

IN THIS ISSUE...

Ways to Save for Retirement
Managing Bond Risks
Avoid These 401(k) and IRA Mistakes
Principles of Stock Diversification
Financial Data
News and Announcements



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THE ALLING REVIEW

FALL 2019

WAYS TO SAVE FOR RETIREMENT

We all know we're supposed to save for retirement. But that's often easier said than done. There are many reasons for Americans' low savings rates, including stagnant wages and an increasing cost of living. Our own behavior plays a role as well. How can you save more in a time when every

dollar seems to buy a little less? Consider the suggestions below:

GET A BUDGET AND REDUCE SPENDING: If you're looking to save more, the first place to look is your current budget. Cutting spending where possible will free up more money to set aside for the future. While some of your expenses are

fixed — most of us need to spend money on housing, food, and transportation, for instance — others are flexible. Spending a little less on dining out, canceling subscription services, or choosing a cheaper cell phone plan could free up \$50 or \$100 in your monthly budget to dedicate to retirement. That may not sound like a lot, but it's a good place to start.

GET YOUR MATCH: If you're lucky enough to work for a company that offers a 401(k) plan and matches employee contributions, make sure you take advantage of it. Not contributing enough to get your match is essentially turning down free money.

MAX OUT YOUR 401(K) PLANS: In 2019, most people are allowed to contribute up to \$19,000 a year to their 401(k) plan. Not everyone can afford to save up to the max, but whatever your income, you should contribute as much to tax-advantaged retirement accounts as you're able.

CONTRIBUTE TO AN IRA: If you can't contribute to a retirement plan at work or you want to save even more for retirement, consider setting up an IRA. Assuming you meet

MANAGING BOND RISKS

All investments are subject to risk, although the types of risk can vary. While you can't totally eliminate risks, you can minimize them. For bonds, consider these strategies:

INTEREST RATE RISK — Interest rates and bond prices move in opposite directions. A bond's price will increase when interest rates fall and decrease when interest rates rise. This occurs because the existing bond's price must change to provide the same return as an equivalent, newly issued bond paying prevailing interest rates. The longer the bond's maturity, the greater the impact of interest rate changes. Also, the effects of interest rate changes tend to be less significant for bonds with higher-coupon interest rates.

To reduce this risk, consider

holding the bond to maturity. This eliminates the impact of interest rate changes, since the total principal value will be paid at maturity. Thus, selecting a maturity date that coincides with your cash needs will help reduce interest rate risk. However, you may still receive an interest income stream that is lower than current rates. Selecting shorter maturities or using a bond ladder can also help with this risk.

REINVESTMENT RISK — You typically know what interest income you will receive from a bond, but you must then take the periodic income and reinvest it, usually at varying interest rates. Your principal may also mature at a time when interest rates are low.

Staggering maturities over a

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WAYS TO SAVE

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certain requirements, you can save up to \$6,000 a year in these accounts.

CONTRIBUTE TO A HEALTH SAVINGS ACCOUNT (HSA): For people who are really intent on maximizing their retirement savings, HSAs can be a good option. HSAs are primarily intended as a way for people who have high-deductible health plans to save for medical expenses. But any money you don't use for healthcare costs now can be used to pay for healthcare in retirement.

MAKE CATCH-UP CONTRIBUTIONS: Once you reach age 50, you're eligible to make catch-up contributions to 401(k) plans and IRAs. You can contribute an additional \$6,000 a year to your 401(k) plan and an extra \$1,000 a year to your IRA. If you consistently make those contributions over the next 15 years (assuming you retire at 65), you'll have an additional \$105,000 for retirement — and that's without taking in account any growth in your investments.

SAVE IN TAXABLE ACCOUNTS: Most people focus on saving for retirement in various tax-advantaged accounts, like a 401(k) plan. But if you can't save for retirement that way, or you want to save even more, consider saving in more traditional ways. You can put money in a well-diversified investment account, bonds, or other savings vehicles. One advantage of putting some of your money in non-retirement accounts is that you won't have to worry about things like mandatory withdrawals when you reach age 70½.

TAKE ENOUGH RISK: Saving as much as possible is key to having a healthy retirement portfolio. But squirreling away dollars alone isn't enough. To really make the most of your money, you need to invest it. That means investing more in stocks when you're younger and gradually dialing down risk as you get closer to retirement. Being smart about risk is essential to meeting your retirement savings goals.

