May – June 2020

# Money Moxie®


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*TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE*

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# *Facing Coronavirus Uncertainty, Think Long Term*

I often include the phrase, "Past performance does not guarantee future results," to remind us that uncertainty will always be an integral part of investing. I also repeat the words, "Long term," frequently to help keep perspective in the face of uncertain times.

Warren Buffett understands uncertainty and long-term investing. He is one of the wealthiest individuals on the planet and one of the best investors of all time. Recently he gave us a glimpse into how he is viewing the extreme pessimism and optimism on Wall Street. On May 2, 2020, Warren Buffett conducted a virtual shareholder meeting. In the discussion, we learned that Buffett has been selling some and holding much of his investment portfolio during the Covid-19 pandemic. With around $137 billion in cash, many people thought Buffett would be buying aggressively. We also learned how he is viewing short-term and long-term investing now that he is 89 years old:

*I hope I've convinced you to bet on America. Not saying that this is the right time to buy stocks if you mean by "right," that they're going to go up instead of down. I don't know where they're going to go in the next day, or week, or month, or year. But I hope I know enough to know, well, I think I can buy a cross section and do fine over 20 or 30 years. And you may think, for a guy, 89, that that's kind of an optimistic viewpoint. But I hope that really everybody would buy stocks with the idea that they're buying partnerships.*

At the age of 89, Buffett is still thinking 20 to 30 years into the future. That's an important lesson for all of us because the likelihood of making money increases with time.

The Dow Jones index is made up of 30 stocks, so it's not a comprehensive example, but it is perhaps the oldest index. Over the last 100 calendar years, the probability of a positive return in any given year was 69%. That's not bad, but that means that 31% were negative. Now that's uncertainty. At the extremes, the Dow lost over 50% (1931) and gained 63% (1933). That's what we call short-term.

I would define long-term as 10 years or more. It makes a big difference. The Dow was positive 83% of the 10-year periods and 96% of the 20-year periods. Only during the Great Depression were the 20-year numbers negative, but any investor who could have stayed invested would have done well in the latter half of the Depression and in the decades to come. Through these 100 years, the Dow averaged a 5.7% annual return (and that does not even include dividends).

So, while uncertainty will probably always be difficult to embrace, time can be our ally. Warren Buffett is choosing to think this way at the age of 89. I firmly believe that the same perspective will be beneficial to us as we continue through the 2020 Coronavirus pandemic and beyond.

James

James R. Derrick
Chief Investment Strategist

*The Dow Jones index is often used to represent the U.S. stock market. One cannot invest directly in an index and of course, past performance does not guarantee future results.

## SFS Announcements - Save the Date

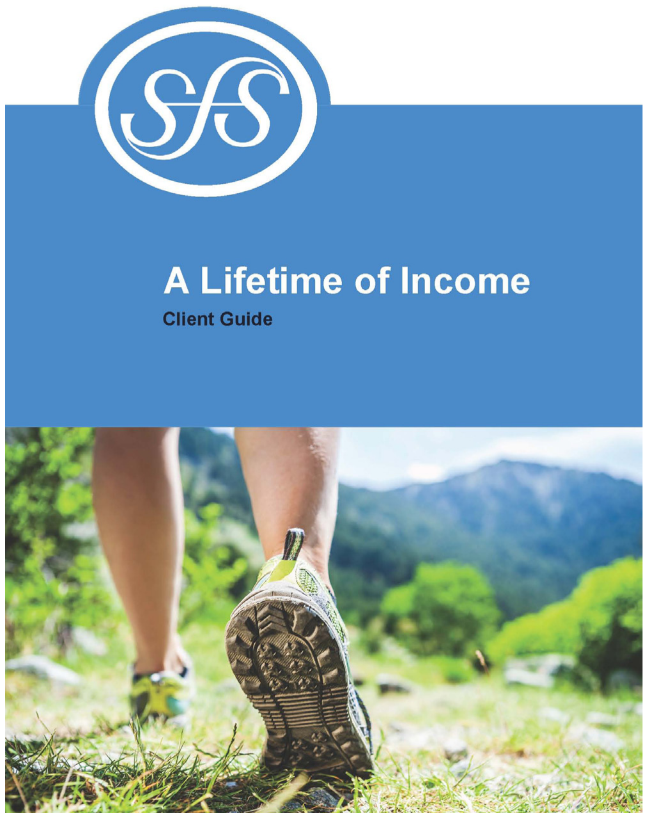
***Just For Women*** webinar — Tuesday, June 9th at 9:00 a.m.
***Market Update*** webinar — Wednesday, July 1st 9:00 a.m.
Watch your email for details and instructions to attend each webinar. We look forward to having you join us.

