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PINNACLE QUARTERLY

Are we out of the woods?

The Pinnacle Investment Team

MOUNTAIN PEAK
WEALTH ADVISORS, LLC
PLANNING, EDUCATION, ADVICE & KNOWLEDGE

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3 Ways To Maximize Social Security In Retirement

Deb Kriebel, CFP®, MBA
Partner, Wealth Manager

The tail end of the baby boomers turn 62 this year and many are seriously contemplating retirement. As a boomer you're facing a myriad of questions revolving around the timing of retirement and when you should claim your Social Security benefits. At 62, you have the opportunity to claim early benefits, but that might not be the best strategy, especially if you are still working or plan to live a long life.

Of course, we don't know how long we'll live, but we do know that we don't want to outlive our money. One of the best ways to hedge against a long life is to maximize our Social Security benefits. Think of it as Longevity Insurance, a monthly annuity that we can't outlive. So with that in mind, here are three tips to help you maximize your Social Security benefits in retirement.

Go back to work to fill in gap years with earnings

Social Security benefits are based on the income you've earned throughout your career. If you took some time off to raise a family, or care for elderly parents or other family members, then you may have an earnings gap in your work history. Social Security payments are based on your highest 35 years of income. If you don't have 35 years of earned income, then zeros will be used to fill those gap years.

If you have the desire to go back to work and you can replace zero earning years with positive earnings, that will add additional income to your benefits record and increase the amount of benefits that you will receive over your lifetime. Remember, if you're working, you will still need to pay into Social Security.

Wait until Full Retirement Age (FRA)... or beyond

If you are still working at age 62 and you earn more than $18,240 in 2020, then you will be subject to the Earnings Limit established by the Social Security Administration (SSA). After the $18,240, you'll lose $1 of annual benefits for every $2 you make above the threshold. The earnings limit applies until you reach FRA. In the year you finally reach full retirement age, and up to the month you reach FRA, Social Security will deduct $1 for every $3 you earn that is over the earnings limit, for the year you reach FRA, the earnings limit is higher. For 2020, the earnings limit is $48,600. During the year you reach FRA, the SSA only counts earnings that you receive before the month you reach FRA.

Note that these dollars are not lost forever; instead, your Social Security benefit will be increased to account for them after you reach full retirement age.

Delay your benefits

If you don't need the current income stream from Social Security and you can delay your benefits beyond age 62, then consider waiting. If you claim your benefits at age 62, rather than waiting until your full retirement age (FRA), then you'll receive a reduction of up to 30% in your monthly benefits. You can maximize your monthly income from Social Security by waiting until after FRA to claim your benefits. For each year that you delay beyond FRA, you'll receive an 8% increase in monthly benefits, until age 70. You do not receive any additional delayed benefits beyond age 70, so make sure you claim your benefits on your 70th Birthday!

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5 Things To Remember For A Successful Retirement

Michael K. Green, Jr., JD, CFP®, CAP®, CTFA®, CCPS™-ELA®
Wealth Manager

Retirement. A serene, leisurely time when you have finally escaped the "rat race" and can focus on the activities and people you most enjoy? Or is it a stressful, angst filled period lacking the stability provided by a regular paycheck, and filled with uncertainty as to how long your money will last? While there are no guarantees, proper planning can go a long way in steering things more towards the former than the latter.

Here are five items to keep in mind as you transition into retirement.

Picture It…

What will retirement look like for you? Where will you be and what will you be doing? For some, it might involve downsizing the home, or perhaps relocating. For others, it might include part time employment, or volunteering in the local community.

What if you are so accustomed to the working lifestyle that it is difficult to envision what you want? A bit of branching out or experimenting might assist in bringing better clarity. As you get into the homestretch of your career, take longer vacations, spending extended periods in places you might like to live during retirement. Network with friends and colleagues who may have recently retired and get their insights on what is working for them. Take up a hobby, perhaps something new, or maybe the revival of an activity enjoyed in youth but shelved for years due to career. The more specific your vision is, the better you can plan.

