The Thoughtful Investor™

First Quarter 2021

Start the New Year Off In Control

Feeling a bit shellshocked by the passage of 2020? Between Covid 19, record-breaking forest fires, hurricanes, tornados, riots, and political turmoil, 2020 was either one to remember or one you would really like to forget. Unfortunately, many of the problems of 2020 still continue, but there are steps you can take to have a sense of control over your life.

1. **Reality check your financial situation.**

Start by updating your net worth statement. This is a listing of your assets and liabilities designed to help you understand what you have, what you owe, and what your actual net worth is. Your assets include checking and savings accounts, brokerage accounts, retirement accounts, annuities, or the cash value of life insurance accounts, money owed you, real estate, and collectibles or personal property that could be sold to help meet expenses. Liabilities include money you owe such as outstanding mortgages, business loans, automobile or personal loans, alimony, credit card balances and unpaid bills.

The difference between your assets and liabilities is your net worth.

Next take a look at your income and living expenses. Income includes money you receive each month from employment, investments, retirement accounts, alimony and child support, government benefits such as Social Security or disability payments, or other income sources. Living expenses include the costs you incur each month such as housing, utilities, food, transportation, insurance costs, loan

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Plan to Be a Survivor

"You cannot predict, but you can prepare."

Howard Marks

The biggest game in town in January isn't football. It's forecasting the year ahead, particularly the financial market's direction and the best investments to hold in 2021. There's just one problem. No one really knows. Financial markets have a habit of confounding the best models, tripping up "experts," and reacting contrary to all expectations. And that's without *black swans*, those rare and unpredictable events that seem to be increasingly probable.

When it comes to surviving down markets or bad investments, there's a lot to learn from how and why some people survive major disasters while others perish. Every crisis **– whether a financial or physical disaster –** produces two types of people – survivors and victims. The difference can be a matter of luck, but more often imagination and preparation play a role.

In a crisis, we are thrown into a stressful, unfamiliar environment, where determining what we need to do to survive requires a lot more conscious effort than primitive fight or flight reactions. In the emotional

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Go for Your BIG Goals in 2021

We've been given another year. Let's not waste it thinking about the opportunities and plans that we had to forgo in 2020. The New Year is an unwritten book. It may be another difficult year, but it is also 365 days we can use to achieve long-term goals.

Is there something you have always wanted to accomplish? A book to write? Relationships to rekindle? Inventions or products to develop? Artwork? Remodeling? A new business?

Rather than working more hours because you are uncertain what else to do with your time or spending too much time with the remote or games, write down your dream. Outline the steps it may take to achieve your goal. Search online to see what your competition might be and to find ideas and resources to make your dream feasible.

If, after looking at the work it will take to make your goal a reality, you want it more than ever, get started. With many of the distractions of life on hold, this may be your opportunity to take a chance on a dream and make certain you don't find yourself in the future wondering *…if only I had….*

and credit card payments, entertainment, personal purchases, etc.

- Are your income sources secure?
- Do incoming funds cover your living expenses?
- Do you need to tap into your assets to meet expenses?
- Are there expenses you can eliminate to give you a cash cushion?

With this information, you can gain a pretty good idea of whether or not you have enough money to live on, how long it might last, and of whether or not you should be worried about the future. It also gives you a good starting point to sit down with your financial advisor for a second opinion and an idea of how you might improve your financial position.

2. Make sure your insurance coverage is adequate.

The scale of the physical damages over the past year is mind boggling. If you have a business, is it adequately insured for riot damage, storms, fires and other potential disasters? Is your home insurance adequate? Replacement value insurance typically only covers your property up to 10 to 20% over the stated value of your home on the policy. If that value is too low, your insurance settlement may be insufficient to replace your home. Can you afford your health insurance coverage if you are laid off or your employer files for bankruptcy? What other options do you have for health insurance?

Disability insurance provides income should you be physically unable to work. If you have dependents who rely on you for financial support, life insurance may be your best tool to protect them in the event of your death.

