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THE ADVISOR

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Prepare Well and Wisely for the Eagerly-Awaited New Year

If you've ever taken a long drive, you know it's important to prepare mentally for the trip. For example, if you've ever driven from New England to Florida, you know that reaching the Florida border is exciting. Instinctively you think: "I've made it!" However, if your destination is on the southern end of the Sunshine State, the reality is you've only finished about two thirds of the trip. You still have a long way to go. That's an important analogy to keep in mind as we near the end of a year that has felt like one long trip, indeed.

Obviously, we're all hopeful 2021 will be an improvement over 2020 — undoubtedly one of the most challenging years in our nation's history, thanks mainly to a once-in-a-century pandemic. While it's perfectly fine to look forward to the New Year, it's also important to keep in mind that things aren't going to just magically get better once we flip the calendar. Deep down we all know this, but psychologically we can still fall prey to unrealistic expectations. Yes, it's true that in recent weeks we've had some encouraging news. However, it's still a safe bet that most of this year's challenges will linger long into 2021, and that new challenges will emerge along with new opportunities. In other words, our long trip is probably still far from over, and it's up to each of us to prepare ourselves — mentally and financially — for that reality.

Good News, Bad News

As noted, there were several positive developments in November that bode well for the year ahead. No less than three drug makers announced excellent clinical trial results for their Covid-19 vaccines, and two of them — Pfizer and Moderna — have already applied for emergency use approval from the FDA. In addition, one of the most contentious presidential elections in American history was finally settled. Thanks to these and other developments, all three major stock market indexes finished the month with major gains. The S&P 500 and Nasdaq grew by 10% and 11%, respectively, while the Dow Jones Industrial Average gained 11.8% and notched its greatest single-month performance since 1987.[1]

Amid all this good news, however, November also brought its share of bad news, particularly where the Covid-19 crisis is concerned. In short, it was our nation's worst month yet for the pandemic, with new cases topping 100,000 per day almost every single day, and the death rate climbing to nearly 270,000.[2] By comparison, remember that over the summer we were down to between 40,000 and 60,000 new cases a day. Even more troubling are concerns that families traveling for Thanksgiving may lead to an even bigger surge in new cases and deaths this winter. At this point, it's basically a race to get a vaccine approved and widely available before hospitals are overwhelmed and another widespread economic stoppage becomes necessary.

Making the race even more urgent is the fact that Congress and the White House have yet to reach a deal on a second round of economic relief in response to the crisis, despite a broad consensus among economists and lawmakers that more aid is needed. Allianz Chief Economic Advisor Mohamed El-Erian has called this stalemate a recipe for pain, particularly considering unemployment claims began climbing again in November.[3]

None of these challenges will

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Money Personalities and Saving

Everyone approaches their finances differently, but there are common mistakes that certain money personalities make. The following highlights five different money personalities, the

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Prepare Well

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magically disappear when 2020 gives way to the new year, regardless of November's positive developments. In fact, the pandemic and its economic impacts are likely to continue for much of 2021, with social distancing, mask-wearing, and other precautions remaining part of "normal" life for some time to come. While it's important to prepare mentally for that, it's just as important to prepare now for the financial challenges and opportunities that may emerge in 2021. As discussed in last month's newsletter, that starts with reviewing your current strategy to discuss those potential opportunities and make sure your current allocation is properly aligned with your risk tolerance.

A Good Gauge

Now is a good time to do this because you can use the massive market drop that occurred in March as a gauge to measure your risk tolerance. The selloff at the start of the pandemic hit every corner of the market, and those of you invested in bonds and bond-like instruments saw your account values drop right along with those of stock market investors. Although the loss was only a paper loss and your income was unaffected, the experience may have made you realize your risk tolerance level is lower than you thought, in which case you may want to make adjustments in your portfolio to help lower your risk further.

On the other hand, you may now realize you have a higher risk tolerance level. As a result, you may want to discuss revising your portfolio to be in a position to take advantage of potential new opportunities that may emerge in 2021. You can do this while still keeping your strategic focus on income through an actively managed portfolio of high dividend-paying value stocks. Market analysts have already identified several good, undervalued dividend-paying stocks for 2021, and noted that if a vaccine is effective, many of the businesses and industries hit hardest by the pandemic may start to rebound.[4] The bottom line is there may be a variety of good opportunities in the new year for investors with the right risk tolerance. However, there will also be challenges, including the potential of another major market pullback, so timing in your strategy is crucial!

That's why it's important to take advantage of this period of relative market strength and stability to prepare for the coming year. You can do this by setting up a meeting with our office when we contact you — or by being proactive and contacting us! As always, we encourage you to share this newsletter and this information with friends or family you feel may benefit. Meanwhile stay safe, and Happy Holidays!