Budget for Now…and for Later…

Are you still paying for multiple cable channels you have not watched in years? Eating out daily when a brown bag lunch would serve you just as well? Paying premiums on a life insurance policy that may no longer be needed? Pausing to evaluate your current spending can yield many good fruits. You may identify areas, such as the examples above, where spending can be reduced. This in turn increases opportunities to save or to pay down debt.

In addition, it will give you a foundation from which you can better anticipate what your spending needs in retirement will be. While some expenses will remain constant, others will change. A current mortgage may be paid off. That decrease may be offset by increased health care or travel expenses. Retirement projections must by necessity take these things into account.

Saving

Saving, reflecting the concept of "pay yourself first," flows directly from the sound budgeting discussed above. In addition, good savings habits have a way of building upon themselves to create additional opportunities. For example, contributing just an additional 1% or 2% of your salary into your traditional 401k will not only increase your nest egg, but will reduce your taxable income and potentially make you eligible for Roth IRA contributions as well. (This depends, of course, upon an individual's income level and filing status.) Additionally, increased savings opportunities become available through "catch up" provisions in the calendar year in which you turn 50 (i.e. a full year's worth of extra savings even if your birthday is not until December 31st!)

Ideally, your savings will be diversified among taxable, tax deferred, and tax-free accounts (Examples of each would include a brokerage account, a 401k, and a Roth IRA, respectively). This will give you the flexibility needed to be tax efficient while managing your cash flow year to year in retirement.

Consolidate/Coordinate

Over the course of your working years, accounts of various types can accumulate. Do you have old 401k plans from former employers? A SEP-IRA from an earlier stint as a business owner? Such accounts might be rolled into a single IRA. Consolidation will not only simplify things but can also be a good step towards clarifying where your income streams will come from at different points in retirement.

Further, tracking and updating the underlying investments in your portfolio can be a challenge during the busy working years. Different funds and securities may have been purchased years ago under different circumstances, perhaps due to secondhand advice. Does the allocation in your portfolio reflect your risk tolerance and time horizon? Is there any system in place to adjust that allocation as market cycles evolve? A coordinated investment strategy across all accounts in your portfolio will help you attain your desired lifestyle and goals.

Ongoing Process

When planning for retirement, it is natural to think of it as a destination, for which we must save a particular amount by a specific date, with the notion that meeting that tangible target (or not) will determine our success. In reality, once underway, retirement itself is more of an ongoing process filled with many more decisions. Financially, this can include questions such as “When should I start Social Security? Can I benefit from Roth IRA conversions, and when should I employ them? Which account should I draw from, from a tax perspective, to fund my cash flow needs?"

The answers to those questions will depend in part upon your goals and circumstances, which also evolve. Maybe a member of your extended family suddenly needs additional financial support. Perhaps your priorities have shifted towards grandchildren who could use assistance in saving for college. Or, with various travel plans foiled, you would like to earmark more of your monies to philanthropic causes in the face of a worldwide pandemic.

Through the basic building blocks of budgeting, saving, and risk management, and by viewing retirement with both clarity and flexibility, you can create a path to a very rewarding period in your life. For help in navigating this landscape at any of its various phases, please consult your Wealth Manager.

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Are You Prepared For Retirement?

Mike Hamolia, CFP®
Wealth Manager

Being prepared for retirement essentially boils down to two questions: Are you financially and emotionally ready to be retired?

In the wealth management industry, we frequently get asked the question, "When can I retire?" The fact is, it depends!

Of course, this question leads to more questions: Have you saved enough? What will you do with your time? After going to work and having your career be part of your identity for most of your adult life, fear of the unknown can cause some anxiety. For many, the answer may be a glide path to retirement where you scale back and don't fully retire at one time. A transition from full-time to part-time worked out perfectly for one of my clients whose husband retired a couple years prior to his wife's planned retirement. Missing the camaraderie of her work peers, the feeling of self-worth she got from her job, and the sudden change in the home-life dynamic from full retirement, she decided to simply cut back her hours instead of retire altogether.

