RAA®

THE COMPASS

beneficiaries | financial checkup | market update

OCTOBER 2020

A BENEFICIARY STORY

Tragic variations of this story happen all the time. One of the worst parts is, they're entirely avoidable.

Many years ago, Jane married her college sweetheart and landed her first job as a pilot with a regional airline. Her career was progressing well, but after only a couple of years, the relationship ended. Not long after, however, she met someone new. They got married, had two children, built what by nearly any standard was an admirable life, and lived happily together. After moving through two regionals, she accepted her dream job flying for a major in 2018.

Unfortunately, in 2019, Jane unexpectedly passed away in a car accident. Then, as if that weren't enough, a tragic situation got even worse.

A conscientious saver, Jane had rolled her 401(k) balances from the regionals she flew for to an IRA. This IRA was one she had established the first year she was married to her first husband and she had never updated the beneficiary form. This sizeable IRA passed, not to her family, as her will stated, but instead to her ex-husband, who, via an oversight, had accidentally been left as the sole beneficiary. While, certainly, you'd hope the first husband would return the money, even though they hadn't spoken in over a decade, as it happens more often than you might expect, citing some vague promise she'd made years before, he refused.

Because beneficiaries listed on retirement accounts supersede those named in wills, there was absolutely nothing her husband or family could do to reclaim the money.

So, how do the wrong people get left as the beneficiaries on accounts?

By the time you've accrued some wealth and savings, you may have been married more than once, have children or stepchildren with more than one partner, changed employers, have more than one retirement account, or altered your insurance coverage.

When it comes to assets, it's a reasonable assumption that a will—with its expense and notarizations—is the final word in all financial beneficiary processes. But it most certainly is not. With that in mind, what follows are some common accounts where beneficiary designations override whatever you have recorded in your legal will, so make sure they are up to date.

Transfer on Death (TODs) on Nonretirement Investment Accounts

Let's say you have a standard brokerage (also known as a "taxable brokerage") account that holds stocks, bonds, mutual funds, ETFs, and other investments. These accounts can have anywhere from one to several (even non-relatives) listed as account holders.

What Happens if You Pass Away?

In a straight-forward situation where you and your spouse have joint ownership with "right of survivorship accounts," the joint registration will typically transfer full ownership to your shared account holder (spouse). But what happens if you both pass away, or if you are the sole account holder? That's the reason why you need to have a designated beneficiary inside the account so that you will have established what is called

a "Transfer on Death" (TOD) registration. While a TOD will keep the money from having to pass through probate, like a retirement account beneficiary, the "named" beneficiaries on your brokerage account(s) will automatically get the money in the event of your death (over whomever is listed in your will).

Payable on Death (PODs) on Bank Accounts

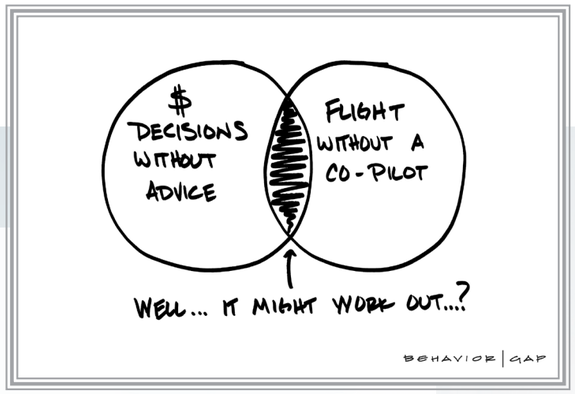
Like a TOD, this too-often-mishandled transfer-of-assets mechanism is called a Payable on Death (POD) arrangement. PODs can cover assets at your bank like money in your checking or savings accounts, a savings bond, or a certificate of deposit (CD). Easy to set up, you merely need to fill out the proper forms at your bank branch. As with naming the proper beneficiaries on your retirement accounts, this should keep your money out of probate and get it quickly in the hands of the person you designate as the beneficiary.

The advantages of a POD are that while the "named beneficiary" will have no access to the money while you are alive, these assets immediately and directly transfer ownership in the event of your death. Additionally, because a POD is a type of revocable living trust, if registered as a POD, and not merely a typical bank account, the FDIC will insure up to five separate accounts for $250,000 each. This means that if you have, say, five beneficiaries, and you want each to be insured, you can disperse the monies over five separate accounts and insure each for a total of $1,250,000.

In closing, while in the strongest terms we encourage you to create a will, it's just as important to take just a few minutes and make certain that all of your beneficiaries on your retirement accounts, insurance policies, investment accounts, and bank accounts are up to date.

