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FINANCIAL CONCEPTS
FALL 2019

Retirement Planning Decade by Decade

Retirement planning is a lifelong process. Below are some of the key retirement-planning actions you should consider.

Your 20s

Start saving. The sooner you can start saving for retirement, the less you'll have to save overall. If you start saving $5,000 per year at age 25, you'll have just under $775,000 by age 65, assuming annual returns of 6%. Wait until age 35 to start saving and you'll have about $395,000 — more than $300,000 less. Also, since you're still decades away from your retirement date, don't be afraid to take some risk with your investments. You'll have to stomach some ups and downs, but earning higher returns from equity (or stock) investments now means more money (and less to save) as you get older.

Other steps to take when you're young: Start budgeting, avoid debt, and save for other goals like buying a house. Even if you're not earning a lot right now, adopting healthy money habits today will pay big dividends later in life.

Your 30s

As you enter your 30s, your income is probably heading upward and your life is beginning to stabilize. You may find that you can contribute more to your retirement savings accounts than you could in your 20s. As your income increases, consider raising your retirement contributions by the amount of your annual raise, so that you don't fall behind on saving. Reassess your savings rate and

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Greetings!

As the summer draws to a close and we all return from the beaches and mountains, we hope that you were able to enjoy the fabulous weather and some rest and relaxation with your friends and family.

Recently, we have had a number of conversations that illustrate a fair amount of angst about the economy, the markets and politics. Some appear to be overly "tariff-ied" by the negotiations with China. Others understandably feel torn by the "risk-on" or "risk-off" day-to-day trading environment.

Meanwhile, bonds in many countries are trading with negative interest rates. At this writing, the 10 year Treasury note has a 1.5% yield. With inflation at 2% and especially after factoring in taxes, the 10 year Treasury assures that an investor can lose money safely. Against this backdrop, there are many companies that are growing earnings and increasing dividends (the S&P yields 1.9%).

In times like this we are reminded of the age-old adage that: "'now' is always the hardest time to invest". We believe that it is an especially important time to remain disciplined: to stay true to each client's target asset allocation and to rebalance if necessary. We still think the best approach is to continue to look for opportunities to buy great companies at attractive prices.

We are delighted to share with you that our team member, Michael P. Knuff, CFP®, CIMA®, Senior Vice President- Investments, has just been recognized on the 2019 Forbes Top Next Generation Wealth Advisors** ranking! This is the second year in a row that Mike has been recognized on this impressive list of professionals, and we are proud of his hard work and dedication toward our client's success.

As always, we want to hear from you. We also invite you to follow us on Facebook for regular postings on financial topics of interest. We look forward to connecting with you this fall.

Best,
Peter, Mike, Stuart, Andrew, Joe and Edita

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CAR-0819-04763

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Retirement Planning

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consider meeting with a financial advisor to make sure you're saving as much as you can — and investing it well.

Your 40s

You're at the halfway point to retirement. If you've been saving for the past 10 or 20 years, you should have a nice nest egg by now. And if you're still not serious about saving, now is the time to do so. You'll have to be fairly aggressive, but you still have some time to build a respectable financial cushion. Whether you're an accomplished saver or just getting started, you may also want to consider meeting with a financial advisor to help you make sure you're saving enough to meet your goals and investing in the best way possible.

A special note: People in their late 40s and early 50s are also often looking at steep college tuition bills for their children. Don't make the mistake of sacrificing your retirement goals to pay for your children's college educations. Stay focused and on track, so your children don't have to jeopardize their financial future to support you as you get older.

Your 50s

Once you turn 50, you have the option to make catch-up contributions to retirement savings accounts like 401(k)s and IRAs. You can save an additional $6,000 a year in your 401(k) plan and $1,000 more a year in your IRA in 2019. That's great news if you're already maxing out your savings in those accounts.

Your fifth decade is also the time to start thinking seriously about what's going to happen when you retire — when exactly you're going to stop working, where you want to live, whether you plan to work in retirement, and other lifestyle issues. It's also the time to take stock of your overall financial situation. You'll still want to keep saving as much as you can, but you may also want to make an extra effort to be debt-free at retirement by paying special attention to paying off your mortgage, car loans, credit card debt, and any remaining student loans.