3. Minimize the risk that you might be a victim of identity fraud.

Check your credit report. A credit report is the single best tool you have to make certain you are not a victim of ID theft and that your credit score is accurate. Order your free annual credit report online at www.annualcreditreport.com, by calling 877-322-8228, or by completing the Annual Credit Report Request Form (available on line at www.annualcreditreport.com) and mailing it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. www.annualcreditreport.com is the only authorized source for your free annual credit report from the three nationwide consumer reporting companies, so don't fall for marketing pitches from other organizations offering to provide you with a free credit report. Those offers typically come with strings attached. When you contact the site, request credit reports from all three of the major credit bureaus – TransUnion, Experian and Equifax. ***If anything looks wrong on your report, contact the credit bureau at once.***

- Consider closing credit accounts that you do not use.
- Contact your credit card providers and financial institutions to set alerts on your accounts if there is any abnormal activity.
- If desired, freeze your accounts to prevent any new credit or loan accounts being established in your name (Caution: This can also prevent legitimate vendors from making credit checks.)
- Carry just one credit card with you and a limited number of checks.

4. Review your will and beneficiary designations.

The news media have provided a constant reminder of our mortality over the past year. But even without Covid 19, you should have a current will and up-to-date beneficiaries for your retirement accounts. These documents are also essential to avoid lawsuits and family fights should you die (*forgetting to change an ex-spouse on an IRA can have disastrous consequences for your new spouse or family*). Without a binding will and designated beneficiaries, state and federal laws (and sometimes the courts) determine who will receive your assets regardless of what you might have intended.

5. Review powers of attorney you have put in place

You can grant anyone a Power of Attorney (POA) to act on your behalf, generally on limited legal issues, such as executing a stock power, handling a tax audit, or maintaining a safe-deposit box. While a POA can be revoked by the principal at any time, it ends at the principal's death or incapacitation. A Durable Power of Attorney, however, gives your agent the right to continue acting on your behalf, typically in financial and health care decisions, should you become incapacitated.

A Durable Power of Attorney can prevent a court-appointed guardianship should you become incapacitated or incompetent to manage your affairs. In the case of a health care POA, your agent is able to make medical decisions on your behalf, guided by the instructions in the POA document. But a POA gives considerable power over your life to another individual and should never be set in motion and then forgotten. Review any and all Powers of Attorney you grant to others on a regular basis and make certain you are still comfortable with your relationship. And, have a qualified attorney second-guess your POAs to make certain they achieve what you want and minimize the potential for abuse.

6. Make an appointment to visit with us.

If you are not able to visit our offices, we are getting very good at digital conferences and remote conversations. We welcome questions about your portfolio and your financial worries. This has been a very difficult time for everyone, but it is much easier to cope with when you can talk about your concerns and get help when you need it.

Plan to Be a Survivor *— continued*

overload of emergencies, people often fail to do things that under normal circumstances would seem obvious.

According to researchers who have studied disasters, people typically go through a three-stage process when in mortal peril: denial, deliberation and the "decisive moment."

All too often, **denial** takes the form of delay. Interviews with survivors who worked in the twin towers on September 11, 2001 found that fewer than 10% fled as soon as the alarm was raised. The vast majority, more than 90%, stayed behind waiting for information or carrying out at least one additional task. Even in the face of obvious impending disaster, some people just won't move. Others become highly emotional or passive, believing they are going to die and are unable to prevent it.

In a disaster, we know something is terribly wrong, but we are in unfamiliar territory. Nothing is normal. Fear takes away normal thought processes. At heightened levels of fear, a person makes mistakes. He or she reacts too fast, panics, or may act in dysfunctional ways.

Deliberation – deciding the best response – requires tamping down emotion and quickly considering a range of response choices. Humor (although probably rather dark humor) has proven to help people feel more in control of the situation. There's no time for getting upset about what has been lost or things going badly – the focus is on how to survive.

The **decisive moment** that follows is often surprising. The more cynical might assume it is every man and/or woman for himself or herself. But often survival is a result of how the group functions. Survivors tend to extend their coping skills and commitment to live to those around them to keep both themselves and others alive.

The best survivors are not the best educated, smartest or most athletic. What they do tend to have is curiosity about how things work and the flexibility to innovate to succeed. A sense of humor helps, as does having overcome adversity in the past, learning from their mistakes and being willing to try different approaches. One survivor of an airline disaster explained that he had made a habit of locating exit doors before he takes his seat. Having imagined what he should do in an emergency, when one occurred he reacted quickly to open the closest exit door, saving not only his family but also surrounding passengers.