The Importance of Planning

One thing is for certain, if you or someone you know is even close to thinking about retiring early, I would encourage them to not simply rely on a rule-of-thumb when it comes to figuring out the right timing. I highly recommend a well thought-out—and stress-tested—written financial plan. A plan with action items, a timeline of events, and a planning checklist will help ensure success in the journey to retirement. Those heading to retirement should also be prepared to make course adjustments. The number one fear for retirees is the fear of running out of money. Even the best laid plans may need alterations, but if you take the time to work through your spending needs, your fear and risk can be greatly reduced while providing comfort even in rocky investment times.

Unexpected (But Predictable) Expenses

Many people retire either too early or too late because they haven't taken the time to do the proper analysis. We all choose the paths we take in life, and those who choose the route of early retirement are often committed to a regimen of sacrifices, extensive savings, and reduced expenses. Ever heard of the phrase "save until it hurts"? That would certainly be an appropriate adage for the FIREers (Financial Independence and Retiring Early). Planning for retirement is all about the relationship between the income you will have coming in (pensions, Social Security, etc.), the amount of assets you have accumulated, and how much you will spend. When you retire, certain expenses go away (commuting expenses, business clothing, lunches), while other expenses increase (health care, travel, entertainment). We are often guilty of only seeing our net paychecks, and not realizing that tax withholding and other things like healthcare are also being paid each period. When you no longer have employment income and your retirement savings turns into your new paycheck, those taxes and health care premiums become another expense that you didn't previously have to plan for. These are often some of the most underestimated expenses in retirement.

Guessing Your Retirement Date

Last year I had a client walk in, tell me they just retired and then asked me to make sure they would be okay. In my opinion, that's just too late. On the other hand, I have also seen people come in who would like to retire now but are sure they don't have enough money. Once the analysis was complete, it was clear they could retire immediately. Both guessing the right retirement age or just picking one with no plan behind it may cause serious problems in the future, when it is too late to really do anything about it.

Of course, sometimes you are forced to leave the workforce before you expect to. Obviously, you should always have a contingency plan in this event. Just because you don't expect to leave your job doesn't mean that your job won't leave you. Planning for the unexpected, like a company downsizing later in your career or the inability to continue to work due to a disability, is a critical part of everyone's plan.

By working with your Wealth Manager and the financial planning tools that are available to us, we at Pinnacle Advisory Group have the ability to help our clients see the consequences of their financial decisions before they make them. Indeed, we often describe our financial planning software as a decision-making tool. It gives everyone the opportunity to test-drive or model their plans with different inputs or scenarios to show the impact that changes have on the success of those plans. What if you were to work one more year? What if you were to retire one year earlier? What if you saved a little more (or less) leading up to retirement? What if you were to spend more (or less) in retirement… or maybe consider a second home? What if you were to receive an inheritance? The knowledge of how these and other scenarios will ultimately impact the outcome of your plan is invaluable.

At the end of the day, there is no right or wrong retirement age. The most important thing is to be prepared. So whether you are a FIREer, someone who never plans on fully retiring, or someone who falls in between, do yourself a favor and work with your Wealth Manager to develop a plan that is right for you.

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The third quarter of 2020 saw equities continue their torrid rebound off the March low, with the S&P 500 Index gaining another 8.5%. However, after the S&P reached a new record high of 3,580 in early September, stocks finally hit a speed bump and the index fell by nearly 10% over the next couple of weeks. While a fairly run of the mill pullback by typical market standards, more unnerving was the fact that high-flying Technology stocks led the downturn, and sold off more heavily than the broad index. The NASDAQ 100 Index fell by nearly 13%, which did create some fear that a Tech-led crash was going to cause another broad market plunge. However, the move lower proved to be short-lived, and by the end of the quarter, the correction had seemingly ended, as equities found their footing and began rising again.

In other asset classes, moves in the bond market remained remarkably muted, with the yield on the 10-year Treasury bond staying within a range of 0.50% to 0.75% during the quarter. Higher quality bonds lagged, while more credit-sensitive bonds rose, led by junk bonds. Broad commodities outperformed both stocks and bonds, gaining nearly 11%. The gains were led by industrial and agricultural commodity prices that perked up as the economy improved.

