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PLAN FOR A LIFE WELL LIVED

Final Issue

Planning for Financial Uncertainty

By Howard Hook, CFP®, CPA, CAP®

Things seem as uncertain now as they ever were. Much of the blame for this can be placed on the arrival of COVID-19 nearly two years ago. It made us reflect on our own mortality.

Besides mortality, the pandemic also took a toll on finances. Businesses that had been bedrocks in their local communities struggled to stay open, leaving business owners and workers trying to figure out how to make ends meet.

I do not think there is a single person who does not know someone affected personally by either the medical issues or economic issues caused by COVID-19.

The pandemic is not over yet, and while we remain hopeful the worst is behind us, it is instructive to begin to evaluate what happened and how we can be better prepared medically and financially if and when this happens again. The medical part I will leave in the capable hands of the doctors, nurses, and other medical professionals who risked their lives to treat as many people as they possibly could.

As for the financial lessons, take a look here:

You Need to be Properly Insured!

This starts with providing access to affordable health insurance for everyone. The Affordable Care Act went a long way to providing this, but in the end the removal of a compulsory requirement to purchase insurance several years ago likely resulted in less people being insured than could have been.

The above is not meant to imply that a mandate to purchase health insurance be put back into law. I will leave that up to policymakers to determine. My point is that access to health insurance benefits is crucial for everyone, even those who are young and healthy. Viruses, as COVID proved, are not selective.

A larger insured population allows doctors, hospitals, and clinics to provide care with the understanding they will be paid for their services. These dollars can be used to build more facilities, hire more doctors and other medical professionals, and upgrade the quality of care for everyone.

Given the opportunity to purchase health insurance either through your employer or privately, you should take advantage of this – whether you are healthy or not.

Purchasing health insurance through your employer is tax-advantaged. The premiums you pay are tax-deductible, so when you receive your W-2 at the end of the tax year the premiums you pay are deducted against your taxable wages.

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Through comprehensive financial planning and investment management, Access Wealth helps clients plan for and achieve a life well lived.

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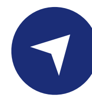

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Privately purchased health insurance premiums are not fully tax-deductible unless you own a business. As an owner you can deduct the premiums against the business income you report on your tax return. If you itemize your deductions, a portion or all of your premium may be deductible as long as the amount paid exceeds your Adjusted Gross Income for the year. One way to make insurance more affordable for people is to allow a full deduction for premiums regardless of how it is purchased.

In addition to health insurance, working folks should also have disability insurance. Disability insurance can replace lost wages due to illness or sickness. Unlike workers' compensation, the illness or sickness does not have to be job-related.

Typically, disability insurance replaces a certain percentage of your wages. The maximum amount that can be purchased is between 60 – 70 percent of your gross monthly wages. Like health insurance, disability can be purchased through your employer (most offer it) or privately.

Disability insurance can be expensive. Covering as much of your gross wages as you are allowed to is the best way to insure against a possible loss of income. Disability benefits can be taxable or non-taxable depending on how you pay for the premiums. Unlike health insurance, where you want to pay for it with pre-tax money, disability insurance premiums should be paid with after-tax money so the benefits are tax-free when paid out. If buying a private policy not through work, then you should pay for the premiums with after-tax money. It should be noted that if the premium is paid for by your employer, then the benefits are taxable to you. Many employers pay a portion, and you pay a portion. Asking to pay your portion with after-tax dollars will result in a portion of the benefits being tax-free.

Establish an Emergency Fund

Back in March 2020, many local economies shut down with the intent to reopen in a few weeks. As we now know this was not the case. Many local economies remained closed longer, only allowing essential businesses to remain open. And, even once open, businesses found that their customers did not immediately return. Instead, people turned to large online retailers to provide them with items such as food and groceries.

Many businesses and employees could get through a two-week period with no income. But anything longer than that put the family finances in peril. While the government did step in, providing support through stimulus payments and forgivable loans, the timing for many took too long and many people wound up financially incapacitated.

Having an emergency fund to tap into has always been so important that it should be accomplished even at the initial expense of saving for retirement. The funds should be eequal to at least six months of cash need and be easily accessible if and when you need it. Keeping it in a savings account that you can link to your checking account is the best place to keep your emergency fund.

Your emergency fund should not be part of your investment portfolio. The sole purpose of an emergency fund is to be readily available in the event you need cash for an emergency such as a job loss, a business shutdown, or a major repair to your home. It should not be to buy a car or go on a big vacation.

Some people prefer a Home Equity Line of Credit to access any cash needs. The thinking behind this is that it allows more money to be invested directly into an investment portfolio rather than sitting in a bank account earning practically nothing.

The problem with this thinking is the risk that the line of credit would not be available to you if you needed it. The fine print of most agreements state the bank can pull the line if it wants to. Many people experienced this back in the mid 2000s during the housing crisis. Banks canceled lines of credit, or reduced or eliminated the amount of available credit. This is seemingly unfair as the purpose of the line of credit is to access cash for emergencies, but if the emergency happens to affect a good portion of the world, the bank will reduce its risk and adjust your capacity to borrow.

Bite the bullet and build an emergency reserve in your bank account. You will enjoy the peace of mind it brings.

The pandemic touched two nerves: our health and our money. Today, we have an opportunity to improve both. Next time we can spend more time caring for friends and family who may be less fortunate than us since we know our own health and finances remain in good shape.

This is an excerpt from an article in *SBH Medicine*.

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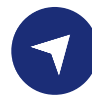

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What is True Diversification?

