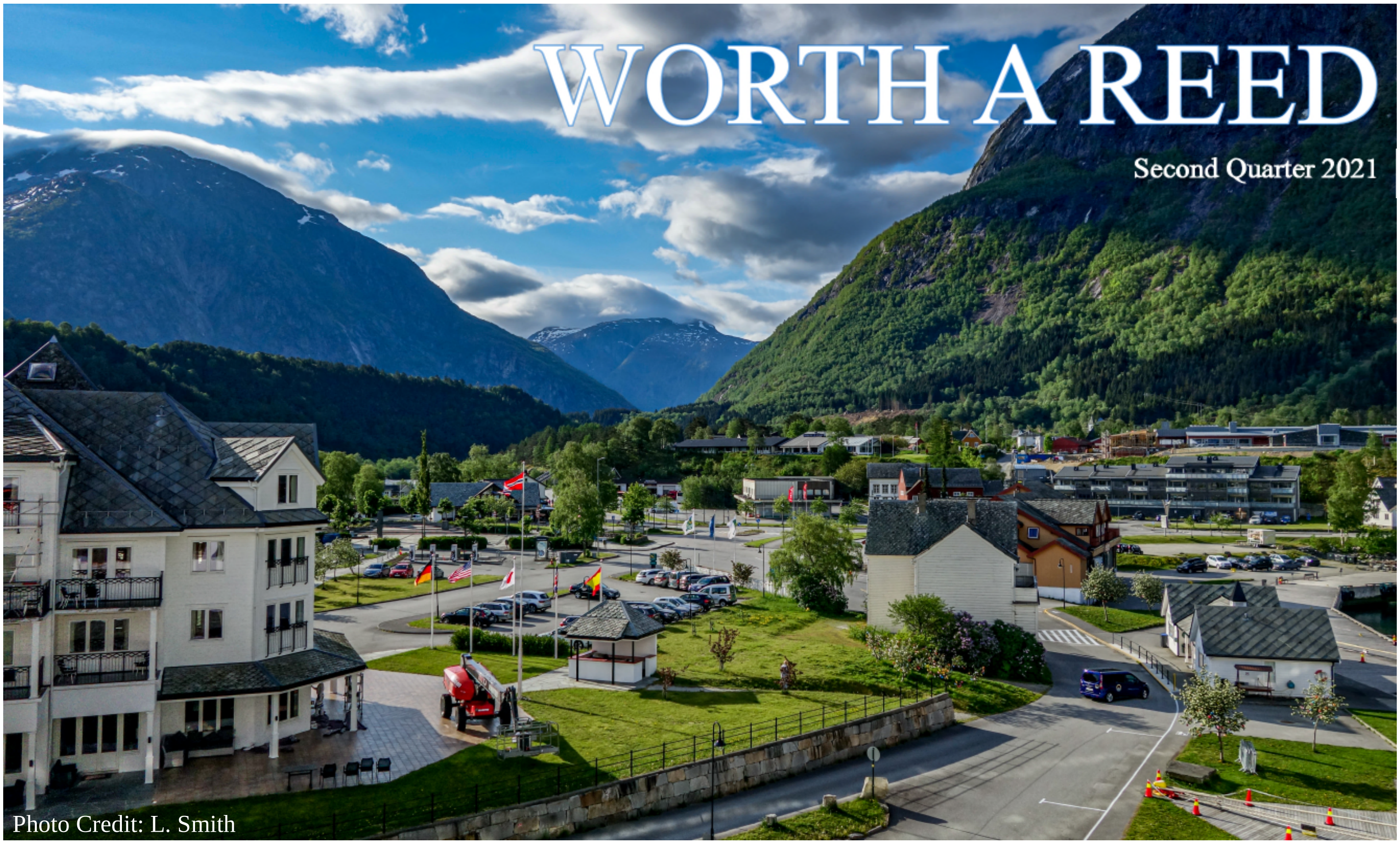

Photo Credit: L. Smith

Managing Money in Uncertain Times

James M. Reed, CPA, CFP®

How Do we Manage Money in Uncertain Times?
Frequently, clients will say or imply that they want us to make their assets grow but… don't lose my principal. Given that all assets have some risk, how do we do that?

