Loose Change®

a penny saved is a penny earned

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What's the Difference Between Risk and Volatility?

You may think of volatility and risk as interchangeable terms, but they're not. Picture volatility as a two-way thoroughfare. Just as a car on that road can go in either direction, the price of an investment can go up or down over time. That's volatility.

Risk is a one-way street. It's the possibility that an investment will decrease in value and its price will drop. So, while volatility encompasses both the upside and downside of changes in the price of a security, portfolio or market segment, risk refers only to the potential for an investment to lose money.

Taming Risk and Volatility
Although taking some risk is necessary to earn returns that outpace inflation, there are strategies investors can use to cushion the impact.

Dollar-cost Averaging*
Investing a fixed amount of money on a regular basis—regardless of share price—allows you to purchase securities in a variety of market conditions and may result in a lower per-share price. If you invest through a 401(k) or other qualified retirement plan, you may already be using this strategy.

Diversification**
Spreading your portfolio among a variety of asset classes and investment styles may help to mitigate risk and make your portfolio less volatile. Your financial professional can help you choose appropriate investments.

Investing regular amounts steadily over time (dollar-cost averaging) may lower your average per-share cost, but this investment method will not guarantee a profit or protect you from a loss in declining markets. Effectiveness requires continuous investment, regardless of fluctuating prices. You should consider your ability to continue buying through periods of low prices.

***Diversification cannot eliminate the risk of investment losses. Past performance won't guarantee future results. An investment in stocks or mutual funds can result in a loss of principal.*

How Much Should You Save?

Determining how much you need to save is different for everyone, but here are a few general guidelines that apply to most people.

Your Emergency Fund

Money you set aside in an emergency fund can help pay for an unanticipated repair or medical bill or cover your living costs while you're not working. Your goal should be to save 6-12 months' worth of expenses in a savings or money market account that allows you quick, penalty-free access to your cash.

Your Savings
The amount you save for a specific goal, such as a new car, a down payment on a house or a vacation, will vary, depending on what you're saving for and when you'll need the money.

Your Retirement
The general rule is to save at least 15% to 20% of your income in a retirement account. Make sure you save enough to take advantage of any company matching funds, at a minimum, and save more if you can.

Filing Taxes in a Disaster Area

Although taxes may be the last thing on your mind after a disaster, filing a tax return may help you recoup some of your losses. But reconstructing documents can be challenging.

You'll need the lost records for federal assistance, reimbursement from your insurance company and reporting losses on your return. Financial institutions, title companies, insurance providers, contractors, city/town tax offices and the IRS can help you replace records that are missing.

The IRS often allows penalty-free extended filing deadlines and payments for affected residents and business owners following a federally declared disaster, and states typically follow suit. This relief also usually applies to those whose tax records were in the damaged region and workers from other areas who provide help to victims.

There are many things to consider when you are put in this situation. Tax options, loss limits and paperwork requirements can be confusing. It is important to consult your tax advisor who can help you navigate toward the best outcomes for your personal circumstances. Also, you can stay informed of filing deadlines by visiting the Tax Relief in Disaster Situations page at IRS.gov.

Natural Disasters: Are You Covered for Flood Damage?

Hurricanes, wildfires, catastrophic flooding — if your home or business were affected by a natural disaster, would your current insurance cover the damage? You might be surprised to learn that a typical homeowners or business insurance policy generally does not cover flood damage. For that, you'll need flood insurance.

Getting Flood Insurance

The National Flood Insurance Program (NFIP) provides coverage for dwellings and their contents to people living in one of 23,000 participating NFIP communities. Homes and businesses located in high-risk flood areas with mortgages from government-backed lenders are required to have flood insurance. Flood insurance is available through the federal government and private insurers.

Federal Assistance

The federal government provides disaster assistance following a Presidential Disaster Declaration. Assistance comes in two forms: loans that must be paid back with interest, and grants, averaging $5,000 per household. More information is available at fema.gov.