AVOID THESE 401(K) AND IRA MISTAKES

When it comes to saving for retirement, many people take a set-it-and-forget-it approach. But not paying attention to your 401(k) and IRA accounts could cause you to miss valuable savings opportunities. Avoid these seven mistakes:

- **NOT CONTRIBUTING ENOUGH TO GET YOUR FULL EMPLOYER MATCH.** If your employer matches your contributions to your 401(k) plan, you should try to stretch enough to at least meet their maximum match amount.
- **NEGLECTING TO MAXIMIZE YOUR CONTRIBUTIONS.** While you may not be able save up to your 401(k) contribution limits (for most people, that's \$19,000 in 2019 plus an additional \$6,000 catch-up contribution for those over age 50), you should save as much as you are able. If there's any extra room in your budget or expenses, consider dedicating that money to retirement.
- **PLAYING IT TOO SAFE BY INVESTING IN AN OVERLY CONSERVATIVE WAY.** If you only choose safe investments like cash or CDs, you run the risk inflation outpacing the low returns and thus being worth less over time.
- **NOT REVIEWING YOUR INVESTMENT ALLOCATION REGULARLY.** Your asset allocations will inevitably need to change as you age, as the risk you're willing to tolerate in your twenties will likely not be the same as your fifties. This means you should review your portfolio at least annually.
- **NOT TAKING ADVANTAGE OF CATCH-UP CONTRIBUTION OPTIONS.** Once you turn 50 years old, your maximum annual contributions go up another \$6,000 for a 401(k) and another \$1,000 for your IRA.
- **FORGETTING ABOUT OLD RETIREMENT ACCOUNTS.** If you've changed jobs, there is a chance that you left an old 401(k) plan with your former employer's plan provider. Of course, the money is still yours, but you should consider rolling it into an account you are actively managing now.
- **TAKING TOO MUCH OF A DO-IT-YOURSELF APPROACH.** Managing your own retirement planning can be confusing if you do not have the knowledge and skills to make the best choices. Seeking the help or guidance of a finance professional can remove the doubt and emotion from your investment decisions and ensure you are on track for the retirement you are working toward. ○○○

DON'T TAKE EARLY WITHDRAWALS: When times get tough, people often turn to the money they've set aside for retirement to close the gap. But if it's at all possible to avoid touching that cash, you should. Not only will you fall behind on your savings — creating a gap that is nearly impossible to make up — you'll also get hit with penalties. Unless you need that money for a true emergency, like you're facing the prospect of losing your home or a major health crisis, leave it alone. You'll be glad you did when the time comes to stop

working.

Please call if you'd like to discuss saving for retirement in more detail. ○○○



BOND RISKS

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period of time (laddering) can lessen reinvestment risk. Since the bonds in your ladder mature every year or so, you reinvest principal over a period of time instead of in one lump sum. You may also want to consider zero-coupon bonds, which sell at a deep discount from par value. The bond's interest rate is locked in at purchase, but no interest is paid until maturity. Thus, you don't have to deal with reinvestment risk for interest payments, since you don't receive the interest until your principal matures.

INFLATION RISK — Since bonds typically pay a fixed amount of interest and principal, the purchasing power of those payments decreases due to inflation, which is a major risk for intermediate- and long-term bonds.

Investing in short-term bonds reduces inflation's impact, since you are frequently reinvesting at prevailing interest rates. You can also consider inflation-indexed securities issued by the U.S. government, which pay a real rate of return above inflation.

DEFAULT AND CREDIT RISK — Default risk is the possibility the issuer will not be able to pay the interest and/or principal. Credit risk is the risk the issuer's credit rating will be downgraded, which would probably decrease the bond's value.

To minimize this risk, consider purchasing U.S. government bonds or bonds with investment-grade ratings. Continue to monitor the credit ratings of any bonds purchased.

CALL RISK — Call provisions allow bond issuers to replace high-coupon bonds with lower-coupon bonds when interest rates decrease. Since call provisions are generally only exercised when interest rates decrease, you are forced to reinvest principal at lower interest rates.

U.S. government securities do not have call provisions, while most corporate and municipal bonds do.

PRINCIPLES OF STOCK DIVERSIFICATION

Diversification is a practice investors use to reduce risk and maximize returns by investing in various industries that will most likely react differently to the same event in the market.

When investing, there are two types of risk one faces:

- **UNDIVERSIFIABLE** — Also known as systematic or market risk, this is risk that all companies are exposed to and includes inflation, interest rates, exchange rates, political instability, etc.
- **DIVERSIFIABLE** — Also known as unsystematic risk, this is risk that can be specific to a company, industry, market, or country. Diversification can help manage and reduce this risk.

A properly diversified equity portfolio should hold stocks from different industries, company sizes, valuations, growth rates, and countries to help reduce volatility and limit exposure to a permanent loss of capital.

The more uncorrelated the stocks in your portfolio are, the more you are limiting your risk exposure.

Let's say you have a portfolio of only automotive stocks and it appears there will be a strike. Most likely, all of the automotive stocks will experience some drop in their share prices, and in turn, you will see a noticeable drop in value.

However, if you have stocks in other industries that are perform-

ing well, you will be able to offset some of that loss and the mental anguish that goes along with it.

While there is always debate about how many stocks to own in a well-diversified portfolio, most experts agree that 15 to 20 stocks across different industries is optimal. This portfolio size is manageable, yet it allows you some room for losses.

The other extreme is overdiversification where investors hold too many stocks, which makes it almost impossible to know the companies well. Not being knowledgeable about your stock investments can lead to making irrational decisions, which will negatively impact your portfolio returns. The key is to strike an appropriate balance.