First, let us review what causes risk in investments. Fixed Income or Bonds are considered defensive investments. Bonds do, however, have two types of risk, market and credit risk.

> **Market risk** has to do with the changes in interest rates, which is driven by what investors demand as a fair return. That is why there is an inverse relationship between interest rates and bond prices: when interest rates rise, bond prices fall and when interest rates fall, bond prices rise.
>
> **Credit risk** is the risk that a company or institution does not payback their debt. Credit rating agencies and research analysts help mitigate this risk by assessing the probability of this default.

We use active managers to help manage both the market and credit risk.

Stock values are ultimately driven by growth rates of earnings. Slow-growing or more mature companies are typically more stable in value and tend to pay much of their profits out in the form of dividends. This is part of what is in the equity income sleeve.

Growth oriented companies tend to grow earnings faster than the market average but have more volatility. The "market" is constantly trying to estimate future earnings as a way to value a company. This gets more complicated as factors like the quality of management, interest rate direction, GDP growth rates, tax rates, inflation, exchange rates, and recently, stimulus packages all need to be factored into the valuations.

Markets, like people, can get too optimistic or too pessimistic at times, which causes valuation corrections. With the advancement of technology and automated trading, sharp drops can occur quickly and sometimes unexpectedly. So how do we manage your accounts in this environment?

Models
We have developed five basic models to match clients' needs or risk tolerances. These models go from our most conservative, Income, to our most aggressive model, Growth. The differences between these models are the allocation between

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(Continued)

bonds, equity income, and stock. We also offer our growth plus option, which can add 10% to 30% more growth-oriented stocks from technology and healthcare, two trends that in our opinion are likely to remain strong for several years. An income plus option can also be added. The goal of using these different models is to adjust your allocation to meet your goals without taking on risk above your budget. We also make adjustments to your portfolio as we move through the phases of accumulation all the way to retirement.

The Bucket Model

When clients start taking money regularly to live, we want to be sure we can maintain these needs and allow them to continue their lifestyle, regardless of what the market is doing.

To achieve that we do the following:

- **Cash** – We maintain 6 to 12 months of monthly need in a cash account with the number of months depending on market conditions. Currently we are at 12 to 15 months. In turbulent times, we can raise this to 24 months.

- **Bonds** – We may maintain at least two years of needs in bond funds, which typically do not vary a lot in value.

- **Equity Income** – We may maintain at least two years of high dividend paying stocks and bonds for year five and six of our bucket plan.

If the market corrects (big time) like in 2000 - 2003 and 2007 – 2009, this gives us plenty of time to let stocks recover.

Last Resort

Occasionally, markets become emotionally driven and seemingly go into free fall with no bottom in sight. During these periods, we can take some extreme measures including pulling back our stock allocation and moving to cash. When we do reduce holdings, we typically move about 20% or more. We have only done this a few times; March 2008, August 2012, the fall of 2015, December 2018, and March 2020.

Our Philosophy

While our goal is to make a reasonable return with reasonable risk, we also know that if you can't sleep at night due to worrying about your investments, we need to make adjustments. Accordingly, we use the above concept to preserve your capital and let you sleep comfortably at night.

We hope this helps you understand how we approach managing investments and why we consistently review with you the model choice and potential cash needs over the next one - two years. ■

Striving to Start your Kids Off on a Sound Financial Path in Life

Janet Edwards, Director of Client Relations

As we come to the close of another school year, children will now be a year closer to graduation and the next chapter of their lives. For some, that may mean college, working in a trade, getting married, buying a house, or starting a family.

Many parents would like to help their children and often wonder if they will be ready for that time. It is common for people to wish they had saved more and started earlier. Whether you want to teach your children smart savings strategies, help them pay for college or help them set up for success as adults, it is helpful for kids to start saving early on.