# No One Can Predict The Future

By Mikal B. Aune, CFP®

No one can predict the future. Especially not me. On my LinkedIn page in March 2019, I posted: “I wouldn’t be surprised that we have some good growth in stocks for (2019). You usually have good growth right before a recession. However, 2020 could be a challenging year.” I had no idea it would be as challenging as it has been!

Even though I was right, I was not predicting the future. I was just following statistics and other economic indicators. Little did I know that a global pandemic would stall the U.S. (and world) economy and send it into a freefall. This yanked the 1st quarter into the red. Now, all we need to meet the technical definition of a recession is for the 2nd quarter to be negative as well.




Stocks are not the economy. There has never been a better example of this than the year 2020. The economy is hurting. Consumer spending is down double digits, and unemployment is near 20 percent.

Stocks, on the other hand, have been improving as the government has printed money. Some pundits think stocks have already bottomed and are just headed up from here. Others think we will head lower towards the mid-March bottom. Some have even suggested that this economy looks a lot like a depression. These are all conjectures. No one can predict the future.

This uncertainty leads people to question their financial future: Will I be able to pay my bills for the next 6 months? Will I be able to retire when I planned? Will my nest egg be enough to see me through retirement?

Years ago, questions like this led us at SFS to create a system that is simple yet powerful. It is designed for times like these. The goal is to provide an inflation-adjusted income for the rest of your life, regardless of the storms that may come. It helps remove a lot of the uncertainty around the security of your finances.

We call it a Lifetime Income Plan. The concept is simple: you segment your assets into time frames based on when you will need income. The assets set aside to generate income for the next 5 years should be conservative and protected.

The successive 5-year time segments should be moderate to aggressive, depending on the time frame and your personal risk tolerance. This system can be used whether you are already in retirement or just starting to save for the future.

While the design is simple, the application can be much more complex. As always, we recommend consulting with one of our Certified Financial Planners (CFP®) who are well versed in income distribution strategies.

No one knows exactly how things will turn out with the Coronavirus and how large or long-lasting the impact will be. However, with careful planning, you can help prepare your financial future for any storm that comes.

# Could Your Emergency Savings Use a Boost?

By Sharla J. Jessop, CFP®

If we have learned anything from the last 90 days, it is to expect the unexpected. As we watched the pandemic unfold, basic necessities such as hand sanitizer, cleaning supplies, canned goods, meat, and even toilet paper became high demand commodities, creating an uncomfortable situation for many of us. Having excess on hand helped ease the pain when store shelves were empty.

The same can be said for finances. What if the next crisis hits financially - will you have the cash supply needed to stay afloat? Preparing for a financial emergency is essential. Here are some things to consider.

A Federal Reserve report reveals many Americans could not cover an unexpected expense of $400. Those who carry a credit card balance, or do not have a credit card, are unlikely to have money set aside and are most at risk.

| Credit Card Balance | Could Pay Emergency $400 Expense | Have 3 Months of Emergency Savings |
|---|---|---|
| Always Pay Full Balance | 90% | 81% |
| Sometimes Pay Full Balance | 63% | 54% |
| Never Pay Full Balance | 43% | 29% |
| Don’t Have Credit Card | 27% | 18% |

## Emergency Savings

How Much Should You Set Aside?


An emergency savings account will help soften the blow if your paycheck stops for a period of time. We recommend saving enough to cover between 3 and 6 months of income, less taxes, and retirement plan deductions.

