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Financial Success

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Myths about Bonds

Bonds are a core part of many people's investment portfolios. But that doesn't mean they're widely understood. In fact, there are many common myths about bonds, and following those myths could lead to poor investment decisions. Below, we debunk a few of the most common myths about bonds.

Myth 1: Bonds Are Risk-Free Investments

It's true that investing in bonds is not as risky as some investments, like stocks or real estate. But less risk doesn't equate to no risk. A bond issuer may default on their obligations, which could leave investors without their principal. Also, some bonds are riskier than others. Treasury bonds, which are guaranteed by the U.S. government, carry relatively little risk — the U.S. has never defaulted on its debt obligations. Corporate bonds, which are issued by companies, are generally riskier than government bonds. You can get an idea of the relative risk of a certain bond by reviewing its bond rating, which is expressed as a letter grade. A triple-A bond means the issuer is extremely likely to meet its commitments. A bond with a C rating means the issuer is vulnerable.

Myth 2: Lower Returns Mean Investing in Bonds Isn't Worth It

Bonds may not be as glamorous as stocks and other investments, but that doesn't mean they don't have a place in your investment portfolio. Bonds are a way to add diversification to your portfolio; a stock-heavy portfolio can earn great returns, but it can also lose a lot of money fast if the market drops. Your stocks may

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Ways to Reduce Life Insurance Premiums

Following are some ways you can reduce your life insurance premiums while still maintaining good coverage:

How Much Do You Really Need? — Take a long, hard look at your finances to see how much life insurance you really need. Consider what expenses will need to be covered if something were to happen to you.

How Long Do You Need It? — The longer the term of your life insurance, the more you will pay in premiums.

Your Health Matters — If you smoke or are overweight, you are going to pay more for your insurance. Getting healthy is good for a lot of reasons, and it can also reduce your premiums.

Go Shopping — Shop around for the best policy to meet your needs at the best price. Just make sure you are comparing policies with the same features.

Check the Fine Print — As you review different policies, make sure to check for any hidden fees. Also make sure you are not paying extra for riders that are not needed. ❍❍❍

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Myths about Bonds

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eventually regain their losses; but if you need the money in the interim, you'll need to find other resources. Bonds can also provide a steady source of income, which may be appealing if you're at a point when you would like to live off investment income. They are also a way to preserve your capital while still earning some returns. In addition, certain types of bonds offer tax advantages — income earned on municipal bonds is free of federal income tax and sometimes state and/or local income taxes, for example.

Myth 3: Bonds and Bond Funds Are Essentially the Same

Not exactly. In some ways, the difference between individual bonds and bond funds is similar to the difference between individual stocks and stock mutual funds. Like a stock mutual fund, with a bond fund, you give your money to a professional investment manager, who chooses a range of bond investments on your behalf. With an individual bond, you have an investment in a single bond, which you hold until the bond's maturity date. Individual bonds have fixed payments, often semiannually or quarterly; and if you hold the bond to maturity, you get your original investment back.

On the other hand, bond funds have fluctuating income based on how well the underlying bond investments perform. Bond funds are more liquid than individual bonds, however, which means it's easier to sell your investment if you need the cash. You'll also need to invest in a greater array of individual bonds to diversify the bond portion of your portfolio. Which one is right for you depends on your goals, comfort level with investing, and other factors.

Avoid These 5 Investing Mistakes

A great way to learn the ins and outs of investing is by examining the mistakes of others. This helps you determine steps that should be avoided. Make sure to avoid these five investing mistakes:

✔ **Putting all your investment eggs in one basket.** Diversification is a familiar term in investing. Investing in a variety of investment alternatives helps decrease risk. If you have all your money invested in one company and that company does not perform well, your portfolio is going to suffer. However, by diversifying your portfolio, your overall return will not be as drastically impacted by the poor performance of one company, because you'll have investments in many other companies.

✔ **Spreading your investments too thin.** While there is value in diversification, overdiversification can be problematic. With too many investments in your portfolio, each one has little impact on your total return. Thus, your return tends to mimic the market. Even if you selected one or two outstanding investments, they are not likely to have much impact on your portfolio.

