Winter 2024

Financial planner

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Winter 2024 Newsletter Topics

- *3 Reasons to Examine Your Cash Allocation*
- *Protect Yourself from Mobile Payment Scams*
- *How to Withdraw Money from your 529*
- *Guide to Investing in an Election Year*

3 Reasons to Examine Your Cash Allocation

Investors are finally getting paid for holding cash, but there are risks in holding too much.

- Even with today's generous interest rates, the real return on 12-month CDs is barely positive.
- Feeling safe by holding excess cash comes with an opportunity cost.
- Attractive yields on cash can disappear quickly, so investors should consider ways to lock in those attractive yields.

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Protect Yourself from Mobile Payment Scams

Thanks to peer-to-peer (P2P) payment apps, sending and receiving money has never been more convenient: All you need is a smartphone and an app. These mobile payment apps make it easier than ever to split the check or send money to loved ones, but they're also an easy target for fraudsters.

> THINK OF MOBILE PAYMENTS LIKE CASH. IF YOU PAY SOMEONE WITH CASH BUT NEVER RECEIVE THE GOODS OR SERVICE, YOUR MONEY IS GONE. THE SAME IS TRUE FOR P2P APPS — MOST FINANCIAL INSTITUTIONS WILL NOT REIMBURSE YOU FOR AUTHORIZED PAYMENTS.

When you make a P2P payment, the money is immediately deducted from your balance and credited to the recipient. You can dispute a credit card charge, cancel a bill payment, or stop payment on a check, but you generally don't have the same option with mobile payment apps. This makes P2P payments attractive to fraudsters: money they receive from you can be in their accounts within a few moments — and it might be difficult for you to get it back.

Here are 10 ways to protect yourself from mobile payment scams:

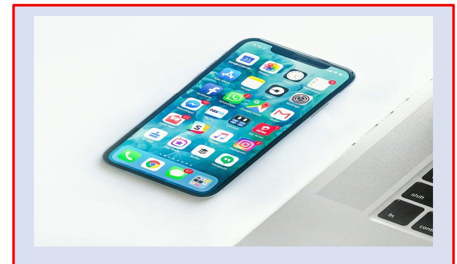
ONE - Use a strong password. This may seem basic, but the harder you make your password for P2P apps, the less likely you will be subjected to fraud. A strong password includes symbols, numbers, and words that cannot be easily predicted.

TWO - Enable two-factor authentication (2FA) This requires an additional step, like a text message with a code, to verify your identity when you log in to a P2P app.

THREE - Biometrics are best. Apps that require your fingerprint or face ID with every transaction provide an extra level of security.

FOUR - Don't loan your phone to strangers. A fraudster could open up your banking or P2P app and quickly transfer money out of it.

FIVE - Only use P2P apps with people you know. Think of mobile payments like cash. If you pay someone with cash but never receive the goods or service, your money is gone. The same is true for P2P apps — most financial institutions will not reimburse you for authorized payments.



SIX - To sell your stuff, use marketplaces and payment networks with protection. These services offer sellers protection to prevent you from being charged back if a buyer later claims their purchase was unauthorized or they didn't receive the item. Many marketplaces have their own payment networks (or an authorized payment network) that provide additional protection.

For the first time since 2007, investors are finally getting an attractive interest rate on their cash holdings. With a little searching, you can find money-market funds and one-year CDs that pay 5% or more. Loading up on cash may seem like a good strategy, but like your favorite dessert, is there a downside to having too much of a good thing?

Here are three reasons why investors should be careful about holding too much cash:

ONE Cash has usually delivered negative returns after inflation and taxes
TWO Cash hasn't historically helped investors grow their wealth
THREE Today's attractive interest rates may not be available tomorrow

Cash Has Usually Delivered Negative Returns After Inflation and Taxes Cash has a key role in every portfolio. Everyone needs cash on hand for recurring expenses such as mortgage payments, college tuition, and credit-card bills. It's also prudent to have an emergency fund because life is unpredictable. But it's important for investors to realize that cash investments such as CDs typically don't generate a positive return after factoring in taxes and inflation. Even with a historically generous 12-month CD rate of 5.36%, the after-tax real return (i.e., the return after factoring in inflation and taxes) is still less than 1%.

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Contrast this with using a P2P app and a classified ad – although most transactions are legitimate, you have little protection from fraudsters sending money from stolen P2P accounts, and then disappearing with the item you sold – leaving you not only without the item, but potentially also on the hook for the money that was fraudulently sent to you.