The next decision is where to put the money you have saved. You can use a single account or a combination of accounts. The important thing is to keep the money liquid and readily accessible.

## Options For Emergency Savings

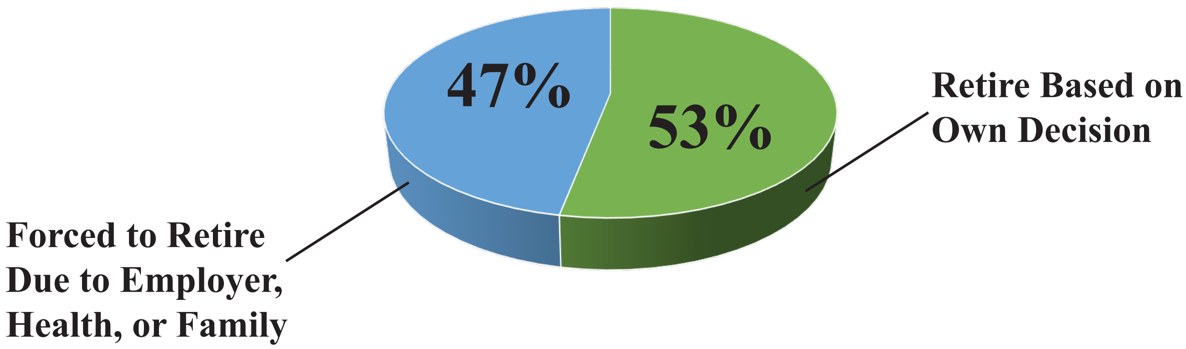
**(1) Savings Account**
**(2) Money Market**
**(3) Certificate of Deposit (CD)**
**(4) Low-Risk Investment**
**(5) Combination of 1-4 above**

Source for all data: Federal Reserve Bank of St. Louis. Past performance does not guarantee future results. Diversification does not guarantee positive results. CD’s are FDIC insured up to $250,000 and offer a fixed rate of return. They do not necessarily protect against a rising cost of living. The FDIC insurance on CD’s applies in the case of bank insolvency, but does not protect market value. Other investments are not insured and their principal and yield may fluctuate with market conditions.

# The State of Retirement

By Sharla J. Jessop, CFP®

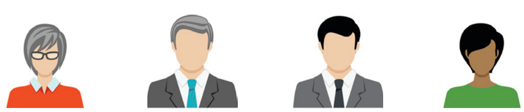
## Retirement Decision




When asked, "When are they going to retire?" Most people reply with a specific age or date, something they have pinpointed and are looking forward to with anticipation. Unfortunately, only 53 percent of retirees leave the workforce based on their planned time-frame. Forty-seven percent are unexpectedly forced into retirement at an early age. This staggering number supports the importance of having a retirement plan that prepares you for all outcomes, those you anticipate, and those you don't.

## Retirement Savings

**One in four American adults does not have retirement savings**



In a Federal Reserve study of non-retirees, 40 percent responded they feel their retirement savings are on track.

Sadly, 25 percent responded that they have not prepared for retirement and have no retirement savings. This can be due to many factors. They may work for a company that does not provide employees with retirement savings options such as a 401(k). Often they feel like they should do something but are overwhelmed and do not know how to start or where to turn for advice. If you are in this situation, please reach out to us for assistance.

**60%**

**Percent of retirees with self-directed savings who are uncomfortable about making investment decisions**

The number of DIY investors with self-directed accounts changes as they reach their retirement years. This could be for a number of reasons. One is the complexity of turning a lifelong savings plan into an income-producing plan. Like climbing a mountain, the greatest risk comes on the way down. The same is true with retirement savings. Many fear taking on the wrong type of risk and jeopardizing their future income.

Source for all data: Federal Reserve Bank of St. Louis


Back in March, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed. It was designed as a stimulus bill that would provide relief and assistance to millions of Americans affected by the pandemic. Here are three things you should know about the CARES Act.

**No Required Minimum Distributions for 2020**
This year, you will not have to take out a required minimum distribution from your qualified retirement accounts. The waiver for this year also includes any inherited retirement accounts.