However, flooding can happen anywhere at any time due to poor drainage systems, summer storms, broken water mains, etc. Flood insurance pays for damage to your home or business regardless of whether there is a disaster declaration.

Separate Coverage

Flood insurance offers building coverage and contents coverage. Policies generally have separate deductibles. Building coverage pays for damage to structures, electrical and plumbing systems, furnaces/water heaters, foundations, detached garages, fuel tanks, well-water tanks/pumps, solar energy equipment, etc. Coverage limits for homeowners are typically $250,000 for buildings and $100,000 for contents. Coverage limits for businesses are up to $500,000 for buildings and $500,000 for contents. Businessowners may want to purchase additional insurance for valuable equipment and property not covered by a flood insurance policy.

Other Disasters

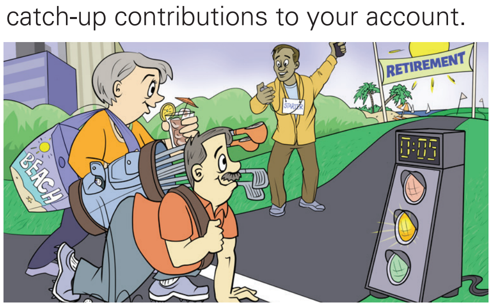
People in earthquake-prone areas may be able to purchase earthquake coverage as an add-on to a homeowners or business policy, or as a separate policy. Although fire damage generally is covered by homeowners and business insurance, special coverage may be available in certain brush and wildfire areas.

Your Retirement Countdown

If you expect to leave the workforce in the next five years or so, planning will make for a smooth transition.

Check Your Account Balances

Ideally, you've been monitoring your investments to determine whether they're performing the way you expected. If you're falling short of your goals, work to make up the difference. At age 50 or older, you can begin making catch-up contributions to your account.



How Much Will You Need?

Estimate what your retirement expenses will be and create a spending plan that will cover the basics but still leave room for extras, like travel, hobbies and unexpected expenses. Keep in mind that some expenses you have while you're working may be eliminated, or at least reduced, once you're retired.

Retire Debt Free

Before you retire, come up with a plan to pay off your credit cards and personal loans and, if possible, your mortgage and home equity loans.

Social Security and Medicare

You can begin taking Social Security benefits as early as age 62 or as late as age 70. The longer you wait, up to age 70, the larger your monthly benefit will be. However, there are several factors to consider, and your personal circumstances should guide your decision.

There are strict rules governing when you must sign up for Medicare and failing to follow them can result in stiff penalties. The coverage provided by Medicare is limited, so you'll probably want a supplemental health insurance plan.

Why Consider an Irrevocable Life Insurance Trust?

All life insurance policy proceeds are paid income-tax free and can provide immediate cash to pay final expenses and income for survivors. So why would you consider an irrevocable life insurance trust (ILIT)?

Privacy and Protection
Policy proceeds avoid probate, which is a public proceeding and protects the benefit amount from your beneficiaries' creditors.

Reduce Estate Taxes
When you place a policy into the trust, you transfer ownership of that asset to the trust, effectively reducing the size of your estate and any estate tax you may owe.

Setting Up the Trust
ILITs have complex rules so work with your estate planning attorney to create an irrevocable trust and help you to name a trustee. You'll set the terms of the trust, specifying who will have control, how premiums will be paid, who will benefit and how payments will be distributed. Your decisions are final because retaining any control over the policy after it's transferred to the trust will result in the policy being included in your taxable estate.

The trust must be in existence for three years prior to your death to avoid estate taxes on the death benefit. You may be able to prevent this by having the trust purchase a new policy instead of transferring an existing one.

Paying the Premiums
You have options for paying the premiums on the life insurance policy you transfer to the trust. You can continue making the premium payments yourself or purchase a single premium policy so that no further payments will be due. Another option is to give money for premiums to someone else to make the payments. However, this could trigger gift taxes if the payments exceed the gift tax exemption amount.