SEVEN - Never share verification codes. A vishing scam works like this: A fraudster calls you from a number that looks legitimate and asks for a code (like what's mentioned above in #2) or for your personal information in order to access your accounts.

EIGHT - Beware of phishing scams. Never click on links or fill out online forms you receive unexpectedly from online sources.

NINE - Avoid giving P2P apps access to your phone's contacts and other information. The less access apps have to your personal information, the more protected your information will be.

TEN - Have a weekly money date to check outgoing transactions. Sometimes scams go undetected because people haven't realized money has left their account. If anything seems suspicious, report it immediately.

How to Withdraw Money from your 529

What can I pay for with my 529 savings plan? One of the best things about your 529 savings plan is that you can use it to cover a variety of education expenses. In addition to tuition, mandatory fees and room and board, the following expenses are generally considered qualified if used while the beneficiary is enrolled at an eligible educational institution:

- Required books, supplies and equipment
- Computers and peripheral equipment (such as printers)
- Computer software, internet access and related services

How to avoid tax penalties Avoid tax penalties by only using the money for qualified expenses. Money used for anything else will be subject to a 10% federal tax penalty on the earnings and in addition, federal and, if applicable, state income tax. Also make sure your withdrawal matches the payment year of the qualified education expense. Discuss any potential exclusions with a tax advisor.

Be aware that states take different approaches to the income tax treatment of withdrawals.

For example, withdrawals for K–12 expenses may not be exempt from state tax in certain states.

What to expect at tax time? Tax reporting depends on who receives the money from the 529 withdrawal. If the money is sent to:

- You (the account owner), then the tax reporting will be under your Social Security number.
- The beneficiary (student) or directly to a school, then the tax reporting will be under the beneficiary's Social Security number.

Form 1099-Q will be issued in January of the year following the withdrawal. Any earnings on withdrawals are exempt from federal taxes as long as you use the money for qualified education expenses. Contact us to discuss the advantages of 529s and qualified expenses.

Be sure to save your receipts and documentation for tax time!

Guide to Investing in an Election Year

How to invest with confidence in an election year Presidential elections can be divisive and unsettling. At times, the fate of the world seems to hang in the balance. But when it comes to investing, do elections really matter all that much?

U.S. voters will have their say in November 2024, but by maintaining a long-term focus, investors can position themselves for a brighter future regardless of the outcome at the voting booth. In fact, overreacting to short-term volatility during election cycles can be detrimental to investment returns.

U.S. stocks have trended up regardless of whether a Republican or Democrat won the White House. A $1,000 investment in the S&P 500 Index when FDR became president in 1933 would have been worth over $19 million in 2023. During that time there have been seven Republican and eight Democratic presidents.

Cash Hasn't Historically Helped Investors Grow Their Wealth One of the most fundamental decisions we make as investors is how much money to allocate among stocks, bonds, and cash. Cash is certainly safer than stocks or bonds in terms of daily volatility. The tradeoff for that feeling of safety, however, is much less long-term growth potential. Cash is the proverbial parking spot for your money, but it probably won't help you get where you want to go over the long term—and holding too much of it could cause you to miss out on significant gains.

Today's Attractive Interest Rates May Not Be Available Tomorrow While earning 5% interest on your cash is extremely attractive, history shows that this generous interest rate may not last. In fact, over the last 50 years there have been eight times when yields on cash fell by 4% or more over periods ranging from three months to two years. The reinvestment risk for cash and short-term CDs is one of the biggest risks investors face today.

SINCE 1970...

A STOCK INVESTOR GAINED 141% MORE THAN A CASH INVESTOR & A BOND INVESTOR GAINED 54% MORE THAN A CASH INVESTOR

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Primary season tends to be volatile, but markets have bounced back strongly afterward. Stocks have returned 11.3% in the 12 months following primaries, compared to 5.8% in similar periods of non-election years.

Investors often get nervous and move into cash during election years. Net asset flows into money market funds have been more than three times higher in election years than in the year after an election.

But staying on the sidelines has rarely paid off. It's time, not timing, that matters most. The S&P 500 Index had negative returns in only two of the last 20 election years (2000, 2008), and both declines were largely attributed to asset price bubbles rather than politics.

What typically happens to the stock market during election years? Markets hate uncertainty, and what's more uncertain than primary season of an election year? With so many candidates on the campaign trail, the range of outcomes can feel daunting.

But the volatility is often short-lived. After the primaries are over and each party has selected its candidate, markets have tended to return to their normal upward trajectory.