Is This a V-Shaped Recovery?

There is plenty of debate among economists and market strategists about what the ultimate shape of the economic rebound from the pandemic-induced recession might be. A growing list of letters of the alphabet are being used to support their arguments, with skeptics contending that it will take the form of a K, U, or W… all of which suggest that the recovery will soon falter in one way or another. With the daily number of cases across the country on the rise again, there is certainly risk that the recovery might stumble at some point. However, up until now, and contrary to virtually all expectations, it's hard to argue that it's been anything but V-shaped, which raises the question of whether or not the economy is already out of the woods.

As we survey the economic landscape, it's apparent that a variety of economic data has been snapping back in a manner similar to the pattern that typically unfolds following a recession. In just the past five months since the April nadir in the economy, the unemployment rate has fallen from a high of 14.7% to 7.9%; the total value of retail sales has already surpassed its pre-pandemic level underscoring that consumers are still spending even if more is being done online now; and thanks to record low mortgage rates, new home sales have soared from an annual pace of 623,000 to 1.01 million, which is the highest level since September 2006. Overall, after experiencing the worst contraction in GDP since the 1940s in the second quarter, forecasting models for the third quarter (such as the Atlanta Fed's GDP Now) anticipate a 35% annualized gain for the third quarter. As we've previously noted, these improvements have certainly been jumpstarted by massive stimulus efforts on the part of both Congress and the Federal Reserve. But even given that support, there seems to be solid momentum behind the upturn.

Granted, there are still significant challenges facing the economy, with much of the pain most acutely felt in service-related sectors which are still reeling from the impact of the pandemic (including travel, hospitality, and traditional retail stores). While the unemployment rate has come down significantly, there are still nearly 11 million more unemployed workers compared to prior to the onset of the pandemic in February. Many of those are employed in the types of jobs that were unable to quickly transition to a "work from home" environment, and are left agonizing when or even if they'll be able to return to work. When viewed from that perspective, another fiscal stimulus package seems necessary to provide enough support to help keep the recovery going until a vaccine is widely available, but Congress seems to be in a stalemate on that issue at the moment.

At this point in the recovery, there's been plenty of evidence to support the notion that the recovery has in fact been V-shaped. The big question is whether or not this can continue. The pace of the improvement is certain to slow as the economy moves further away from the initial ricochet from very depressed levels in the spring. However, as a base case, we believe that even if it flattens out, the recovery is likely to continue. There's even a chance that the economy could surprise to the upside next year, as long as another wave of the coronavirus doesn't cause governments to shut down the broader economy.

New Inflation Framework

Like countless other events that have been disrupted by the ongoing pandemic, the Federal Reserve's summer symposium at Jackson Hole was held virtually this year. This annual gathering of leading academics and other luminaries from the world of monetary policy is always closely watched by market participants, since it is often used as an opportunity to lay the groundwork for important policy shifts. Despite the lack of an in-person presence, this year did not disappoint. Fed Chair Jay Powell used his keynote address to discuss the idea of the Fed transitioning to a new inflation targeting framework in which there would be "symmetry" around their previous 2% target for inflation. That means that in the future, they'll be willing to tolerate inflation rising moderately above 2%, to try to make up for previous shortfalls. The reason for this change is that the Fed has grown frustrated that despite their herculean efforts, for most of the past decade their preferred measure of inflation has remained well below 2%, due to sluggish economic growth.

Following that, at the Fed's regularly scheduled meeting in September, they confirmed and expanded upon these ideas. The meeting also included an update to the Fed's "dot plot," which shows the Federal Open Market Committee's forecast for where the Federal Funds rate will be over the next several years. After Jackson Hole—and in line with their new plan to proceed very cautiously as long as inflation remains low—the dot plot now suggests that the Fed Funds Rate will remain at zero through 2023, at least. Many Fed observers believe strongly that, based on their new framework, short-term rates could remain at zero well beyond that. In addition, the Fed also seemed to acknowledge that the bar for taking additional measures to increase the amount of monetary support is fairly low.