Of course, death is certainly no one's favorite topic, but if your loved ones lose you, or you lose your spouse or partner, an unthinkable tragedy will get unimaginably worse if monies you've earmarked for family end up in the wrong hands. Please don't let this happen to your family. It is completely avoidable if you update your beneficiaries today.

Contact your advisor if you have any questions about how to make these updates. We're here to help.



OPEN ENROLLMENT

Open enrollment is available only one time per year and is a key part of your overall financial planning strategy. It is important that you make any changes, if needed, during the enrollment window to ensure your benefit elections meet your specific needs. Below are some considerations:

- Did you know that there are ways you can reduce your current year taxes and spend that money during retirement tax-free in addition to your 401(k)?
- Have you reviewed your benefits recently?
- Do you know what your income would be if you went on long-term disability?

If any of your answers to the above questions are no, then we encourage you to

contact your advisor to discuss your open enrollment options.

FREE 401(K) MANAGEMENT
for Involuntarily Furloughed Pilots

Over 30 years ago, the founders of RAA saw the need to provide highly specialized financial services to their colleagues in the airline community. At the time, there were many financial advisory firms to choose from, but none that focused on the unique needs, desires, and challenges that come with a life spent flying the line. The thought was that if we could provide financial services that were tailored to the needs of those pilots, we would make a lasting impact on the lives of our colleagues. Fast forward to today, and that original mission still forms the backbone of our work.

With all the turbulence happening in the airline industry, we knew we needed to step up and help those pilots most in need. We understand the stress a furlough notice can cause on a family, finances, and a pilot's future, and we want to be there to help when they need it the most.

With that being said, we are proud to offer free 401(k) management to involuntarily furloughed pilots for one year to ensure those pilots who have been furloughed have access to the financial experts they need without worrying about a fee. Times of crisis and turmoil such as these are when we feel we can add the most value and help our community get through these challenging times.

QUALIFICATIONS

1) You must be an involuntarily furloughed pilot and a copy of your furlough letter must be submitted to RAA to qualify.

2) This offer does not apply to pilots taking leave of absence packages or those who voluntarily take a furlough/leave of absence/early retirement.

3) Only 401(k) accounts qualify for free management. All other types of accounts will be charged at our standard fee schedule.

4) You must have either Charles Schwab or Fidelity as your 401(k) plan administrator.

WHAT'S INCLUDED

The free 401(k) management offer includes a custom financial plan to prepare for your new reality, evaluating potential insurance needs as company benefits may no longer be available, developing an investor risk profile, analyzing current investment allocations and, when appropriate, and guidance on rebalancing assets to align 401(k) allocations with personal investment preferences, retirement goals, and time horizons.

The free management will not apply until your furlough status goes into effect on or after October 1st.

Ready to Get Started?

Go to RAA.com/free401k today to request a furlough consultation.

END OF THE YEAR FINANCIAL CHECKUP

With all of the changes occurring this year, an often-overlooked area that may need rejuvenation is your financial health. The end of the year is the perfect time to reevaluate your financial situation and ensure you have all of your major financial bases covered to start the new year off right. The checklist below will help simplify how to go about this process.

- ☐ **Have you scheduled an annual plan review with your advisor at RAA?**
  Regardless of what stage of life you are in (new hire, mid-career, or retirement), we have services and offerings to help you navigate the journey. If you have not updated your plan in the past 12 months, please contact us to schedule a meeting.

- ☐ **Have you reviewed your current budget?**
  Most people don't know where all their money goes, making it difficult to save and plan for future expenses. RAA has a great, interactive budgeting tool. Ask your advisor to send you the most recent version.

- ☐ **Are you prepared for the unexpected?**
  Do you have an emergency fund large enough to cover 3-6 months of expenses? If not, we can work with you on developing a plan to accomplish this.

- ☐ **Have you reviewed your estate planning documents recently?**
  RAA has an estate planning specialist on staff to review your documents and make recommendations. This service is available to all clients and family members.
  - Are your documents current?
  - Is all the information relevant?
  - Are your beneficiaries correct on all your accounts and policies? Take some time to review all your accounts and insurance policies to ensure the beneficiaries are current.
  - Are the documents more than five years old? Have any significant life events occurred? If either or both are true, it is time to update your documents.
  - Does RAA have a copy of your documents, specifically your Durable Power of Attorney?

- ☐ **Have you received and completed a LIFE Book?**
  If you don't already have one, please request one from your advisor. This can make all the difference for your family.

- ☐ **Have you updated contributions on your retirement accounts (401(k), IRA, Roth, HSA)?**
  - Are you participating in your employer-sponsored plan?
  - Do you need to adjust your contribution for 2021?
  - If you are 50 or older, are you taking advantage of the catch-up contribution limits (age 55 for HSAs)?
  - Does your plan offer a Roth option? Does it make sense for you to take advantage of this option?