✔ **Expecting instant gratification.** Investing takes patience. When investors jump into an investment seeking to get rich quick, they often find themselves giving up on an investment too quickly, missing out on returns that might have materialized over time. If you select an investment after careful research, you won't need to monitor its every movement. Most investments will fluctuate, but good investments tend to appreciate over time.

✔ **Neglecting risk level assessment.** Before investing money, you need to assess the investment's potential for both upside and downside gains and losses. When you understand the risk an investment faces, you are less likely to sell on emotion.

✔ **Skipping out on an investment education.** Many people invest without knowing anything about the markets or the field of investing. Whether the cause is time constraints or confusion, lack of education can be harmful to your portfolio. You need a solid understanding of investment basics. Once the education piece is in place and you have done your research, investing becomes much more interesting. ❍❍❍

Myth 4: All Bonds Are Safe Investments

First, it's important to understand there are no guarantees when it comes to investing — there's always risk. While bonds are generally considered less risky than stocks, that doesn't mean there's no risk, and some bonds are riskier than others. Bonds issued by the U.S. federal government carry minimal risk (for example, savings bonds or Treasury bonds). But similar bonds issued by a less-stable country or government could carry much more risk. State and local bonds (called munis) come with a greater risk of default than bonds issued by the U.S. federal government. Corporate bonds can be risky too, especially so-called junk bonds.

Want to get more of the facts on bonds? Please call to discuss bonds in more detail. ❍❍❍

When Can You Retire?

When can you retire? It depends — on how old you are; how much you have saved; the extent to which you'll rely on Social Security, a pension, or tax-advantaged retirement accounts; how your investments perform; the kind of lifestyle you want in retirement; and how long you'll live.

Factors to Consider When Setting a Target Retirement Age

1. What kind of lifestyle do you want in retirement? Given the same monthly savings rate, there is a tradeoff between when you can retire and the kind of lifestyle you can have once you do. For example, if you're currently 50 years old, earn $50,000 per year, and plan to live to age 90, for about the same monthly savings amount, you can retire at age 65 with 50% of your preretirement income or at age 70 with 100% of your preretirement income (Source: Kiplinger Retirement Savings Calculator). There's no right or wrong answer here, it's simply a tradeoff you'll have to make.

2. What does Social Security consider to be your full retirement age? The government will let you start receiving Social Security benefits at age 62, but those benefits will be less than what you'd receive if you waited until your full retirement age. For example, for an individual born in 1960 or later who retires at age 62 instead of age 67 (his full retirement age), his monthly benefits will be reduced by 30%. For individuals born before 1960, full retirement age ranges from 65 to 66 and 10 months, and the reduction in benefits for retiring at age 62 ranges from 20% to 29.17%.

Of course, if you're not counting on Social Security for retirement income, then you can retire whenever you want and wait until your full retirement age to start taking Social Security benefits.

3. What do your pension and other retirement plans consider to be full retirement age? Like Social Security, most pension plans have a certain minimum age at which they will begin paying benefits (at a reduced rate), and a certain age at which you become eligible to start receiving full benefits. Similarly, tax-advantaged retirement plans like 401(k) plans and IRAs penalize distributions (except in certain circumstances) before age 59½.

Important to note: While most people focus on the earliest age at which they can retire, it's also important to understand when you may be required to start taking retirement benefits or distributions from retirement accounts. 401(k)s and 403(b)s require minimum distributions beginning at age 70½ (unless you're still working in most cases), as do traditional IRAs.

If you would like to retire at age 62 but the math just isn't working out, you might consider partial retirement. By continuing to generate income even after you've left the workplace, you can retire earlier than if you're not generating any income at all.

Ways to Partially Retire

✔ **Work part-time —** Working part-time, either at your current job or another one, is one way to continue generating income while still having more time to pursue the retirement activities you've been looking forward to. Some people enjoy working a few hours every day, a couple of days a week, or even just a couple months out of the year, depending on the job.