Advice for Saving for Children

Your child has finally finished college and started his/her first full-time job. What is the most important financial advice you can give?

Participate in a 401(k) plan as soon as possible. The quality of your children's retirement will largely be determined by the amount of money they save, and a 401(k) plan is a great place for them to start. Before marriage, a new home, or other obligations consume their entire paycheck, get them into the habit of saving. Because the contributions are deducted before they even see their paycheck, it's a great way to get them into the habit of saving on a regular basis.

Having trouble convincing them this is a good strategy? Perhaps some numbers will make the point. Assume your child starts contributing to his/her 401(k) plan at age 25, contributing $6,000 per year (substantially below the maximum contribution in 2020 and 2021 of $19,500), with matching employer contributions of $3,000. If he/she earns 8% annually, he/she could have a balance of $2,331,509 at age 65, before the payment of any taxes. What if he/she waits until age 35 to start contributing? At age 65, the balance could be $1,019,549, still a substantial amount, but $1,311,960 lower than if he/she started at age 25. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment vehicle.)*

What if your child still isn't convinced? Consider reimbursing him/her, as part of your annual gift tax exclusion, for any 401(k) contributions. You can reimburse the entire amount or offer to make a partial reimbursement.

Don't let your child procrastinate because there are too many decisions to be made. Just encourage him/her to start contributing, reassuring him/her that none of the decisions is permanent. He/she can review contribution levels, investment choices, beneficiary designations, and other matters at a later date.

If your child has the option to contribute to a regular 401(k) plan or a Roth 401(k) plan, suggest contributing to the Roth 401(k). Employer matching contributions will still be made to a regular 401(k) plan, but your child's contributions can go to the Roth 401(k). Your child won't get a current tax break for contributions made, but he/she will owe no taxes on the contributions or any earnings when withdrawals are made. This can make a huge difference in the amount of money available for retirement.

What if your child doesn't have a 401(k) plan at work? Encourage him/her to contribute to an individual retirement account (IRA). Although contributions are limited to $6,000 in 2020 and 2021 compared to $19,500 for 401(k) plans, IRAs are still a good way to save for retirement. Again, suggest a Roth IRA rather than a traditional deductible IRA, so that qualified withdrawals can be taken with no tax consequences.

Please call if you'd like to discuss this concept in more detail or would like help with examples that are more pertinent to your child's situation.

[1] "Dow Posts Best Month Since 1987," Yahoo Finance, Nov. 30, 2020

[2] "A 'Natural Disaster' is Unfolding in All 50 States," CNN, Nov. 29, 2020

[3] "El-Erian on Stimulus Talks: Delay Will Create… Damage," Yahoo.com, Nov. 30, 2020

[4] "Here's Where to Invest Your Money in 2021," CNBC, Nov. 9, 2020

Money Personality

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mistakes they make, and how they can improve their financial picture.

Entrepreneur

Because they put all their financial resources and energy into their business, entrepreneurs may make mistakes such as cashing out their retirement plans to fund their business, holding too much debt, or even getting behind on self-employment taxes.

Entrepreneurs would be best served by developing a business plan with income and expense projections to ensure they use debt wisely to fund their business. They should also make contributions to a retirement plan annually, even if it's only a few thousand dollars. And finally, entrepreneurs should work with a tax professional to help reduce their taxes as much as possible, while making sure quarterly tax payments are made.

The Saver

This is the person who follows all the rules and does it just right. They fully fund their retirement accounts each year, don't carry much debt, and have plenty of savings in the bank for any unexpected expenses. While this money personality may get to retire early, they may want to stop and smell the roses once in a while.

The High-Income Earner

Professionals, such as doctors and lawyers, fall into two groups: savers and spenders. Those who fund a large lifestyle may find they have trouble funding their retirement because they've spent too much.

Big earners need to develop a financial plan so they understand how much money they will need to fund their retirement based on the lifestyle they want to live. They should also pay themselves first with a predetermined amount to saving, before buying nicer cars or bigger houses, as well as considering setting monthly spending limits.

I Need to Save?

This money personality spends their paycheck as soon as it hits their account, and in some cases, live beyond their means. They have no savings if an unexpected emergency comes up, and they are likely carrying too much debt. To be able to retire, this person needs a financial plan with a strict budget to help pay down debt and develop both long- and short-term savings.

Doing Fine and Enjoying Life

This person saves and spends. They want to enjoy life experiences along the way to retirement, such as vacations, maybe a boat, or a cabin. While they contribute to their 401(k) plan, they may not have a financial plan that includes short-term financial goals and how much they need to save for retirement.

