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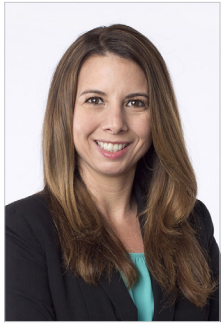
THE COMPASS

reduced income | retirement tips | the recovery

JULY 2020

Facing a Reduction in Income?

Here's what you should do.



By Michelle Yates, CPRS™, BFA™, CDFA®

Merely saying that things are difficult right now feels like a massive understatement. Having been in financial services for over 15 years, I've seen downturns that impacted parts of every industry. But it almost goes without saying that, along with hospitality (which has lost 7.7 million jobs), it's likely that no single sector has been impacted as severely as the airline industry.

While there is no silver bullet, when your livelihood is affected and your income gets reduced, there are some hard-but-necessary things you need to do right now to get by until you're flying a regular schedule.

TAKE A DEEP DIVE INTO YOUR FINANCES AND CREATE A BUDGET

The first thing I recommend you do is to get a tight grip on your spending and create a realistic budget. You're going to be determining your monthly income needs.

Start by writing down all your monthly expenses, including your mortgage or rent, property taxes, utilities, vehicle payments, timeshares, cable and Internet, club memberships, phones, yard and pool maintenance, housekeeping; any and all recurring fees. Everything. Don't forget your visits to Starbucks!

You've got to know precisely where your money is going, and then decide what cuts you can and cannot make.

Next, review a couple of months of purchases, and then calculate an average of your expenditures for groceries, gas, and things you regularly purchase or order online.

Then list all your unsecured debt, including credit cards, lines of credit, and any student loans, and the monthly payment amounts for each.

I've found that when the people I advise really start paying attention to exactly how much they owe and spend, and precisely where that money is going, it becomes much easier to slash expenses and save.

Next comes prioritization. You'll want to revisit your short and long-term financial goals. How much out-of-pocket (after tax) money have you been saving? What have you been saving for? What can wait, what can't, and what can

HAVE YOU ALREADY TAKEN AN RMD THIS YEAR?

If so, you need to know about **this**

On June 23rd, 2020, the Internal Revenue Service announced "IRS Notice 2020-51," which states that "All taxpayers who have taken a required minimum distribution (RMD) in 2020 (including those RMDs taken before the CARES Act was signed into law) from an eligible retirement account (including inherited IRAs), now have the opportunity to roll those funds back into that retirement account by August 31st, 2020."

Please note that this decision could have complex tax implications, with pros and cons largely dependent on your income sources and tax bracket.

If you have already taken an RMD for 2020, please contact your advisor to discuss your next steps.

be adjusted or repurposed to best accommodate the changes to your income?

Next, call any creditors and explain the situation. Right now, many creditors are offering to suspend interest and even payments, so if you call and don't get the answer you need, call back and talk to someone else.

REVIEW OPPORTUNITIES CURRENTLY AVAILABLE TO YOU

Whenever a client's income takes a hit, the next thing I recommend is that they evaluate their immediate, short-term opportunities. For instance, the 883-page long CARES Act (the Coronavirus Aid, Relief, and Economic Security Act) has several provisions, including mortgage forbearance for up to 360 days and, as a last resort, penalty-free withdrawals from your tax-deferred retirement accounts (such as a 401(k) or IRA) of up to $100,000. (You have until the end of 2020 to do this.)

As an important aside, while these are obviously extreme circumstances, I strongly encourage you to think very carefully before tapping into your retirement savings. While, thankfully, you won't get hit with the usual 10% penalty for taking a withdrawal before age 59 ½, you will still eventually have to pay taxes on any withdrawals (the upside is that you'll have three years to do it).

EVALUATE POTENTIAL TAX STRATEGIES

Next, depending on your situation, there are also some potentially great tax-saving strategies such as tax-loss harvesting and Roth conversions.