Consider Disadvantages
Before you decide to create a life insurance trust, consider the drawbacks. Once created, the trust is irrevocable. You can't borrow from the policy. You also can't change the beneficiaries, so if family dynamics or friendships change, the beneficiaries you named when you created the trust will still receive the policy proceeds.

How to Stop Living Paycheck to Paycheck

Controlling spending may be hard, but it's not impossible. Here are some ideas to help you get started.

Find Out Where It's Going
It's easy to lose track of how much you're spending. Keep a log of everything you buy. At the end of each week, review your log to see where your money is going.

Create a Spending Plan
Start by reviewing your fixed monthly expenses, such as mortgage or rent, insurance, loan payments, and so on. Determine how much you typically spend on food, utilities, and discretionary items, including dining out and subscriptions. Then look for places to save.

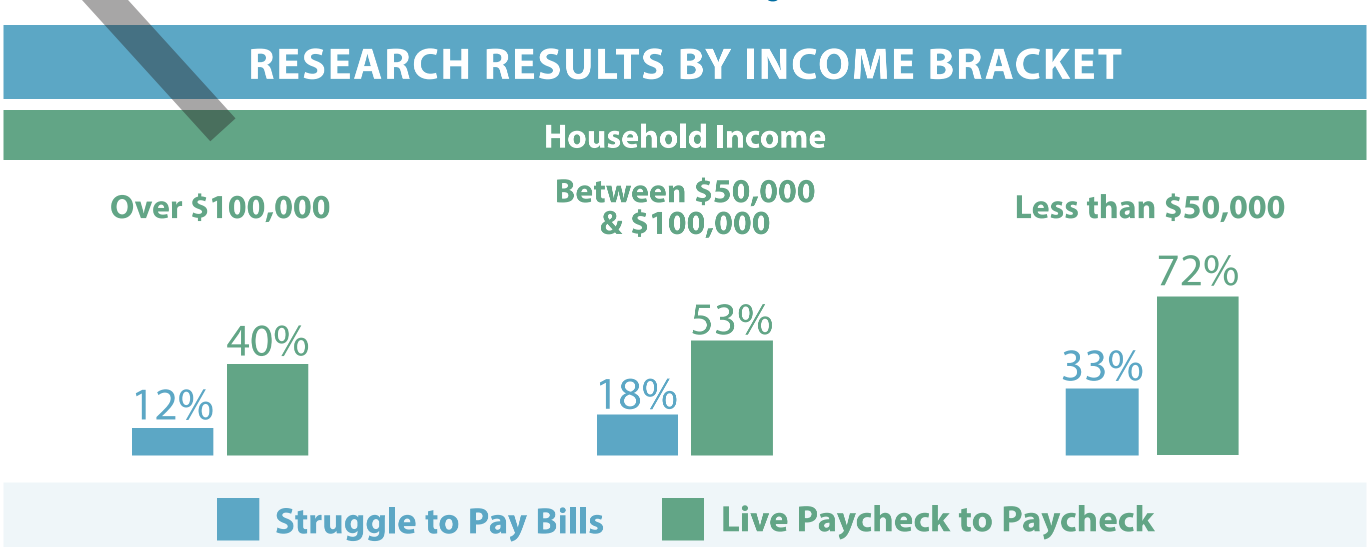
Automate Your Savings
Set up automatic transfers to savings each pay day. Having your savings account at a different institution from your checking account may make it harder for you to transfer money out of your savings. Add any bonuses, raises, or tax refunds you receive to your savings.

Eliminate Debt
Prioritize paying off personal loans or credit card balances. Reducing high-interest debt immediately increases your ability to save.

Meet with Your Financial Professional
The sooner you act, the sooner you can stop living paycheck to paycheck.