What this means for investors is that the Fed is going even further out of their way to communicate that they're in no hurry to raise short-term interest rates anytime soon, even if the economic rebound continues to gain steam. The Fed had already taken extraordinary emergency measures to provide liquidity to improve market functioning and to attempt to "shock" the economy back to life after it nearly flatlined. With market functions largely returning to normal, and asset prices rallying strongly since then, the Fed is now looking ahead and trying to come up with new ways to provide ongoing support. Not only is the "Fed put" alive and well, but it's been strengthened. From a monetary standpoint, this is clearly a bullish development for stocks.

Election Looms

The upcoming presidential election was already a hot-button issue coming into this year, and the pandemic has only added fuel to the fire. Additional uncertainty has been entered into the equation, due to an anticipated surge in mail-in voting, which brings with it the possibility of a delayed or contested result. Despite these unusual challenges, with less than a month until election day, the market has increasingly turned its attention to the potential outcome. We certainly don't pretend to be election experts, but like most other market participants we are following along with the latest polling data which indicate that Vice President Biden's lead continues to widen. While a lot can happen, even in the span of two weeks, at this point it seems prudent to consider what the ramifications of a change in administrations could mean for investors.

The prospect of higher taxes under a Democratic administration is something that seems alarming for many investors. On its own, higher taxes, particularly on U.S. corporations, would imply lower after-tax returns for stocks and perhaps usher in a market downturn. However, there might be some important offsets this time around that work to mitigate the headwinds created by a higher tax environment. Specifically, expectations are that along with tax increases there would also be another significant increase in fiscal spending, which would help boost economic growth. Under normal circumstances, adding even more to an already severely bloated federal deficit might spook the bond market, and lead to a bout of market volatility. However, the Fed has signaled that it's going to remain extremely supportive, by holding the Fed Funds rate at zero for several years. For the time being, financing large deficits seems manageable with interest rates near record lows. At some point down the road, that issue will likely bubble up to the surface, but it shouldn't be a near-term concern in our judgement.

Perhaps more importantly, beyond the possibility of some short-term market volatility in the immediate aftermath of the election, the most lasting consequences will likely be at the sector and industry level. We have already begun the process of identifying potential winners and losers within the market, depending on the election outcome. For different reasons, sectors like Health Care, Technology, Industrials, Financials, and Energy all seem to have a lot riding on which party will be in power for the next four years. Based on recent market activity, investors seem to be placing their bets on some of these areas already.

Positioning & Outlook

After a flurry of transactions in the first and second quarters (in the midst of the market's plunge and subsequent recovery), portfolio activity was more muted in the third quarter. Overall, Pinnacle portfolios are currently positioned with volatility that's slightly above neutral. In terms of positioning, we continue to overweight cyclical sectors of the equity market which tend to benefit when the economy is recovering. While we continue to overweight Growth sectors like Technology, Consumer Discretionary, and Health Care, those weightings have been reduced recently. With the proceeds, we've begun to increase weightings in previously out of favor Value sectors such as Industrials, Materials, and Financials that have started to show signs of life.

In fixed income, the overall interest rate sensitivity of our bond portfolio is slightly below neutral, with an overweight to high quality credit areas such as mortgages and investment grade corporates. Within commodities, we continue to overweight gold, which has mostly moved sideways after a large rally earlier in the year. In our view, gold still seems attractive in an environment of ultra-low interest rates and a softer U.S. dollar.

At this point, we do not anticipate making major changes to portfolio construction before the election. If there is some market volatility surrounding that event, we believe that holdings in Treasury bonds and gold will help to dampen a selloff in equities (if it occurs). However, as mentioned above, depending on the outcome, there could be further adjustments in term of our positioning, both within the U.S. equity market and also potentially in terms of weightings, between U.S. and International equities. In the meantime, we will continue to gather a list of potential investment ideas to act on as the dust settles.

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Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Although bonds generally present less short-term risk and volatility risk than stocks, bonds contain interest rate risks; the risk of issuer default; issuer credit risk; liquidity risk; and inflation risk.

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