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FINANCIAL CONCEPTS

WINTER 2019

Focus on the Basics

How do you choose the right combination of investments to help you work toward a goal that may be decades away? The answer is to focus on the basics. Make sure you are getting these fundamentals right:

❍ **Don't wait — invest now.** To put the power of compounding to work for you, start investing now. It's easy to put off investing, thinking you'll have more money or time at some point in the future. Typically, however, you'll be better off saving less now than waiting and saving more later. Consider the savings habits of a 20-year-old couple. The wife starts contributing $2,000 per year to a tax-deferred investment such as a 401(k) plan when she is 20. After 10 years, she decides to stop investing and let her money grow until retirement. She has invested a total of $20,000. Her husband starts investing when she stops, investing $2,000 per year from the time he is 30 until he retires at age 65. Thus, he saves every year for 35 years, making a total contribution of $70,000 — $50,000 more than his wife. If they both earn 8% compounded annually, who will have the larger potential balance at age 65? Time and compounding favor the wife. Before paying any taxes, her balance would equal $462,649, while her husband's balance would be $372,204. (*This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.*)

❍ **Live below your means so you can invest more.** Most people have trouble coming to grips with the fact that the amount of money

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Greetings to All!

The Prentis Wealth Management Group of Wells Fargo Advisors is growing in order to provide a greater depth and breadth of service to you.

We are thrilled to announce that Andrew Bevan, CFA®, CAIA®, has joined the Prentis Wealth Management Group as a Financial Advisor. He holds the Chartered Financial Analyst (CFA®) and Chartered Alternative Investment Analyst (CAIA®) designations, two of the investment management industry's most rigorous graduate-level programs dedicated to security analysis, portfolio management, and wealth planning. Andrew graduated from Duke University.

Andrew has been working in the financial services industry since 2010. After four years with Horizon Kinetics, a $10 billion value-oriented investment firm, he then worked at eVestment, the institutional investment industry's leading platform used to hire, track and evaluate professional managers. We are honored that Andrew has agreed to join us.

Along with this newsletter, we are including the 2019 Tax Guide. It is a handy guide that provides current tax rates, retirement plan contribution limits, and much useful information.

We are especially pleased to report that Forbes has again named Peter D. Prentis, CFP® to their Best-In-State Wealth Advisors list for 2019.**

Our business is built around helping people succeed financially and continues to grow through referrals from satisfied clients. Please do not keep us a secret! Feel free to forward our name or this newsletter to anyone you think might benefit from our assistance.

Best,

Peter, Mike, Stu, Andrew, Joe and Edita

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Focus on the Basics

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you have left over for investing is a direct result of your lifestyle. Don't have any money left over for investing? Ruthlessly cut your living expenses. Redirect all those reductions to investments. This should help significantly with your retirement. First, you'll be saving large sums for that goal. Second, you'll be living on much less than you're earning, so you'll need less for retirement.

❍ **Maintain reasonable return expectations.** When developing your financial goals, you'll typically decide how much you need, when you'll need the money, and how much you'll earn on those savings. Those factors will determine how much you'll need to save on an annual basis to reach your goals. The higher the expected return on your investments, the less you'll need to save every year. However, if your assumed rate of return is significantly higher than your actual rate of return, you won't reach your goals. Thus, it's important to come up with reasonable return expectations. While past returns aren't a guarantee of future returns, you'll want to start by reviewing historical rates of return for investments you're interested in. You can then adjust those returns based on your expectations for the future. Assessing your progress every year will allow you to make adjustments along the way.

❍ **Understand that risk can't be totally avoided.** All investments are subject to different types of risk, which can affect an investment's return. Cash is primarily affected by purchasing-power risk, or the risk that its purchasing power will decrease due to inflation. Bonds are subject to interest-rate risk, or the risk that interest rates will rise and cause the bond's value to decrease; and default risk, or the risk that the issuer will not repay the bond. Stocks are primarily subject to nonmarket risk, or the risk that events specific to a company or its industry will adversely affect a stock's price; and market risk, or the risk that a stock will be affected by overall stock market movements. These risks make some investments more suitable for longer investment periods and others for shorter investment periods.