When it comes to planning, there is no time like the present and there are certainly many options to consider if you want to help your child or grandchild. Fortunately, many of these options offer flexibility if young people are not interested in pursuing a bachelor’s degree which has been a growing trend as they seek challenges and building a life rather than taking on debt. It is important to understand the financial options available to try to plan accordingly.

Most importantly, it is never too early to start saving as just like investing, saving early and often will typically garner the best results over time.

Next, you will want to set a goal for savings. Is your goal to set aside a set dollar amount, or cover a certain percentage of college costs? This is a very individual choice and clearly there are scholarships, financial aid, and what college the child attends that can impact the total cost.

(Continued)

Striving to Start your Kids Off on a Sound Financial Path in Life *(continued)*

Then you can choose a savings plan. You can determine what account makes the most sense and the strategy of how it should be funded (up front, monthly, etc.). Below are several options that may be worth considering -

1. **Children's savings account -** Most banks offer children's saving accounts that they can co-own. When your child receives a gift of money, you can encourage them to save a portion of it.

2. **529 College Savings Plan -** A 529 plan is an account that allows you to save for college with potentially much better returns than a savings account. 529 plans also offer several tax advantages for college savings. The money grows tax deferred and the withdrawals are tax free if they are used for qualified higher education expenses. Since the passing of the SECURE Act of 2019, qualified education expenses now include more than just college expenses such as private elementary, secondary schools, apprenticeships and more.

3. **Other Investment Accounts -** You can create an investment account earmarked for a child. This gives parents complete flexibility for how it should be used. The money can be used for expenses unrelated to education, making it flexible to the child's changing plans, albeit with the downside of not having the tax benefits of the 529 plan (tax deferral and potential tax-free growth).

4. **Set Up a Trust Fund -** Though not as common, a trust fund is another way to save money for kids. A trust fund can be set up with any amount of money, but it usually doesn't make sense unless you have a large amount of cash to deposit into it. An attorney needs to draw up the trust documents, and someone must be appointed to manage the money. However, for wealthy families, a trust fund offers more control over disbursements, protects cash from creditors and ensures a child's assets aren't split during a divorce.

5. **A custodial account/Uniform Transfer to Minors Act (UTMA) -** A custodial account is a financial account that is opened and controlled by someone over 18 for a minor. Often, a custodial account is opened by a parent or grandparent for a minor. Any contributions and earnings are considered gifts to the child that can't be taken away. This is a good option for parents who want to save for children but don't want them to have access until they are adults.

   This can be a good option for parents if they are saving for something other than college and if you want your child to have control over how they spend the money later in life. The age at which the account is distributed to the beneficiary is determined by the state and is typically 18, 21 or 25. However, it is important to be aware that there is not flexibility in this transfer which may be problematic if the child is unable to handle the funds at that designated age.

   An UTMA/UGMA is subject to kiddie tax. If the child's unearned income — such as income from interest or dividends in the account is below $2,200 in a year, you'll pay taxes for the child's tax bracket for trusts and estates, which for most people is low or even nothing.

While creating savings for kids is important, parents should not overlook the value of teaching children to set aside money for themselves. While opening a children's savings account is one way to do that, even young kids can be taught more advanced concepts such as investing.

If you would like to discuss any of these options in more detail or if you would like us to speak with your kids regarding investing, please let us know. ■

Before Disaster Strikes – Create your Emergency Financial To-Go Kit

By Colleen M. Cleary, CPA/PFS, CFP®

Natural disasters often hit without much warning and can result in families being quickly evacuated from their homes due to impending and residual danger. By taking the time to pull together some important information prior to an emergency, you can avoid last minute scrambling to gather the important documents you will need to put your life back together after a disaster.

The critical information you will need in the event of an emergency include the following:

- Financial and legal information
- Medical information
- Household information
- Important contact information

Each of these areas are important parts for your emergency preparedness. To help you get started on building your own emergency to-go kit, this article will focus on some suggestions for gathering the financial and property-related information you will need.

Financial preparedness helps bring a peace of mind when you are faced with an emergency. As one of your trusted financial advisors, Reed Financial Services, Inc. already has knowledge of many of the details of your financial life. As such, we are a good initial point of contact if you experience an emergency or are the victim of a disaster. This information will be a good starting point as you reconstruct the details of your financial and personal life.