Another impact of overdiversification is that an investor can become indifferent regarding his/her investment decisions. If you're holding over 100 stocks, any individual stock might represent only a small percentage of the total portfolio. If the stock turns out to be a loser, it won't cost you very much; but if it provides great returns, you won't reap the benefits either.

Diversifying your stock portfolio will help you manage the risk of the price movements of your assets, but it can't completely eliminate risk and volatility. Please call if you'd like to discuss diversification in more detail. ○○○

Review the call provisions before purchase to select those most favorable to you.

Keep in mind the assumption of risk is generally rewarded with higher return potential. One of the safest bond strategies is to only purchase three-month Treasury bills, but this

typically results in the lowest return. To increase your return, decide which risks you are comfortable assuming and implement a corresponding bond strategy. Please call if you'd like help with bond investing. ○○○

FINANCIAL DATA

Indicator	Month-end				
	Jul-19	Aug-19	Sep-19	Dec-18	Sep-18
Prime rate	5.50	5.25	5.00	5.50	5.25
Money market rate	0.66	0.72	0.75	0.56	0.47
3-month T-bill yield	2.07	1.95	1.84	2.47	2.18
20-year T-bond yield	2.37	1.86	1.96	3.03	3.13
Dow Jones Corp.	3.21	2.86	2.94	4.40	4.14
30-year fixed mortgage	3.35	2.99	3.89	4.16	4.74
GDP (adj. annual rate)#	+2.20	+3.10	+2.00	+2.20	+4.20

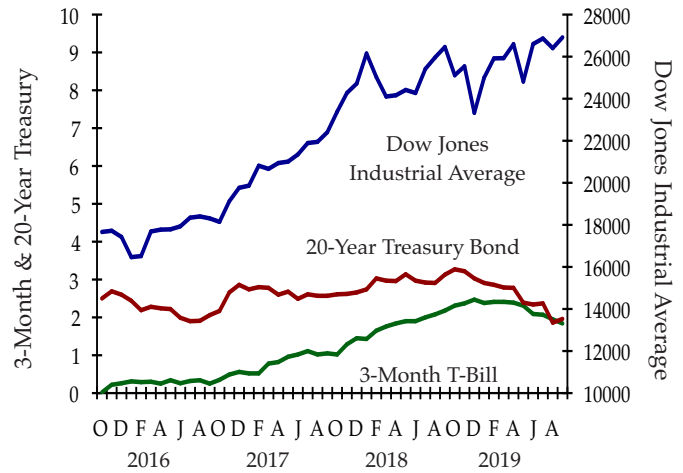
Indicator	Month-end			% Change	
	Jul-19	Aug-19	Sep-19	YTD	12-Mon.
Dow Jones Industrials	26864.27	26403.28	26916.83	15.4%	1.7%
Standard & Poor's 500	2980.38	2926.46	2976.74	18.7%	2.2%
Nasdaq Composite	8175.42	7962.88	7999.34	20.6%	-0.6%
Gold	1427.55	1528.40	1485.30	15.9%	25.1%
Consumer price index@	256.14	256.57	256.56	1.8%	1.7%
Unemployment rate@	3.70	3.70	3.70	0.0%	-5.1%

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

Past performance is not a guarantee of future results.

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

OCTOBER 2015 TO SEPTEMBER 2019



NEWS AND ANNOUNCEMENTS

YOUR 401(K) CONTRIBUTION AMOUNT

Before deciding how much to contribute to your 401(k) plan, find out three key figures:

WHAT IS THE MAXIMUM PERCENTAGE OF YOUR PAY THAT CAN BE CONTRIBUTED? The maximum legal contribution limit in 2019 is \$19,000 plus an additional \$6,000 catch-up contribution for participants age 50 and over, if permitted by the plan. However, most employers set limits in terms of a percentage of your pay to comply with government regulations. This limit ensures the plan does not discriminate in favor of highly-compensated employees.

HOW MUCH OF YOUR CONTRIBUTION IS MATCHED BY YOUR EMPLOYER? Employers are not required to provide matching contributions, but many do. A common match is 50 cents for every dollar contributed, but many other variations also exist.

UP TO WHAT PERCENTAGE OF YOUR PAY DOES YOUR EMPLOYER MATCH? Most plans only match contributions up

to a certain percentage of your pay. Assume your 401(k) plan allows contributions up to 10% of your pay annually, with a 50 cent match on every dollar contributed, up to a maximum of 6% of your pay. With a \$100,000 salary, you can contribute up to \$10,000 to the plan. Your employer will match up to the first \$6,000 of contributions (\$100,000 times 6%), contributing a maximum of \$3,000 (50 cents for every one dollar).

How much should you contribute to your 401(k) plan? If at all possible, contribute the maximum allowed. In the above example, that would be 10% of your pay. At a minimum, contribute enough to receive the maximum matching contribution. That would be 6% of your pay in the above example. Please call if you'd like help deciding how much you should contribute to your 401(k) plan.

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