RAA is here to help you with your financial questions. We believe updating your financial plan on an annual basis is imperative to achieving your financial goals. The topics above, plus others, will be discussed during your plan review. Please contact your advisor to ensure your plan is up-to-date and let them know if you have any questions about your financial health.

MEDICARE FALL OPEN ENROLLMENT STARTS OCTOBER 15TH

Take advantage of our partnership with eHealth to review all your coverage options – for free.

As a reminder, Medicare's Fall Open Enrollment period opens today and runs through December 7th. But before you make your plan selection, we want to make sure it's the right one for you.

That's why, as an RAA client, **you're entitled to a free, no-obligation review of your Medicare coverage and enrollment options.** This comes courtesy of our partners at eHealth, a licensed insurance agency and a leading online source of health insurance for Medicare beneficiaries. Click here to learn more.

You can visit eHealth's non-government website to get started or call their dedicated phone number for RAA clients at 1-844-980-2617 (TTY: 711). Hours of operation: Monday-Friday 8am-9pm EST; Saturday 10am-7pm EST.

eHealth®

Through eHealth, you'll get:

- An easy, one-stop way to review and select Medicare insurance plans from over 170+ insurance companies
- The opportunity to compare and review plans to see if you can save money
- Access to advice when comparing plans

This partnership with eHealth is just one more way we're striving to guide you through all aspects of your retirement journey. If you have any questions, please reach out to your advisor.

eHealthMedicare.com is a non-government website operated by eHealthInsurance Services, Inc., a licensed health insurance agency that sells Medicare products and does business as eHealth(or eHealthInsurance Agency in NY and OK). eHealthMedicare.com and eHealth are not affiliated or connected with Medicare or any other government program or agency. eHealth offers plans from a number of insurance companies. This letter was developed by eHealth in partnership with RAA and solicits insurance prospects for eHealth.

MARKET UPDATE

By Jeremy Merchant, CIMA®, Chief Investment Officer

I enjoy the final few months of each year. The weather change is enjoyable, and I look forward to the holiday season approaching. It is also a good time to reflect on the year, what was accomplished, and what lessons can be learned. Reflecting provides valuable insight and helps set the stage for the next chapter and additional improvement.

I have mentioned this before, but my favorite gift each holiday season comes from my two boys. At the end of each year, Mason and Adam give me a handwritten note of the top 10 things they want to achieve in the new year. In addition, we spend time reviewing their note

from the prior year. We make sure the boys understand that it does not matter if they accomplished everything on their list. This exercise is just about monitoring their journey and seeking improvement and refinement.

As we move into 2021, I am pleased to announce additional refinement that is occurring within our firm. Please note that I have joined the Allworth Investment Committee. This committee is responsible for policy oversight of the investments within Allworth Financial. As you know, RAA is now part of the Allworth family. If we combine RAA's assets under management with Allworth, we see that the firm is now overseeing approximately $9 billion in investment assets.

Given my new role, I am also pleased to announce that the current Chief Investment Officer at Allworth Financial, Andy Stout, will oversee the RAA portfolios. Andy has served on the RAA Investment Committee since January of this year.

Andy has earned both his CFP® and CFA®. Andy holds both an undergraduate degree in Business Administration and an MBA from the University of Cincinnati, where he now also works as an adjunct professor. Within the investment department, Andy will work very closely with Ryan Gromatzky to manage the day-to-day decisions of the portfolios across the entire firm. As you may know, Ryan has been with RAA for almost 14 years. Expect to hear more from Andy and Ryan within written investment communications as we move into 2021.

ANDY STOUT, CFP®, CFA®

RYAN GROMATZKY

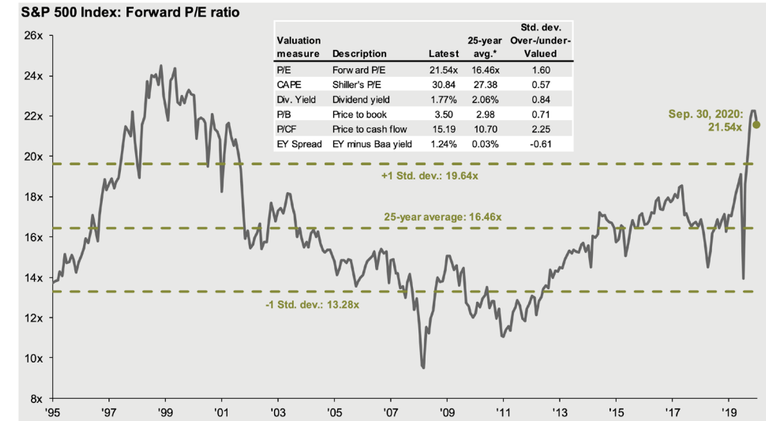
Please note that our core investment approach and investment philosophy is not changing. As always, we still will follow a disciplined investment approach that manages your assets relative to your plan. This approach is once again rewarding our clients in 2020. Diversification, communication and proactively managing your asset allocation remains our top priority within investments.