Your 60s

Retirement is just a few years away. If you haven't already, you'll want to dial down the risk in your portfolio, so you don't take a huge loss on the eve of your retirement. You'll also want to start thinking about a firm retirement date and estimating your expected expenses and income in retirement. If your calculations show that you're falling short, it's better to know before you stop working. You can make up a shortfall in a number of ways — reducing living expenses, working a bit longer, and even delaying Social Security payments so you'll get a larger check.

Whatever your age, the key to retirement is having a plan and consistently executing that plan. Not sure how to get started? Please call so we can discuss this in more detail. ❍❍❍

What Kind of Retirement Do You Want?

We all know the process. Estimate how much is needed in retirement (which can range anywhere from 70% to over 100% of preretirement income), determine available income sources, and then calculate how much to save annually to reach those goals. As you go through this largely mathematical exercise, however, don't forget the most important part. You need to give serious thought to the type of retirement you want.

To help you visualize your retirement so you can estimate retirement expenses, consider these questions:

- ❍ When do you want to retire? Will you realistically have the resources to retire at that age?
- ❍ Do you plan to stay in your current home, trade down to a smaller one, or move to a different city? If you plan to move, is the cost of living there more or less expensive?
- ❍ Will your mortgage be paid off by retirement? What about other debts?
- ❍ Will you continue to work after retirement? If so, will you work part- or full-time? Where will you work and how much can you expect to earn? Are you planning to start a business after retirement?
- ❍ How will you spend your free time? What hobbies will you pursue? How much and where will you travel? How much will all these activities cost?
- ❍ How will you pay for medical costs? Will your employer provide health insurance or will you need to purchase insurance to supplement Medicare coverage?
- ❍ Do you have any medical conditions that are likely to impact your quality of life in retirement? What would you do if you became physically disabled? How will you provide for long-term-care costs?
- ❍ How much of your income will be provided by personal investments including 401(k) funds? Are you confident you can invest so those investments will last your entire retirement?
- ❍ What would happen financially if your spouse dies? If you die, would your spouse be able to support himself/herself financially?

If you'd like to review these questions in more detail, please call. ❍❍❍

Having the Talk

Take a moment and pretend your older sister and her husband pass away unexpectedly, leaving their three young children behind. You are called into their lawyer's office immediately. You learn that you and your husband were named guardians of your three nieces and the family dog. While you love your nieces, your life just changed in the blink of an eye. You went from being a professional, childless, young couple in a condo to a five-person family with a dog and a two-story home. Situations like this happen in real life.

In many families, finances and estate talk are taboo. Talking about what will happen after a person dies can be painful and scary, but necessary. It's important to talk with your loved ones about what you want, what they want, and what is laid out in your will.

4 Tips to Help You Have the Talk

❍ **Keep it light —** Having this discussion can bring up a lot of emotions for your loved ones; thinking about losing someone you love so dearly is painful. So keeping the conversation light but to the point can help keep it on track and productive. There may also be tensions that arise through the process — maybe multiple people want the same thing, or someone gets offended by how you've decided to split your money. You might consider conversing with people individually to avoid upset.

❍ **Talk openly and honestly —** A decision you have made may hurt someone's feelings, or there may be things you don't want to tell people about, but it is crucial to be open and honest with your beneficiaries.

❍ **Discuss values, not just valuables —** When you die, how do you want people to remember you? What parts of you do you want to live on? This may include traditions, values, family names, rituals, religious beliefs, and so on. This is an important matter to bring up during discussion with your family. Think back on times that meant a great deal to your family or traditions that have brought joy. Maybe it's important to you to have your grandmother's name passed on from generation to generation. Talk about these things with your family to share how you feel and see how they feel.

❍ **Have a professional present —** Having your estate planner present can be helpful, and in some cases, necessary. In many cases, a professional has a better understanding of how estate planning works and can assist by answering any questions your loved ones may have. You might have a family-only conversation first and then a second conversation with your family and the estate-planning professional.