❍ **Diversify your portfolio.** When stocks have above-average returns for an extended period, diversification acts as a drag on total return. By definition, allocating anything other than all of your portfolio to the best-performing asset lowers your return. But when stocks decline substantially, the disadvantage of investing in only one asset class becomes apparent. Typically, you do not know which asset class will perform best on a year-to-year basis. Diversification is a defensive strategy — it helps protect your portfolio during market downturns and helps reduce volatility. Diversify your investment portfolio among a variety of investment categories, such as stocks, bonds, cash, real estate, and other alternatives. Also diversify within investment categories.

❍ **Only invest in the stock market for the long term.** Stocks should only be considered by investors with an investment time frame of at least five years. Remaining in the market over the long term reduces the risk of receiving a lower return than expected.

❍ **Don't try to time the market.** Timing the market is a difficult strategy to accomplish successfully since so many factors affect the market. Remember that most people, including professionals, have difficulty timing the market with any degree of accuracy. Significant market gains can occur in a matter of days, making it risky to be out of the market for any length of time. Instead of timing the market, concentrate on setting an investment program that works in all market environments and you can stick with in good and bad times.

❍ **Pay attention to taxes.** Taxes are probably your portfolio's largest expense. Using strategies that defer income for as long as possible can make a substantial difference in the ultimate size of your portfolio. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently into your tax-deferred accounts.

Focusing on the fundamentals can help ensure you work toward your financial goals. If you need help with investing, please call. ❍❍❍

7 Steps to Make Saving a Habit

Habits are all about the principle of human inertia: we tend to keep doing what we've always done and shy away from doing something new. That principle may work against you at first. If you're not used to saving money, it can be hard to get started. But once you gain some momentum, it'll be relatively easy to keep it up.

We all need to save money to meet our financial goals. If you haven't started saving or aren't saving enough, here are some tips:

1. Take full advantage of payroll saving plans. Automatic payroll deduction is, without doubt, a great financial innovation. With just a few strokes of a pen on an authorization form, you hook yourself up to a savings program that works for you without any more effort. It doesn't matter what type of plan it is or how much you deposit. Just get started, and you have a new habit.

2. Aim to max out on company matches. When a company offers you a matching contribution, it's like they're saying, "Here's some free money. Want it?" What sane argument can anyone make to turn it down? The only conceivable one is that you need all your money to pay bills.

3. Treat saving like a bill. The old adage for saving is, "Pay yourself first." It makes perfect sense, and the trick is to treat saving like any other bill. Name an amount and a date to pay it, and make the payment when it comes due. Instead of driving to the bank, you can mail your deposit in or transfer the money online or over the phone.

4. Set up automatic checking debits. Many financial institutions offer automatic withdrawals from your checking account into your savings account, money market, or other investment account. These automatic withdrawals are as good as payroll deductions at making saving easy.

5. Set annual goals for account balances. You can never reach a goal if you don't have one. Specific annual targets for account balances become incentives to save; and by dividing the difference between your current balance and target, you can easily find the periodic amount you'll need to contribute.

6. Devote your raises to savings. When you get a raise, don't forget to increase your savings. If you can afford to, bank the entire raise. If not, at a minimum, increase your savings proportionally.

7. Save your loose change. Keep a savings jar and at the end of the week, put your loose change in it. This can mean more than coins. It can be bills below any denomination you choose, like anything less than a 10- or 20-dollar bill. At the end of the month, take it to the bank. ❍❍❍

Long-Term Portfolio Management

If you're in the markets for the long haul and looking to capture the benefits of long-term trends, indicators shouldn't matter to you as much. Instead, you should focus on the tools that maximize your long-term rate of return while managing the risks you take to get it, in line with your investment personality and objectives.

The following basic tools for long-term portfolio management minimize information overload while resting on some simple but effective concepts:

Asset allocation. A long-term asset allocation strategy aims at determining an optimal mix of stocks, bonds, and cash equivalents in your portfolio to suit how much risk you're willing to take for the potential rate of return you want and need to meet your objectives. The benefit of investing in all three asset classes is diversification — spreading investments among assets that have different cycles of return.

Portfolio rebalancing. This may be the most overlooked technique for potentially boosting returns and controlling risk. Yet the technique is relatively simple: once a year (or some other predetermined time period), compare the percentage of your assets in each class to your strategy. Then sell some assets from the categories that are larger than your strategy calls for and use the proceeds to buy more of the assets that decreased in value. The principle is that rebalancing forces you to sell high and buy low.