While the U.S. economy contracted -5.0% and -31.7% in Q1 and Q2 of 2020, we see that Q3 GDP is estimated to bounce back at 23.3%. This significant rebound, while historically large, still leaves the year-over-year contraction at roughly -4.5%. Looking forward, we expect Q4-2020 to produce growth as well. However, as we move into 2021, a continuation of the rebound will be contingent on further progress in containing and mitigating the effects of COVID-19.

From a labor viewpoint, the U.S. unemployment rate rose from 3.5% in Feb. 2020 to 14.7% at the end of April 2020. During this time more than 25 million people lost their jobs. Since that time, many jobs have been recouped and the unemployment rate has dropped to 8.4%. That is an amazing rebound, but there is still much work to be done as the U.S. economy is still 11.5 million jobs short of where it was in February. The current consensus estimate is for the unemployment rate to recover to 8% by the end of 2020 and improve to an estimated 6.2% in 2021.

As you know, fiscal and monetary policy support has underpinned a significant recovery in risk assets and provided a cushion for struggling households and businesses. As part of these stimulus measures, the Federal Reserve's balance sheet has increased from $4.2 trillion (in Feb.) to ~$7 trillion today. Future asset purchases and anticipated usage of the Fed's current credit facilities are estimated to bring the Fed's balance sheet to $10.3 trillion by the end of 2021. These policy actions should continue to support the market into 2021.

Thanks primarily to stimulus measures, equities have experienced a big bounce since the March/April selloff. In fact, the S&P has rallied over 50% since its low in March. This rally has left valuations stretched even on a forward-looking basis. On the next page is a chart from JP Morgan illustrating forward valuations relative to history. As you can see, the Forward P/E is ~ 22x which is 1.7 standard deviations rich compared to the 25 year average.



While equity valuations are currently stretched, we do note that economic statistics have markedly improved over the last few months and have beaten most economist expectations. Valuations remain something we are watching closely as they currently are pricing in a V-shaped recovery. Future stimulus and potential solutions to COVID-19 are certainly needed to help support the market going forward. For the time being, we remain committed to our current equity posture within the portfolios.

Within fixed income, we will continue to maintain our current tilt towards corporate bonds relative to government bonds. With economic conditions improving and the yield curve not inverted, corporates should outperform. With that said, we do not have any direct exposure to high-yield corporate bonds, as the default risk for these companies has been rising and delays in fiscal support will only compound the risk of bankruptcy. Investment grade spreads have narrowed over the past few months, but these spreads are still wider than where they were over the past few years, suggesting corporates are relatively attractive compared to government bonds.

As we move into the final few months of this year, we remain committed to keeping you updated on market conditions and any proactive adjustments within the portfolios. While this year has certainly been eventful, once again, those that remained committed to their underlying plan are on track to produce solid results.

ACTIVE ALLOCATION VIEWS

Themes	Category	Change	Negative	Neutral	Positive
Main Asset Classes	Equities	▲	○○○	●	○○○
	Bonds	-	○○○	●	○○○
	Cash	-	○○○	●	○○○
Domestic Equities	Large Value	-	○○○	○	●○○
	Large Growth	-	○○○	●	○○○
	Mid Value	-	○○○	●	○○○
	Mid Growth	-	○○○	●	○○○
	Small Value	-	○○○	●	○○○
	Small Growth	-	○○○	●	○○○
	Tactical Equity	-	○●●	○	○○○
Foreign Equities	Developed	-	○○○	●	○○○
	Emerging	-	○○○	●	○○○
Fixed Income	Intermediate	-	○○○	○	●○○
	Short Term	▲	○○○	○	●●○
	High Yield	-	○○●	○	○○○
	Cash	-	○○○	●	○○○

KEY THEMES AND THEIR IMPLICATIONS

Themes	Category	Rationale
Equities	Economic Growth	Economic recovery continues thanks to fiscal and monetary policies
	Business Cycle	Corporate earnings are improving
	Inflation	Inflationary pressures are not a concern
Bonds	Bond Yields	Monetary policy remains extremely accommodative
	Duration	Interest rates should remain low for the next few years
	Quality	Lower quality credits should be underweighted

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