While it is great that this money personality saves, they need to ensure that their spending isn't outpacing their savings. By developing a solid financial plan, this money personality can create a more balanced approach to saving and spending.

What's Your Money Personality?

You should determine where you fall on the spectrum of money personalities so you can develop a financial plan that suits your personality, but also helps you secure your future. Please call if you'd like to discuss this topic in more detail.

Assess Your 401(k) Plan

At least annually, you should thoroughly review your 401(k) plan. Some items to consider include:

- **Have your goals or objectives changed?** Most people use their 401(k) plan to fund retirement, although it can also be used for other things. Take time to reassess your goals and objectives, which can impact how much you contribute and how you invest those contributions. Calculate how much you'll need at retirement as well as how much you should save annually to meet that goal.
- **Are you contributing as much as you can to the plan?** Look for ways to increase your contribution rate. One strategy is to allocate any salary increases to your 401(k) plan immediately, before you get used to the money and find ways to spend it. At a minimum, make sure you are contributing enough to take full advantage of any matching contributions made by your employer. In 2020 and 2021, the maximum contribution to a 401(k) plan is $19,500 plus an additional $6,500 catch-up contribution, if permitted by the plan, for individuals age 50 and older.
- **Are the assets in your 401(k) plan properly allocated?** Some of the more common mistakes made when investing 401(k) assets include allocating too much to conservative investments, not diversifying among several investment vehicles, and investing too much in the employer's stock. Saving for retirement typically encompasses a long time frame, so make investment choices that reflect that time period. For many, that means a significant portion of their assets should be invested in growth vehicles.
- **Do your investments need to be rebalanced?** Use this review to ensure your allocation still makes sense. Also review the performance of individual investments, comparing the performance to appropriate benchmarks. You can't just select your investments once and then just ignore the plan. Review your allocation annually to make sure it is close to your desired allocation. If not, adjust your holdings to get your allocation back in line. Selling investments within your 401(k) plan does not generate tax liabilities, so you can make these changes without any tax ramifications.
- **Are you satisfied with the features of your 401(k) plan?** If there are aspects of your plan you're not happy with, such as too few investment choices or no employer matching, take this opportunity to let your employer know.

Managed properly, your 401(k) plan can play a significant role in helping to fund your retirement. Please call if you'd like help reviewing your 401(k) plan and investments.

Business Data

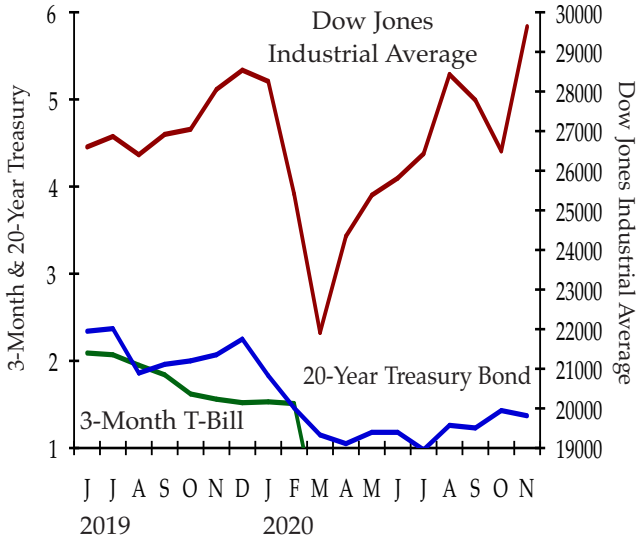
Indicator	Month-end Sep-20	Oct-20	Nov-20	Dec-19	Nov-19
Prime rate	3.25	3.25	3.25	4.75	4.75
3-month T-bill yield	0.10	0.10	0.09	1.52	1.56
10-year T-note yield	0.69	0.88	0.84	1.92	1.78
20-year T-bond yield	1.23	1.43	1.37	2.25	2.07
Dow Jones Corp.	2.17	2.23	2.01	2.84	2.85
GDP (adj. annual rate)#	-5.00	-31.40	+33.10	+2.10	+2.10

Indicator	Month-end Sep-20	Oct-20	Nov-20	% Change YTD	12 Mon
Dow Jones Industrials	27781.70	26501.60	29638.64	3.9%	5.7%
Standard & Poor's 500	3363.00	3269.96	3621.63	12.1%	15.3%
Nasdaq Composite	11167.51	10911.59	12198.74	36.0%	40.8%
Gold	1886.90	1881.85	1762.55	15.7%	20.7%
Unemployment rate@	8.40	7.90	6.90	97.1%	91.7%
Consumer price index@	259.92	260.28	260.39	1.2%	1.2%

— 1st, 2nd, 3rd quarter @ — Aug, Sep, Oct 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

June 2019 to November 2020



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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