Dollar cost averaging. This technique actually puts market downturns to work in your favor. This method is to invest a set amount of money on a recurring basis in each asset class. By continuing to make purchases when prices decline, you buy more shares than you do when prices are high. Keep in mind that dollar cost averaging neither guarantees a profit nor protects against loss in a prolonged declining market. Because dollar cost averaging involves continuous investment regardless of fluctuating price levels, investors should carefully consider their financial ability to continue investment through periods of low prices.

Between the strategies of trading actively and managing your portfolio strictly for the long term is a technique called tactical asset allocation. This involves moving significant chunks of your portfolio from one asset class to another, depending upon your reading of the changing prospects for risk and reward in each asset class.

If you would like to discuss this topic in more detail, please call. ❍❍❍

Discussing Finances with Your Parents

There comes a time when even the most independent of parents will need to start relying on their children, especially when it comes to money. However, control is a big deal — no one likes to give it up, especially those who have been taking care of themselves for decades. In fact, the feeling of losing control over finances can cause parents to lash out and respond with anger. One strategy to avoid this is by appealing to their desire to help and protect you. You can ask them for tips and guidance on your own financial planning, opening a discussion about how they have set things up in their own lives.

Sometimes the best route to take is involving a third party. Parents can have a very difficult time opening up to their children about sensitive matters, especially if things have not gone according to plan financially. Using a financial planner, tax advisor, or elder law attorney can remove their feelings of damaged pride or worries that you might think less of them.

Organizing Your Parents' Finances

When the time comes to get everything in order for them, you will need a lot of information and paperwork. This includes:

- ❍ **Sources of retirement income**. If they don't have records readily available, you may need to check the mail or their online bank accounts to determine what they have coming in through investments, retirement plans, Social Security, etc.
- ❍ **Residential preference**. Your parents may want to live in the family house forever, but it is likely that they will not be able to remain independent indefinitely. If one or both of them becomes ill, they may need 24-hour care that you will not be able to provide. This means you will need to know what they can afford and where they would prefer to stay.
- ❍ **Last will and testament**. Make sure your parents have an updated will so that their surviving loved ones do not end up in a legal battle upon their passing. The best way to make sure things are done according to their wishes is to have them write a will, not rely on spoken agreements.
- ❍ **Durable power of attorney**. The legal authorization to take over your parents' finances and make decisions on their behalf is an important matter to have settled. You will also need to determine who will have durable power of attorney for health care to make health-care related decisions for them.
- ❍ **Living will.** This is similar to a durable power of attorney for health care, but is also a reflection of the direct wishes of the incapacitated person, such as if they would prefer to not be resuscitated or preferred lifesaving measures.
- ❍ **Funeral arrangements**. Your parents may have already sorted out some of these issues, such as where they would prefer to be buried or have their ashes spread, but seniors often forget to tell their children about this. It may seem morbid, but it is important to know their wishes beforehand.
- ❍ **Updated beneficiary forms**. Your parents will need up-to-date beneficiaries for everything from insurance policies to insurance payouts.
- ❍ **Plan for estate taxes**. The larger the estate, the more prudent it may be to seek advice from an estate attorney or financial advisor. ❍❍❍

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Market Data

Indicator	Nov-18	Dec-18	Jan-19	Dec-17	Jan-18
	Month-end				
Prime rate	5.25	5.50	5.50	4.50	4.50
Money market rate	0.58	0.56	0.59	0.33	0.30
3-month T-bill yield	2.37	2.47	2.38	1.45	1.43
20-year T-bond yield	3.22	3.03	2.91	2.66	2.74
Dow Jones Corp.	4.50	4.40	4.16	3.13	3.29
30-year fixed mortgage	4.42	4.16	4.11	3.51	3.75
GDP (adj. annual rate)#	+2.20	+4.20	+3.50	+2.90	+3.20

	Month-end			% Change	
Indicator	Nov-18	Dec-18	Jan-19	YTD	12-Mon.
Dow Jones Industrials	25538.46	23327.46	24999.67	7.2%	-4.4%
Standard & Poor's 500	2760.17	2506.85	2704.10	7.9%	-4.2%
Nasdaq Composite	7330.54	6635.28	7281.74	9.7%	-1.8%
Gold	1217.55	1281.65	1323.25	3.2%	-1.6%
Consumer price index@	252.89	252.04	251.23	-0.3%	1.9%
Unemployment rate@	3.70	3.70	3.90	5.4%	-4.9%

— 1st, 2nd, 3rd quarter @ — Oct, Nov, Dec Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

February 2015 to January 2019