Like any important discussion, this talk may be difficult. Every family is different and every talk will be different, but make sure you have it. Please call if you'd like to discuss this in more detail. ❍❍❍

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. ❍❍❍

Retirement Planning Mistakes to Avoid

Mistakes are part of life, but some have greater impact than others. Your retirement plan is one area where mistakes can be very costly, so avoid these common retirement plan mistakes.

Not taking advantage of your employer's match — If you are lucky enough to have a 401(k) or other retirement account that offers an employer match, take full advantage of it. Yes, that's free money. You should make sure to contribute enough to receive the maximum match from your employer.

Borrowing from your account — The biggest mistake you make when borrowing money from your retirement account is that you lose the power of compounding, because the money you take out will lose the opportunity to grow. Even though you pay yourself back plus interest, it typically doesn't make up for the time your investments are out of the market.

Also, if you leave your employer before the loan is repaid, you will have to repay the loan in full immediately or it may be treated as a distribution, which will not only trigger taxes, but an early withdrawal penalty if you are under the age of 59½.

Lack of diversification — When the market is doing well, it's easy to only focus on the great returns and how well your portfolio is performing. But when the market takes a tumble, it is important that your portfolio is more diversified. A well-diversified portfolio helps minimize risk while maximizing returns. Having too much of your investments in one asset class or one sector will put you at greater risk for significant losses. You will want to diversify your portfolio based on your tolerance for risk combined with your age.

Not rebalancing — A portfolio that is properly diversified is going to change over time, so rebalancing your portfolio on a regular basis is important. Let's say you started with a portfolio that was 50% stocks and 50% bonds; over time it may look completely different. If stocks have a period of significant growth while bonds experience a small amount of growth, the mix of your portfolio could turn into 70% stocks and 30% bonds, which is significantly riskier than your original mix. By rebalancing your portfolio, you will be keeping the mix of your portfolio within your comfort level while minimizing risks.

Cashing out — When you leave an employer, you have several options as to what you can do with your retirement account. You can leave it in the plan, roll it over to another retirement account, such as an IRA or your new employer's retirement plan, or you can cash it out. The least desirable option is cashing out.

On the other hand, some people intend to withdraw funds and reinvest them, but they don't understand the difference between withdrawing the money and a roll over. When you take the money out, if it is not reinvested into a qualified account within 60 days, you will be subject to income taxes. And, if you are under the age of 59½, you will also have to pay an early withdrawal penalty.

The best solution is a trustee-to-trustee transfer, which will guarantee a proper rollover to an IRA, without having to pay taxes or a penalty. The IRA will also provide significantly more investment options.

Analysis paralysis — Retirement planning is not easy. Trying to figure out how much to save, what to invest in, and how much you will need to retire can cause some people to do nothing. That's the biggest mistake you can make, because time and compounding are your best friends when investing. Just start saving, whether it's an employer plan or an IRA.

Please call if you'd like to discuss this in more detail. ❍❍❍

Market Data

Indicator	Month-end Jun-19	Jul-19	Aug-19	Dec-18	Aug-18
Prime rate	5.50	5.50	5.25	5.50	5.00
Money market rate	0.69	0.66	0.72	0.56	0.45
3-month T-bill yield	2.09	2.07	1.95	2.47	2.08
20-year T-bond yield	2.34	2.37	1.86	3.03	2.91
Dow Jones Corp.	3.22	3.21	2.86	4.40	3.84
30-year fixed mortgage	3.14	3.35	2.99	4.16	4.18
GDP (adj. annual rate)#	+2.20	+3.10	+2.00	+2.20	+4.20

Indicator	Month-end Jun-19	Jul-19	Aug-19	% Change YTD	12-Mon.
Dow Jones Industrials	26599.96	26864.27	26403.28	13.2%	1.7%
Standard & Poor's 500	2941.76	2980.38	2926.46	16.7%	0.9%
Nasdaq Composite	8006.24	8175.42	7962.88	20.0%	-1.8%
Gold	1409.00	1427.55	1528.40	19.3%	27.1%
Consumer price index@	256.09	256.14	256.57	1.8%	1.8%
Unemployment rate@	3.60	3.70	3.70	0.0%	-5.1%

— 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
September 2015 to August 2019