By Michael Chomiak, AAMS®

Some investors believe that diversification is owning many different mutual funds, stocks, or ETFs. But that alone is not true diversification when it comes to reducing portfolio volatility.

True diversification entails owning many investments that tend to perform differently under current market conditions. Take, for example, the year 2020. During and immediately following the height of the pandemic, "growth" stocks, especially cloud-based technology stocks, ruled the day. They did for good reason: the work from home/anywhere trend seemed to be the upheaval that would forever alter how we engage in our professional and personal lives.

Now, however, as we emerge from unvaccinated to vaccinated, those growth stocks (Zoom, Peloton and GrubHub, to name a few) that went up seemingly every day, now face steep headwinds as people return to the office and go out to dinner or to the grocery store with less fear of getting sick. The value that investors placed on these funds by buying the stock grew to extreme levels as investors concluded that their growth was endless. Fast forward to 2021, large growth stocks thru Friday October 22 have still performed well (21.05%), although not to the same level as in 2020 (38.2%). But large value stocks, after a disappointing 2020 (2.73%) have done even better than large growth, returning 22.57%.

A main difference between these two indices is that the Russell 1000 Growth index contains 38.11% in technology stocks while the Russell 1000 Value holds just 9.23% in technology stocks. So clearly the two indexes invest in very different types of stocks.

How quickly the best performer between growth and value stocks changed from 2020 to 2021 speaks to the speed at which different asset classes can go from being favored by investors to becoming out of favor. Trying to time this yourself is at best a fool's errand. Not only do you need to know when to exit a top performing area, you must also know what the next top performing area will be. That's like forecasting the weather months from now. The better choice is to invest in many different types of investments in your portfolio so if any one of those types do really well you participate in the upside, but if any do poorly you only participate a little bit on the downside. One may slightly overweigh or underweigh certain types of investments in the hopes of benefiting a bit more, but abandoning entire types of investments is risky due to the aforementioned timing issues.

Broad asset class diversification has been called the only free lunch on Wall Street. The adage remains prescient and long-term investors are well served to follow that mantra. Diversifying your investments traditionally meant investing in three basic types of investments: stocks, bonds, and cash. Diversification within your bond holdings could include owning U.S. Treasuries, U.S. Corporate Bonds, Foreign Sovereign or Corporate bonds, etc. Within each of those categories, you could own bonds that mature within a few years, and some that take longer to mature.

Finally, even cash holdings can be diversified amongst position-traded money market funds, certificates of deposit, and sweep money market funds.

Once you have decided how many different types of investments you wish to use in your portfolio, consider how you are going to make those investments.

This is where you can diversify even further. You could, of course, choose to buy individual stocks and bonds. But, that is not a great solution for most people because it takes quite a bit of time to choose, monitor, and make changes to individual stocks and bonds. You also need to own many different stocks and bonds to get the level of diversification we recommend you have.

Instead, the better way to go is to use mutual funds to invest. Mutual funds are beneficial because the typical fund owns many different investments, which provides you better protection than owning an individual stock or bond, which can go to zero. Mutual funds also are organized to invest a certain way, so it is easier to fill those different types of holdings by choosing a mutual fund that specifically invests in the category of stocks or bonds you are looking to use.

The use of mutual funds can also provide an additional level of diversification for your portfolio.

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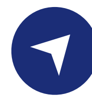

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That is because some mutual funds are actively managed, meaning the manager of the mutual fund is responsible for selecting which stocks or bonds to own and when to sell.

Another type of mutual fund is an index fund, which is not actively managed, but instead invests in the same stocks or bonds as an index such as the S&P 500 or Bloomberg Aggregate Bond index. With index funds, the portfolio manager does not have the discretion to buy and sell any stocks or bonds they feel like, but instead must follow the index they claim to follow.

Using an actively managed fund implies that you are expecting the fund manager to outperform their respective benchmark. While this is difficult for many fund managers to achieve, some have been able to outperform. But outperformance is not the only reason to use actively managed funds.

There may be certain times you want to invest in a fund where the portfolio manager has the discretion to change the portfolio.

A perfect example would be an actively managed large cap growth fund. The fund manager may look at the fund's holdings and decide that some of its holdings have done so much better than other holdings that those positions represent too large a percentage of the total fund. They could then choose to reduce those holdings and reduce the risk in the portfolio tied to those few stocks.

A large cap growth index fund, which tracks the S&P 500, may contain five stocks that comprise 20% of the overall fund, but would not be able to reduce those holdings unless the S&P 500 index did so.

Rather than trying to decide between active funds and index funds, you can further diversify that decision by owning both.

There is a price to pay for all this diversification: by doing so you are giving up some investment returns during a strong market. But you are also reducing much of your downside risk when the markets fall.

Every fall, the IRS announces changes to certain key financial figures for the upcoming year. We've published an article that highlights a few of the numbers that may be relevant to you. Visit our blog to learn more: https://access-wealth.com/key-tax-numbers

Firm News

Congratulations to Howard Milove, Howard Hook, and Darren Zagarola on being named 2022 Five Star Wealth Managers.

The Final Issue

We live in a world driven by digital communication. Our monthly electronic newsletter boasts more than 500 subscribers and, together with period client, market, and tax alerts, ensures we are sending out articles that are relevant and timely. As we previously shared, we are retiring this printed quarterly newsletter to better focus our efforts on these timely communications. **This is our final printed issue.**

If you are not receiving our email newsletter or alerts, please sign up today! Email info@access-wealth.com with the subject line: Subscribe Me. **If you wish to continue receiving our articles in print form**, contact Jessica King at 973-436-4086.

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