Briefly, tax-loss harvesting is when you intentionally sell a "losing" stock (a stock that has lost value) to offset realized gains on other investments. Couples could save up to $3,000.

A Roth conversion could also make sense, because you might be able to take advantage of your temporarily lower tax burden (or bracket) to rollover your tax-deferred retirement account(s) into a Roth. You'll have to pay taxes on the withdrawal, but once inside a Roth, not only does the money grow and get withdrawn tax free, there are also no required minimum distributions when you reach age 72.

CONSIDER REFINANCING

Next, for homeowners, because money not going out is the same as money coming in, now might be the ideal time to refinance your mortgage to a lower interest rate. The key is to reduce monthly outflow and conserve cash, even if it means refinancing to a 20 or 30-year loan.

While you have a lot of decisions to make, it's likely that you have options, so it's imperative that you make the absolute best choices for your unique situation.

THINK PAST YOUR CURRENT SITUATION

The last thing I recommend is that you do everything you can to keep yourself protected for the future. For instance, it may seem logical to charge everything on a credit card and pay it back later when things return to normal (and some people may have to), but as a reminder, if there is any other way, you owe it to yourself and your future to assess those options first.

While you need to cut expenses, you also need to make certain they are the *right* expenses. I'm referring to things like insurance coverage. Try not to let any key coverage slide or, I'm sorry to say, you run the risk of making a bad situation even worse.

CONTACT YOUR ADVISOR

If you are facing a reduced income, please know that you are not alone. Your team at RAA is here to help you make the right decisions for your unique situation. If you have any questions about managing a reduced income or if you need help getting started, please do not hesitate to contact your advisor.

10 Tips for Living a Fulfilling *(and Fun!)* Retirement

Adjusting to retirement can be difficult after you've spent decades working and building your wealth. In fact, you might even find yourself a bit *bored*. Strange, right?

Not really.

This is a sentiment we have heard from many recent retirees over the years. It's normal. The fact is that while you spent so much time making financial preparations a top priority, you probably never took the time to create a plan for your time and well-being during retirement; yet these are the elements that are vital to retiring well.

So, to help you achieve a fulfilling and enjoyable retirement, we want to share 10 of our favorite tips for living a successful life in retirement.

#1 STAY ACTIVE

In our research, we've found that the number one factor in a happy retirement isn't money – instead, it's practicing healthy habits. Even walking just 20 minutes a day can improve your mood and help you live a longer life.

#2 EAT WELL

What you eat can have a major impact on the health of your heart and also your brain. For instance, studies have found that the Mediterranean diet (composed of fruits, veggies, fish, and nuts) tends to lower the risk of heart disease and dementia. Meanwhile, the goal of the DASH diet (which is rich in fruits, vegetables, whole grains, and low-fat dairy foods) is to help reduce blood pressure.

Of course, always consult your doctor before altering your diet.

#3 STAY SHARP

And speaking of your brain, don't forget to keep it stimulated! To help improve your mental acuity, try learning a new language or working on a creative project.

As most quarantine orders are still in place throughout the country, now is a good time to take advantage of digital learning opportunities. Take a look at classes you can take online or set up a way to share your skills online through digital teaching opportunities.

#4 GIVE YOUR TIME

You know that amazing feeling you have after volunteering? There's a reason for it. Basically, it's science! According to the American Psychological Association, volunteering later in life "is associated with significant psychosocial, physical, cognitive, and functional benefits for healthy older adults."

However, volunteering in person right now is not advised for anyone, especially for those who are more at risk for COVID-19. But there are ways you can still digitally give your time, whether it's an online mentorship or simply raising awareness to a cause you care about.

#5 KEEP TALKING

If you're married, the financial conversations you were (hopefully) having before retirement shouldn't end once you're in retirement. Keep having discussions about your budget and how you would like to spend your time, both together and apart, and money.

#6 BE AWARE OF SCAMS

From Medicare and Social Security scams to romance scams to sweepstakes scams, older Americans are one of the top targets for scammers. In fact, according to CNBC, from 2013 to 2017, people ages 70 and older who became victims of a scam or fraud lost an average of almost $42,000.