Majority of Americans Live Paycheck to Paycheck

According to the research, 54 percent of consumers in the US (125 million adults) are living paycheck to paycheck and 70% have less than $15,000 saved for emergencies.



Source: Reality Check: Paycheck-to-Paycheck Study, June 15, 2020

Invest with Income Taxes in Mind

While taxes alone should never drive your investment decisions, minimizing their impact matters.

What Goes Where

Holding tax-efficient investments in taxable accounts and taxable investments in tax-advantaged accounts is a useful strategy. Generally, when individual stocks, tax-managed stock funds, ETFs, dividend-paying stocks and mutual funds* are in a brokerage account, you'll pay taxes annually on dividends and any realized investment gain.

Alternatively, when assets are invested in tax-advantaged accounts, such as 401(k) plans and traditional individual retirement accounts (IRAs),** taxes are deferred until you make withdrawals, when the money is taxed as ordinary income.

**Investors should consider the investment objectives, risks, charges, and expenses of the fund carefully before investing. Contact the issuing firm to obtain a prospectus which should be read carefully before investing or sending money. Because mutual fund values fluctuate, redeemed shares may be worth more or less than their original value. Past performance won't guarantee future results. An investment in mutual funds may result in the loss of principal.*

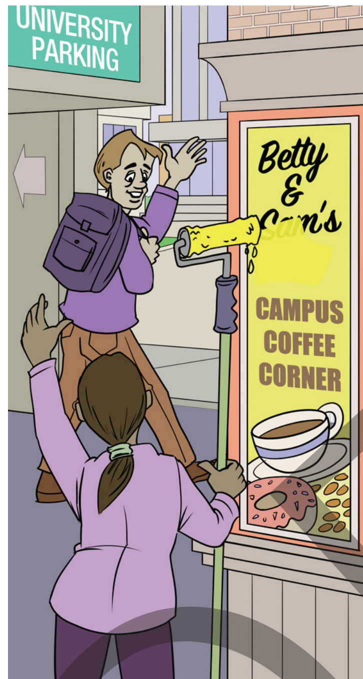
***Distributions from traditional IRAs and employer-sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty.*

When Spouses Are Co-owners

Spouses who own a business together know the challenges of mixing their personal and professional lives. But what happens if the time comes when one partner wants something different? Here are a few options to consider when divorce, the desire to pursue a different occupation, or loss of interest in the business affects your business partnership.

Consider a Buyout

With a buyout, one spouse agrees to purchase the other spouse's interest in the business. Generally, a buyout between divorcing spouses is tax free and is not considered a sale for tax purposes, as long as the buyout occurs within a specific time frame related to the divorce. Both partners will need to agree on the valuation, and each spouse may want to hire his or her own appraiser.



One issue with a buyout may be the difficulty of one spouse coming up with cash or other liquid assets to buy the other spouse's share. Dividing other marital assets equal to part of the business's value or agreeing on installment payments in place of a lump sum are possible options. Keep in mind that a future sale of the company could have tax consequences for the spouse who retains the business.

Sell the Business

Selling the business is a potential solution when one or both of you decide to move on to something else. Before you decide on this option, consider whether the business's profitability and market value are likely to attract a third-party buyer under current economic conditions.

Remain Co-owners

If one spouse opts for a different career, you may choose to retain the business alone or with a new partner. When divorcing spouses are both interested in continuing to run the business, co-ownership may be an option. However, success depends on both spouses agreeing to conduct their business relationship as if they had never been married.

Have an Exit Strategy

Your original business plan should include an exit strategy. Unlike succession planning, which grooms a successor to assume a departing owner's duties, exit planning defines the process for transferring a company and its ownership to another person, team or entity. Having an exit strategy in place when you start your business can prevent conflict later.

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ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

October 20, 2021

Reference: **FR2021-1006-0157/E**
Link Reference: FR2021-0722-0141

Org Id: 23568

1. Loose Change Newsletter JanFeb 2022

   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

hrm

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