Patient investors who stay the course have often been rewarded. Since 1932, stocks have gained an average of 11.3% in the 12 months following the conclusion of the primaries (using May 31 as a proxy) compared to just 5.8% in similar periods of non-election years.

But keep in mind, these are just averages. Investors shouldn't try to time an entry point into the market. Instead, a long-term approach can help investors withstand volatility and feel confident that markets have tended to move higher over time, even in election years.

BOTTOM LINE: PRIMARY SEASON TENDS TO BE VOLATILE, BUT MARKETS HAVE BOUNCED BACK STRONGLY THEREAFTER.

Which sectors have done best in election years? It'd be great if there were go-to sectors to invest in every election year, but unfortunately investing isn't that simple. Every election cycle brings its own parade of candidates with their own policy agendas, so market winners and losers are hard to predict.

The health care sector has been in the crosshairs for a number of election cycles.
Heated rhetoric over drug pricing put pressure on many stocks in the pharmaceutical and managed care industries. Other sectors have had similar bouts of weakness prior to elections.

Does that mean you should avoid a particular sector altogether? Not at all – when everyone is worried that a new government policy is going to come along and destroy a sector, that concern is usually overblown.

Regardless of who wins, stocks with strong long-term fundamentals will often rally once the campaign spotlight fades. This pre-election market turbulence can create buying opportunities for investors with a contrarian point of view and the strength to tolerate short-term volatility.

BOTTOM LINE: ELECTION YEAR VOLATILITY CAN CREATE BUYING OPPORTUNITIES FOR LONG-TERM INVESTORS.

What mistakes do investors often make in election years? If you're nervous about the markets heading into 2024, you're not alone. Presidential candidates often draw attention to the country's problems, and campaigns tend to amplify negative messages. So it's no wonder that investors may start feeling a little pessimistic too. This can become a problem if they allow their mood to affect their money.

History shows that investors have poured into money market funds — traditionally one of the lowest risk investment vehicles — with greater frequency ahead of elections. By contrast, equity funds have seen the highest net inflows in the year immediately after an election. This trend holds true even for international funds.

This suggests that investors want to minimize risk during election years and wait for uncertainty to subside before revisiting riskier assets like stocks.

But market timing is rarely a winning long-term investment strategy and can pose a major problem for portfolio returns.

BOTTOM LINE: INVESTORS OFTEN GET NERVOUS AND MOVE TO CASH IN ELECTION YEARS, BUT THAT'S RARELY A WINNING STRATEGY.

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We are available for in person, phone or zoom reviews. Give the office a ring and we can discuss your investing goals and needs.

Estate Planning

Retirement Planning

Long Term Care Planning

Insurance

Corporate Qualified and Non-Qualified Retirement Plans -401(k)-

Educational Funding -529 Plans-

Charitable Planning

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What have been the best ways to invest in election years? Spoiler alert: The best way to invest in an election year has rarely been by staying on the sidelines.

Consider three hypothetical investors, each with a different investment approach. The ending value of each of their portfolios over the last 22 election cycles was calculated, assuming a four-year holding period.

The investor who stayed on the sidelines had the worst outcome 16 times and only had the best outcome three times. Meanwhile, investors that were fully invested or made monthly contributions to a 401(k), for example, during election years came out on top. These investors had higher average portfolio balances over the full period and more frequently outpaced the investor who stayed in cash longer.

Sticking with a sound long-term investment plan based on individual investment objectives is usually the best course of action. Whether that strategy is to be fully invested throughout the year or to invest on a regular basis, the bottom line is that investors should avoid market timing around politics. As is often the case with investing, the key is to put aside short-term noise and focus on long-term goals.

Bottom line: Staying on the sidelines has rarely paid off. It's time, not timing, that matters.

Good saving employs the two C's: compounding and consistency.

A cashless society is good for retailers and bad for consumers. The average American spends about $92 a month, or $1,100 a year, on coffee, according to a study by the investment app Acorns.

If you invested that $92 every month at 7% return, starting at the age of 25, you'd have $286,000 by retirement.

Good saving habits employ the two C's: compounding and consistency. The former refers to the interest you make on interest, in addition to the $92 monthly deposit. The latter refers to automatic payments — using digital tools to actually save you money rather than drain your account.

Content courtesy of

Hartford Funds – 3 Reasons to Examine Your Cash Allocation

Patelco – Protect Yourself from Mobile Payment Scams

Capital Group/American Funds – How to Withdraw Money from your 529

Capital Group – Guide to Investing in an Election Year

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