How does this apply to investing? The biggest failing of investors in market crashes is denial. They cling too long to past beliefs, fail to accept that something is terribly wrong and are unable to make decisions that could save their portfolios.

Deciding the best response to a declining market (deliberation) – requires the same reactions as a physical disaster. Tamping down emotional reactions, quickly evaluating a wide range of responses and possible outcomes, humor, accepting that you might be wrong, and then taking action to survive to invest another day are classic survivor traits.

It also helps if your curiosity as to how things work has led you to study past market cycles and understand how fortunes have been made and lost in the markets. Ideally, you have asked yourself how you would have reacted during prior bear markets to preserve your capital and have put plans in place to survive should a similar situation arise. You need the confidence gained from facing or at least considering difficult financial situations in the past to make a decision, and, if your action appears incorrect for the current circumstances, the flexibility to change directions.

Many people assume their financial advisor or mutual fund has a plan to protect their portfolio in a major market downturn. That's a risky assumption. Ronald Reagan had it right when he said, "Trust, but verify." Ask your financial advisor what his or her plan is in the event of market decline. Read your fund documents to know how the managers will try to protect the portfolio from adverse markets. If the plan is simply to buy and hold and wait for the market to recover, you need to know how much you can afford to lose and weight your investment accordingly. If the manager seems to assume markets will always go up, start interviewing new advisors or finding alternative mutual funds. Don't assume the unthinkable can't happen.

Financial markets have destroyed lives just as effectively as forest fires and hurricanes. This isn't a safe game. Successful investors need to approach the markets with a survivor's mentality.

One of the ultimate survival stories is that of Ernest Shackleton and his crew. The British expedition ship, HMS Endurance, left South Georgia on December 5, 1914 for Antarctica with a crew of 27 and the goal of establishing a base on Antarctica's Weddell Sea Coast, from which to cross the continent. Before the ship was able to reach Antarctica, it was trapped in ice. It would be 20 months of surviving impossible odds before every one of the Endurance crew reached the coast of Chile, alive and safe.

RETURN SERVICE REQUESTED

When Family and Friends Ask for Money

Thanks to the pandemic, many people are in a world of hurt and those who aren't may find themselves besieged with requests for financial help. But before you make loans to family and friends, or donations to non-profits with a heart-rending appeal, ask yourself if you are putting your own financial health in danger, especially if you're close to retirement.

According to the Federal Trade Commission, nearly 75% of loans made to family and friends are never repaid. In theory, you can write these loans off against your taxes, however, the IRS is wary of loans that charge little or no interest. Rather than viewing it as a bad debt, the IRS may require payment of a gift tax, making the experience even more costly. If you choose to loan money and the borrower defaults, you need to be able to prove that the money was a loan, not a gift, and document your attempts to collect. You also need to realize that lending money can be a short road to the end of a friendship if you expect it to be paid off, but your borrower feels other needs take priority.

What if you still want to help? Start by considering the individual's history. Beyond their current plight, have they treated you as a friend or someone they value in the past, or are they simply guilt-tripping you because you are more financially secure? If you were in need and asked them for a loan, would they try to help you?

Given that you want to help, but you believe there is a good chance they will not repay the loan, consider (1) making them a gift of the money, (2) offering them a chance to earn the funds through a job you need to have completed, or (3) directly paying an outstanding debt such as rent or a car payment.

Regardless, before giving or loaning more than $10,000 (or co-signing on any loan), talk to your financial advisor. Make certain you understand your own financial situation, if you can afford to help, and what your potential liability might be in the case of co-signing on a loan. You are not selfish or mean to turn down a request for funds. Sometimes money is not the problem, but a symptom of a larger problem. Instead, offer to help the individual find other solutions to their money worries. Do they need to put together a budget, apply for unemployment, sell assets to free up funds? If your offer to help them find other alternatives is refused, it may be a

good indication of how repayment of a loan might be handled. If poor money management is a chronic problem, you don't need to be an enabler.

"Each one of us here today will at one time in our lives look upon a loved one who is in need and ask the same question: We are willing to help, Lord, but what, if anything, is needed? For it is true we can seldom help those closest to us. Either we don't know what part of ourselves to give or, more often than not, the part we have to give is not wanted. And so it is those we live with and should know who elude us. But we can still love them - we can love completely without complete understanding."

Norman Maclean, A River Runs Through it and Other Stories