We know many of our clients also like to take advantage of qualified charitable distributions to donate their required distributions directly from their IRAs to a charity, tax-free. If you are over age 70 ½, you can still do this in 2020. It may even be advantageous for you to donate money from your IRA to a charity. This year, since you won't be required to take money out, it will require more evaluation than in previous years to determine if it is still beneficial for you.

**Unemployment Benefits**
Unemployment benefits have been expanded, and individuals will be eligible for an additional $600 weekly benefit through July 31, 2020. Additionally, individuals will also have 13 weeks of federally funded benefits through 2020 for people who exhaust their state benefits. Another added benefit from the CARES Act is for people who would not normally qualify for unemployment benefits like independent contractors, part-time workers, and self-employed individuals. They will now also be eligible for benefits.

**Penalty-free Withdrawals from Retirement Accounts**
The 10% early-distribution penalty tax that normally applies to distributions made before age 59 ½ is waived for distributions up to $100,000 relating to Coronavirus. You must be impacted by COVID-19 for the waiver to apply; this would include being diagnosed with Coronavirus, being unable to work due to lack of child care available, or being furloughed, laid off, or have reduced hours.

While you will still have to pay income tax on any withdrawal, you'll be able to spread the payment of those taxes over three years. If you decide to repay the withdrawal back into your account within three years, you will not owe income tax, and it will not be counted toward yearly contribution limits.

*Remember to speak to one of our wealth advisors before making the decision to tap into your retirement account.

# What To Do With Your 401(k), If…

By Jordan R. Hadfield

### You are still employed by the sponsor company

Keep investing! The 401(k) implements an effective purchasing strategy called dollar-cost averaging. This strategy involves making regular and continuous fixed-dollar investments. But it is more than just a payroll deduction plan. Dollar-cost averaging removes the risk of trying to time the market.

By using dollar-cost averaging in a long-term investment account, the average cost per share ends up being less than the average price per share. This is because you buy less shares when prices are high and more shares when prices are low. In other words, volatility can work in your favor. So keep investing.

### You are no longer working for the sponsor company but are employed elsewhere

You have some options.

(1) You can take a partial or full distribution. In most cases, this is a taxable event and may carry additional tax penalties. In rare situations, is this a good idea. Speak with a professional advisor before choosing this option.

(2) You can leave your 401(k) with your previous company. You can no longer contribute to it, but it will continue to perform based on the investments you have selected.

(3) If your new employer offers a 401(k) and you are eligible for it, you can roll your old 401(k) into your new 401(k) plan. This is a tax-free rollover, and you will need to select new investments based on what the new plan offers.

(4) You can roll the old 401(k) into an IRA. In most cases, this is what we recommend. An IRA gives the account owner more control, more investment options, and better planning opportunities than a 401(k). Like a 401(k), an IRA is a retirement account with annual maximum contribution limits and early withdrawal penalties. A rollover is not considered a contribution, and therefore any amount can be rolled.

### You are no longer working for the sponsor company and are not employed

You have the same options as above, with the obvious exception of rolling to your new 401(k). If you are retired, however, the rollover option to the IRA may be even more appealing. When it comes time to take distributions from your retirement accounts, the IRA has some significant advantages. Some of these include better risk management strategies, tax-saving distribution strategies, and avoiding mandatory distributions from Roth accounts.

### You need financial help due to COVID-19

The CARES Act allows some individuals to take early withdrawals from retirement accounts in 2020 without the early withdrawal penalty. If you have been diagnosed with COVID-19, have a spouse or dependent diagnosed with COVID-19, or have experienced a layoff, furlough, reduction in hours, have been unable to work, or lack childcare because of COVID-19, you may qualify. Withdrawals may impact your tax liability, so speak with a financial advisor before taking an early distribution.

# *Your SFS Team*

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

**Wealth Accumulation**
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

**Family Protection**
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

**Retirement**
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

**Disability (Injury)**
- Short-Term Disability Insurance
- Long-Term Disability Insurance

**Elder Care**
- Long-Term Care Insurance
- Hybrid LTC

**Employers and Self Employed**
- Health Insurance
- 401(k) Plans

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