✔ **Consult —** You've likely spent many decades honing your skills in a particular job or industry. And while some employers might be wary of hiring older workers full-time, they're often eager to tap the expertise of older workers on a contract basis. So consulting can be a good way to continue earning income while also freeing up time to golf, play with the grandkids, and whatever else you've been putting off for retirement.

✔ **Sell your wares —** If you had planned to do craft-related activities in retirement anyway, why not consider selling your wares? Online craft sites make selling homemade items relatively easy. If you join a local craft-making group, you could find the activity both financially and socially rewarding.

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

What Is Tax-Loss Harvesting?

Tax-loss harvesting is choosing to sell some investments at a loss to reduce taxes on realized capital gains from other investments.

Assess Your Capital Gains

Thoroughly review your investments to determine a rough estimate of capital gains. If you frequently buy and sell, you most likely have both short- and long-term gains and losses. Long-term capital gains are those on investments held longer than one year, while short-term capital gains are from those held for one year or less.

Estimate Your Tax Liability

Short-term capital gains are taxed as ordinary income, so your marginal tax rate applies to them. Long-term capital gains tax rates are much more favorable:

- ✔ A 0% long-term capital gains rate applies for joint filers with income of $0 to $77,200 and single filers with income of $0 to $38,600.
- ✔ A 15% long-term capital gains tax rate applies for joint filers with income of $77,201 to $479,000 and single filers with income of $38,601 to $425,801.
- ✔ A 20% long-term capital gains tax rate applies for joint filers with income over $479,000 and single filers with income over $425,800.

There is also a 3.8% net investment income tax for high-income taxpayers above specific income thresholds.

Harvesting Losses

Start looking for investments you want to sell. The tax code states short- and long-term losses must first be used to offset gains of the same type. If you have losses of one type that exceed gains, you can then apply the excess to other types of capital gains.

Additionally, if you don't have any gains in a given year, the tax code allows you to apply up to $3,000 in capital losses to reduce taxable income.

Watch Out for the IRS Wash-Sale Rule

Even though you took a loss on an investment to reduce your capital gains taxes, you may decide it is still an attractive investment because it has good potential and fits within your investment strategy. Be careful when you buy it, because the wash-sale rule will disallow your tax write-off if you buy the same security, an option to buy the security, or a substantially identical security within 30 days before or after the date you sold the security with the loss. ❍❍❍

Growth vs. Value Investing

To gain a better understanding of growth and value investing, let's take a moment to discuss the differences between the two.

Growth Investing — Growth stocks are those that have seen impressive gains in recent years and have been proven to be leaders. Generally, growth companies are those that have held a prominent place in the market for some time; but they may also be new, emerging growth companies that are bringing in large profits at the beginning of their business life. Growth stocks tend to be higher priced, more volatile, andhave higher earnings than the rest of the market.

Value Investing — Another approach to buying and selling stocks is value investing. This involves looking for companies whose stock prices may not necessarily reflect their value. The idea is that by getting in on the ground floor or after a good company has experienced a serious setback, investors have a better chance of seeing an impressive return with value stocks. This being said, the market price for certain stocks that show promise may actually be accurate, in which case, a large return will likely not materialize. ❍❍❍

Financial Thoughts

Full retirement age for Social Security benefits varies from age 66 for individuals born in 1954 to 67 for individuals born in 1960 or later. Retiring at age 62 results in a 25% reduction in benefits, while retiring at age 70 results in a 32% increase in benefits. Despite that, 42% of men and 48% of women retire at age 62 with decreased benefits, and only 2% of men and 4% of women retire at age 70 with increased benefits. About 34% of men and 27% of women retire at full retirement age (Source: *wealthmanagement.com*, April 2018).

Approximately 70% of survey respondents said they regretted spending on restaurants, while 62% of surveyed Gen-Xers said they waste too much money dining out (Source: *Journal of Financial Planning*, May 2018).

The average equity mutual fund investor underperformed the S&P 500 by 4.7% in 2017. It is estimated that 50% of the investor shortfall for equity and fixed-income investors is due to psychological factors (Source: Dalbar, 2018).

Only 40% of American adults have a will or living trust (Source: AARP, 2018). ❍❍❍