showing your Social Security number in your wallet. Memorize your Social Security number, so you don't have to carry your card. Don't keep any passwords in your wallet. Thieves can obtain a great deal of information from checks, so consider not carrying them with you.
- **Check your credit report annually.** All consumers are entitled to one free credit report per year, which can be requested at annualcreditreport.com. Review your credit reports carefully for errors at least annually. It is not uncommon to find information on people with similar names or other family members in a credit file. Make sure you are aware of all accounts listed and that balances are for expected amounts. Check for unfamiliar addresses and inquiries about loans you never applied for. If you find errors, report them immediately in writing. The credit bureau must then investigate the items and resolve those that can't be verified.
- **Carefully share information online.** Never reply to an e-mail message asking for personal financial information. Reputable companies will not request sensitive financial information in this manner. Before giving personal information, review the site's privacy policy, which should tell you how the information will be used and whether the site sells information to third parties. Leave information blank, especially Social Security numbers, if you are uncomfortable providing data.
- **Shred financial information when discarding.** When discarding old tax returns, bank statements, brokerage statements, canceled checks, charge card statements, or any information with account numbers or identifying information, shred the information first. You may also want to shred credit card solicitations so someone doesn't use it without your knowledge.
- **Remove yourself from mailing lists.** Preapproved credit card offers are an easy way for thieves to get credit cards quickly. Credit bureaus often sell lists to companies making these offers. Call the credit agencies and request the removal of your name from these lists.

4 Steps to Create a Budget

A budget shows you where your money is going every month to ensure you are bringing in more than you are spending and saving enough to meet goals. Here are four steps to creating a budget:

1. **Track where your money goes** — You can track your expenses using your bank statements, receipts, or logging it into a journal or smartphone app. Add up the total for each month and then average it out. That will give you a good base to start building a budget you can stick to.
2. **Put your budget on paper** — Once you've tracked your expenses, use a spreadsheet or online/mobile application to put your budget on paper. In the expenses column, include everything you spend money on. In another column, input your income. If you have a salary, you can input how much you receive each paycheck; but if your income varies, you can use the average of the last three months. Subtract expenses from your income to see how much money you have left every month. If you have a negative number, you'll need to make some changes to your budget. If you have a positive number, that can be the amount of money saved each month.
3. **Keep looking for ways to increase your savings** — With essential expenses of fixed amounts, such as your mortgage, taxes, and insurance, you may be able to refinance your mortgage, find strategies to help reduce taxes, or comparison shop insurance to reduce premiums. Essential expenses that vary in amount, such as food, medical care, and utilities, can usually be reduced by altering your spending or living habits. For instance, you can actively shop for food with coupons, exercise to get in better health, or put energy-saving lightbulbs through your house. Discretionary expenses, such as entertainment, dining out, clothing, travel, and charitable contributions typically offer the most potential for spending reductions.
4. **Reevaluate** — It is critical to reevaluate your budget after the first few months to ensure it fits your needs and goals. If you find you are continuously spending more money than budgeted for necessities, adjust your budget. Once you get past the first few months with a new budget, reevaluate every six months or as needed.

Having a budget is key to saving money. Without one, it is easy to spend money blindly. Please call if you'd like to discuss this in more detail.

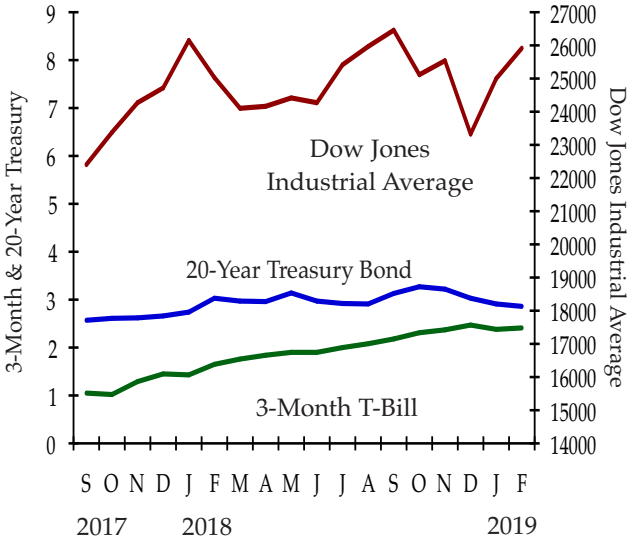
Business Data

Indicator	Month-end Dec-18	Jan-19	Feb-19	Dec-17	Feb-18
Prime rate	5.50	5.50	5.50	4.50	4.50
3-month T-bill yield	2.47	2.38	2.41	1.45	1.65
10-year T-note yield	2.89	2.75	2.66	2.46	2.87
20-year T-bond yield	3.03	2.91	2.86	2.66	3.03
Dow Jones Corp.	4.40	4.16	4.08	3.13	3.63
GDP (adj. annual rate)#	+4.20	+3.40	+2.60	+2.90	+3.20

Indicator	Month-end Dec-18	Jan-19	Feb-19	% Change YTD	12-Mon.
Dow Jones Industrials	23327.46	24999.67	25916.00	11.1%	3.5%
Standard & Poor's 500	2506.85	2704.10	2784.49	11.1%	2.6%
Nasdaq Composite	6635.28	7281.74	7532.53	13.5%	3.6%
Gold	1281.65	1323.25	1319.15	2.9%	0.1%
Unemployment rate@	3.70	3.90	4.00	8.1%	-2.4%
Consumer price index@	252.04	251.23	251.71	-0.1%	1.5%

— 2nd, 3rd, 4th quarter @ — Nov, Dec, Jan Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
September 2017 to February 2019



Reviewing Legal Documents

Whether this is your first, second, or subsequent marriage, take a look at major legal documents to see if changes are needed. Even if you've been married for a while, it's not a bad idea to review these documents:

- **Estate-planning documents** — If this is your first marriage, you may not even have estate-planning documents. In that case, at least prepare a will and durable power of attorney, so that state laws won't dictate how your estate is distributed. For those entering a subsequent marriage or with children, thoroughly review your estate-planning documents. Changes may be needed to provide for your spouse while also protecting your children, which could involve setting up trusts. Review your estate planning documents every couple of years.
- **Asset ownership** — Review how assets are titled to ensure they are consistent with your estate-planning goals. If assets are owned jointly with rights of survivorship, that will take precedence over any provisions in estate-planning documents. Typically, a home, bank accounts, and brokerage accounts will be owned jointly.
- **Assets with beneficiaries** — These assets would include life insurance policies, retirement plans, and individual retirement accounts (IRAs). For assets with named beneficiaries, these designations will take precedence over estate-planning documents.
- **Business arrangements** — If you are a partial owner of a business, review any agreements dealing with what happens to the business if you die or sell your interest. The agreement may need to be changed to allow your spouse to continue ownership after your death or for him/her to become involved in the business.

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