Organize and Secure Your Financial Documents

The first step to being financially prepared is to gather your important financial information, including financial documents and contact information. This will include details for all financial accounts, federal benefit information and other sources of income for your family. Consider taking advantage of secure digital and cloud-based applications and storage for the financial aspects of your life. In the event of a temporary relocation, the use of online banking and bill pay mobile applications will allow you to run your financial life in the most seamless manner. You will be able to continue to monitor your finances and direct deposits, pay bills, advise providers of any temporary or permanent changes of address, have access to credit card details, and your mortgage information. Remember, you are still responsible for paying your mortgage and other bills even if you are not able to live in your home.

Safeguard important documents at home in a fireproof and waterproof box or safe, or off-site in a safe deposit box. Consider storing electronic copies of your important documents in secure cloud storage or on a flash drive with password protection in your safe deposit box or secure box or safe. Your Reed Financial Services Portal provides you with a convenient and secure site to upload your important documents and contact information for future electronic access from anywhere.

The following documents should be easy to grab and go in the event of a disaster, preferably in a waterproof bag or container. Scanned copies of these items saved in a secure location away from your residence (once again, consider the use of secure cloud storage) will be a big help if you need to request replacement documents. In addition to having two weeks of medications for all family members in your physical to-go kit, be sure your financial portion of your to-go kit includes the following important items:

- Original birth certificates
- Original driver's licenses
- Original passport
- Original SS cards
- Health Insurance and/or Medicare card
- Contact phone numbers for your insurance companies, banks and credit card companies, mortgage, and loan companies
- Automobile information (car title, registration, and insurance)

Before Disaster Strikes - Create your Emergency Financial To-Go Kit *(Continued)*

Create a Household Inventory

To help you reconstruct your personal belongings in the event of a disaster, create an inventory of your possessions. This can include taking pictures or filming a walking tour of your residence. Saving this information to the cloud will ensure that your hard work is accessible from anywhere when the need arises. This visual inventory will help you document your loss in the event of a disaster. It is also a good idea to keep a written summary of these items, complete with purchase date and price. If you have your original invoice, save a copy of that to the cloud too. Be sure to update your household possession inventory for any major purchases or gifts received. This may be a time-consuming process at first, but after the initial list is prepared, it will be easy to update for new possessions as they are purchased. In addition, document the exterior and interior condition of your home and any significant improvements you make to it in case you need to file an insurance claim.

Using electronic apps for your insurance company will help you have easy access to details of your insurance coverage details, agent contact information and even help you with the claims process. Consider contacting your insurance agent before a disaster hits so that you understand the process of making a claim and to find out how you can access your policy information online in the event of an emergency.

Review and Update Your Financial To-Go Kit Regularly

Be sure to review and update the information in your to-go kit regularly. It should include your current information, so changes in your marital status, dependents, residency, account or credit card openings or closings, significant purchases, home improvements, estate document revisions and other significant events should all be reminders to update your to-go kit.

Secure Your Personal Information

Identity theft and the protection of your personal information should always be a concern, but especially in the event of a disaster. Always be conscious of securing your passwords/PINs and be wary of individuals requesting your personal information. If you ever have any concerns that you may be the victim of identity theft or if your important documents, passwords, or PINs have been compromised, immediately contact all your financial institutions. Our office can also be of assistance with identity theft concerns.

There are many other important items to include in your emergency to-go kit. The Federal Emergency Management Agency (FEMA) has created The Emergency Financial First Aid Kit (EFFAK) to help you be financially prepared for a disaster or emergency. This kit contains tips and useful checklists to help you prepare for an emergency. The kit is available for free download at the following site: EFFAK Toolkit (ready.gov). If you prefer to obtain a paper copy, contact FEMA at (800) 480-2520 and ask for Publication P-1075. Once completed, it is recommended that the kit be stored in a secure location with a trusted individual such as your attorney, financial advisor or trusted family member or friend. ■

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