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Punxsutawney Phil and the Shadow of 2022

Winter might be six weeks longer, but spring clean your investments now

Punxsutawney Phil – arguably the most famous groundhog of all time – saw his shadow in 2022, predicting another six weeks of winter this year.

But according to the Punxsutawney Groundhog Club's records, cross-referenced with past weather data, Phil has only been accurate in his weather predictions about 39% of the time. Makes you wonder how Phil missed the massive shadow of the 2020 stock market and the blinding daylight of the 2021 stock market. But maybe this year, right before he was taken from his burrow, Phil took a look at his account statements and grew worried about the recent stock market corrections. Or maybe Phil just doesn't like spring, because since 1887, Phil has predicted more winter more than 100 times.

But in the spirit of hoping Phil is wrong, let's talk about how you can spring clean your investments now so that you can move beyond the long shadows of the recent stock market corrections and make sure you're not overly dependent on stock markets reaching new highs.

Call it 2022-Investment-Spring-Cleaning in two simple steps:

1. Consolidate your scattered investment accounts and
2. Weed out overlapping positions to make sure your holdings are diversified.

Consolidate

Scattered holdings are like hanging your clothing in closets throughout the house or stowing them in boxes, out of sight. Imagine dressing for a formal occasion, but running from closet to closet to piece together your outfit. It's the same with financial accounts.

If you have accounts scattered all over the place, it can be hard, and often impossible, to understand what you're invested in, and where all your money is located.

Weed Out

A mishmash of assets is the enemy of good financial planning. If you don't know where your money is, you can't minimize taxes by knowing how much is taxable versus tax-deferred.

You also can't know or remember what you have where, and what should be rebalanced. An example of a need for rebalancing: The 50-50 mix you want in stocks and bonds could now be 70-30, and must be brought back in line.

Here are some guidelines for the number of places you should hold investments:

Retirement Plans. One current 401(k) or 403(b) plan per person. Take all 401(k) and 403(b) plans from previous employers, and roll them into a single individual retirement account.

Brokerage Accounts. No more than two brokerage accounts per individual or couple. Some folks have a checking account at one brokerage house, but most or all their holdings at another. That's okay, but going beyond two of them gets messy. Having money spread across several brokerage accounts to "see how each of them is doing" makes no sense. That means no single advisor can know everything you're invested in, so they invest on your behalf with blinders on.

Unnecessary, overlapping investments are often the counterproductive result.

Bank Products. No more than two banks for certificates of deposit, checking and savings per individual or couple. You may have some CDs at one bank, but use another for checking or savings. But no more than two.

Annuities. If you have several annuities and they aren't burdened with surrender penalties, these should be consolidated. Make sure you talk to your advisor before you just roll them over via a 1035 exchange, which allows you to liquidate an account and not be taxed on its growth because you move it into a comparable vehicle.

Insurance. The same holds true for insurance. The fewer policies you have, the better. One provider is usually enough for each kind of policy: life insurance, property-casualty, disability and so on.

Mutual Funds. Let's turn to another target for spring cleaning: an excessive number of mutual funds. Too often, they duplicate each other. Redundant investments give you asset class concentration instead of asset class diversification.

Everyone should have the right portfolio mix of the basic asset classes: short- and intermediate bonds (possibly municipal, corporate and global), large-, mid- and small-capitalization U.S. stocks, international developed markets stocks, and emerging markets.

The appropriate weighting of each asset class is determined by your risk tolerance, income and/or growth needs.

How do you know if your mutual fund holdings overlap? You likely won't be able to tell if they do just by looking at the name alone. Talk to your financial advisor for an explanation. Because knowledge is power.

Remember the Shadows and Non-Shadows

In case you don't know, Punxsutawney Phil is actually pointing his nose, not so much looking for his shadow.

What really happens is that after Phil's "handlers" retrieve him from his log and hold him high for everyone to see, they place him on a platform in front of two scrolls, each containing a prediction for either an early spring or six more weeks of winter. Phil points his nose at one of them and his "prediction" is given.

But as investors, we can't ignore the long shadow of 2020 (despite Phil predicting an early spring that year) and the recent shadows of the 2022 market corrections.

It is prudent to start spring-cleaning your investments today – not six weeks from today.

If you have any questions regarding this article or would like to schedule a complimentary consultation, please call our office at 845-627-8300.