As a reminder, never give out your personal information to someone making an unsolicited phone call. And remember: If it sounds too good to be true, it probably is.

#7 GO BACK TO WORK

We know, we know. The usual definition of retirement typically doesn't include the word "work." However, in our definition, both concepts can co-exist: Retirement is the time in your life when you hopefully have the financial flexibility to do what you love for the pure sake of enjoyment – not a paycheck.

(Just remember, though: Your Social Security benefit could be reduced if you go this route.)

#8 STAY SOCIAL

Staying connected to others is key in retirement. Research has shown that people who seek out and embrace new experiences – and strengthen and expand their social circles – actually live a few years longer than those who don't.

While we're all socially distancing, take some time to look online for opportunities to connect with others – perhaps through a social media group or a message board about a topic or activity you really enjoy.

#9 PACK YOUR BAGS

While the current environment isn't ideal for traveling, we encourage you to research and map out the dream vacation you've always wanted to take so you're ready to take off when life returns to normal.

According to a study from the Transamerica Center for Retirement Studies, travelers are "significantly more likely than non-travelers to feel satisfied about their overall mood and outlook." The same study found travel helps to challenge the brain with new and different experiences and environments.

#10 BE CONFIDENT

Financially confident, that is. We've found that financial confidence is 3x more important to life satisfaction than the amount of retirement savings you have.

What does this actually mean? Cover all your financial bases! Create an income stream plan; update your wills, trusts, and beneficiaries; have the appropriate asset allocation for your investments so they can keep earning money through retirement; and more.

By having a plan for your savings and investments and not letting the small details slip through the cracks, you'll be better positioned to confidently answer the question, "Can I live reasonably within my means?"

But at the end of the day, retiring well isn't just about "the numbers." Knowing how you'll spend your time, staying healthy, and connecting with others are goals that should be equally as important.

Monitoring the Recovery

By Jeremy Merchant, CIMA®, Chief Investment Officer

As we all continue to navigate a global pandemic, an economic recession, and social unrest, it can be difficult not to have extreme emotions. However, as long-term investors, we cannot be permanently optimistic nor can we be constantly pessimistic. We need to be realistic and take advantage of times such as these. In Benjamin Graham's famous investment book entitled "The Intelligent Investor," he notes that "the intelligent investor is a realist who sells to optimists and buys from pessimists."

Certainly, the markets have experienced extreme sentiment shifts in the last three to four months. As COVID-19 news increased, pessimism drove the markets lower. However, as we headed into the summer, markets rallied on hopes that the economy would soon open back up. Today, markets are debating another sentiment shift as COVID-19 cases seem to be rising again.

During the second quarter of this year, when markets moved lower, we rebalanced our portfolios back to their target allocation. The rebalance allowed us to slightly increase our equity exposure while equity prices were depressed. Toward the end of the second quarter, as equity markets moved higher, we remained committed to our diversified approach which allows for reduced volatility within the portfolios. This approach served our clients well during the first half of this year.

As we move into the second half of the year, we expect to continue to manage the portfolios for reduced volatility relative to the overall market. Moreover, we will not get caught up in the extreme emotions of the markets. Like Benjamin Graham notes, we will keep a realistic outlook and look for opportunities during times of volatility.

RECESSION, COVID-19, AND THE FED

As you know, the U.S. economy fell into a recession during the second quarter of this year. The National Bureau of Economic Research (NBER) announced that the record-long 128-month economic expansion came to an end in February. Since 1945, the average expansion lasted for 65 months and the average contraction was 11 months long. We believe our current recession will be much shorter than average. The shortest recession ever was six months, and some economists think this recession could end sometime in the second quarter.

