INDEPENDENT WEALTH MANAGEMENT

Planning News

IWM

A Quarterly Newsletter | February | 2020

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INDEPENDENT WEALTH MANAGEMENT

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Market Timing Hoax

A lot of "smart" investors will tell you that you should never invest when the market has been moving up, but instead should wait until there's a pullback in order to buy at a bargain price. But is that really a good strategy?

The biggest problem with this strategy is that you never know when the market will bottom out and start rising again. But what if you actually did? Would this strategy lead to incredible returns?

In a recent blog post, market analyst Nick Maggiulli decided to compare dollar-cost averaging against this perfect foresight of waiting to buy in until the markets hit a recent low, right before they started the next rise. He found that if you randomly picked any trading day for the Dow Jones Industrial Average since 1970, there was a 95% chance that the market would close lower on some other trading day in the future. That would be the time to buy, right?

Looking back, he found that just one in 20 trading days closes at a price that will never be seen again. Between those days, our astute investor would hoard the cash that would otherwise be invested, and put it all in at the low point. Maggiulli found that his hypothetical "buy at market lows" strategy would outperform a simple strategy of investing the same amount every day in the market by (get ready for this) 0.4% a year.

And remember, this strategy requires you to have perfect foresight—which, to be clear, none of us have. In the real world, you are 95% likely not to get the best possible price when you buy into the market. There's no alternative but to accept this.

Even so, this is actually good news. It means you don't need a crystal ball to get pretty much the same returns that you would have gotten had the crystal ball somehow given you a view of the future. All you have to do is continue to invest in a disciplined manner from now until you need the cash (in retirement?), and if the past is any indication, the market itself will take you where you want to go.

Closing Gaps in Your Insurance Coverage

Buying insurance is about sharing or shifting risk, but you may think you're covered for specific losses when, in fact, you're not. Here are some common coverage gaps to consider when reviewing your own insurance coverage.

Life insurance

In general, you want to have enough life insurance coverage (when coupled with savings and income) to allow your family to continue living the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, a job change could affect your coverage. Your new employer may not offer the same amount of insurance, or the policy provisions may differ. Review your income, savings, and expenses annually to help ensure that the amount of life insurance you have matches your needs.

Homeowners insurance
It may not be clear from reading your homeowners policy which perils are covered and how much damage will be paid for. It's important to know what your homeowners policy covers and, more important, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases by separate insurance policies altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and how long it will pay for temporary housing while repairs are made.

To help avoid these gaps in coverage, review your policy annually with your insurer. Also pay attention to notices you may receive. What may look like boilerplate language could actually be significant changes to your coverage. Don't rely on your interpretations — ask for an explanation from your insurer or agent.

Auto insurance
IWhich drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you, but it's not always clear-cut. For instance, a child who is living in a college dorm is probably covered, but a child who lives in an off-campus apartment might be excluded from coverage. If you and your spouse divorce, which policy insures your children, particularly if they are living with each parent at different times of the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged mobile phones or other electronic devices. Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

In fact, insurance coverage for rental cars may also pose a problem. For instance, your own collision coverage may apply to the rental car you're driving, but it may not pay for all the damage alleged by a rental company, such as loss of use charges. If you're leasing a car long term, your policy may cover the replacement cost only if the car is a total loss or is stolen. But that amount may not be enough to pay for the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always easily understood, and you may not be sure what's covered until it's time to file a claim. So review your insurance policy to help ensure you've filled all the gaps in your coverage.

Hindsight Is 2020: What Will You Do Differently This Year?

According to a recent survey, 76% of Americans reported having at least one financial regret. Over half of this group said it had to do with savings: 27% didn't start saving for retirement soon enough, 19% didn't contribute enough to an emergency fund, and 10% wish they had saved more for college.

The saving conundrum
What's preventing Americans from saving more? It's a confluence of factors: stagnant wages over many years; the high cost of housing and college; meeting everyday expenses for food, utilities, and child care; and squeezing in unpredictable expenses for things like health care, car maintenance, and home repairs. When expenses are too high, people can't save, and they often must borrow to buy what they need or want, which can lead to a never-ending cycle of debt. People make financial decisions all the time, and sometimes these decisions don't pan out as intended. Hindsight is 20/20, of course. Looking back, would you change anything?

Paying too much for housing
Are housing costs straining your budget? A standard lender guideline is to allocate no more than 28% of your income toward housing expenses, including your monthly mortgage payment, real estate taxes, homeowners insurance, and association dues (the "front-end" ratio), and no more than 36% of your income to cover all your monthly debt obligations, including housing expenses plus credit card bills, student loans, car loans, child support, and any other debt that shows on your credit report and requires monthly payments (the "back-end" ratio).

But just because a lender determines how much you can afford to borrow doesn't mean you should. Why not set your ratios lower? Many things can throw off your ability to pay your monthly mortgage bill down the road — a job loss, one spouse giving up a job to take care of children, an unexpected medical expense, tuition bills for you or your child.

<u>Potential solutions:</u> To lower your housing costs, consider downsizing to a smaller home (or apartment) in the same area, researching and moving to a less expensive town or state, or renting out a portion of your current home. In addition, watch interest rates and refinance when the numbers make sense.

Paying too much for college
Outstanding student debt levels in the United States are off the charts, and it's not just students who are borrowing. Approximately 15 million student loan borrowers are age 40 and older, and this demographic accounts for almost 40% of all student loan debt.

Potential solutions: If you have a child in college now, ask the financial aid office about the availability of college-sponsored scholarships for current students, or consider having your child transfer to a less expensive school. If you have a child who is about to go to college, run the net price calculator that's available on every college's website to get an estimate of what your out-of-pocket costs will be at that school. Look at state universities or community colleges, which tend to be the most affordable. For any school, understand exactly how much you and/or your child will need to borrow — and what the monthly loan payment will be after graduation — before signing any loan documents.

Paying too much for your car
Automobile prices have grown rapidly in the last decade, and most drivers borrow to pay for their cars, with seven-year loans becoming more common. As a result, a growing number of buyers won't pay off their auto loans before they trade in their cars for a new one, creating a cycle of debt.

Potential solutions: Consider buying a used car instead of a new one, be proactive with maintenance and tuneups, and try to use public transportation when possible to prolong the life of your car. As with your home, watch interest rates and refinance when the numbers make sense.

Keeping up with the Joneses
It's easy to want what your friends, colleagues, or neighbors have — nice cars, trips, home amenities, memberships — and spend money (and possibly go into debt) to get them. That's a mistake. Live within your means, not someone else's.

Potential solutions: Aim to save at least 10% of your current income for retirement and try to set aside a few thousand dollars for an emergency fund (three to six months' worth of monthly expenses is a common guideline). If you can't do that, cut back on discretionary items, look for ways to lower your fixed costs, or explore ways to increase your current income.