Ultimately, the duration of the contraction will probably be tied to COVID-19. While the national curve is relatively flat, this seems to be mostly due to rapid declines in cases coming out of New York, New Jersey, Illinois, and Michigan. Unfortunately, there is a steady rise in new cases from many other states, such as California, Texas, and Arizona. Outside of the U.S., there is a COVID-19 hotspot in Beijing, forcing part of the city to lockdown. There is concern that the reopening of the economy and large gatherings of people could lead to a steepening of the curve, causing the economy to recover more slowly than anticipated.

In response to this fear, Treasury Secretary Mnuchin said the government "can't shut down the economy again." In addition, the Fed Chair Jerome Powell went so far as to say that the Fed is "not even thinking about raising rates." Given these comments, we expect the Fed to keep interest rates near zero through at least the end of 2022. Currently, the Fed expects full-year 2020 GDP to be -6.5% and the unemployment rate to drop to 9.3% by the end of 2020.

SURPRISING TURNAROUND

However, we are reminded during these dramatic times that economic projections are hard to accurately predict. For example, we see that no economist was even remotely close to correctly forecasting the May jobs report. The average economist expected job losses of 7.5 million in May. In a surprising turnaround, the May job report showed a gain of 2.5 million. Also shocking to economists was that the unemployment rate fell from 14.7% to 13.3%. On average, the unemployment rate was expected to worsen to 20% in May.

BEST COURSE OF ACTION

As we continue to absorb economic information, we believe the best course of action is to remain committed to your financial plan. Investors need to remain focused on the long term and avoid pitfalls associated with trying to time markets. Listening to economists can be enjoyable and beneficial, but as the recent jobs report has shown, predicting the short term is difficult.

Instead of overreacting to events, it's best to just absorb the information and remain focused on your long-term plan. History continues to show that this strategy works best. This concept is especially important this year, as we move through election season. As we all know, emotions run higher than average during presidential election years. Rest assured that we are monitoring these dynamics on your behalf.

We also understand that the word "recession" often incites fear and panic. However, it's important to remember that the economy is not the market. Often, the best buying opportunities occur during recessions. If the March 23rd bottom holds, the market decline associated with the recession will have been the shortest ever at just about one month.

As we continue to monitor market conditions, we will keep you updated as always. If you have any questions, please do not hesitate to contact your advisor.

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	Currently in a recession – monitoring recovery progress
	Business Cycle	Recession in the near term – but the recession will hopefully be brief
	Inflation	Inflationary pressures are not a concern
Bonds	Bond Yields	Federal Reserve's policy is extremely accommodative
	Duration	Interest rates will remain low
	Quality	Lower quality credits should be avoided

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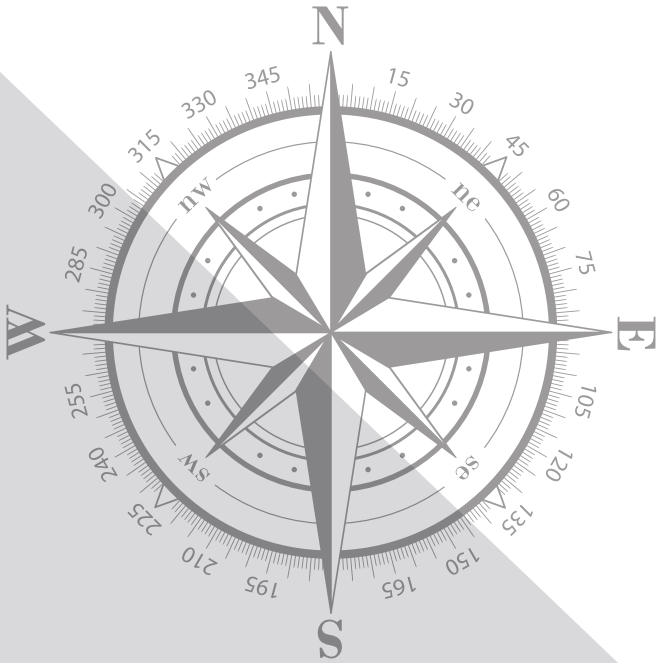

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