Raskin Planning Newsletter

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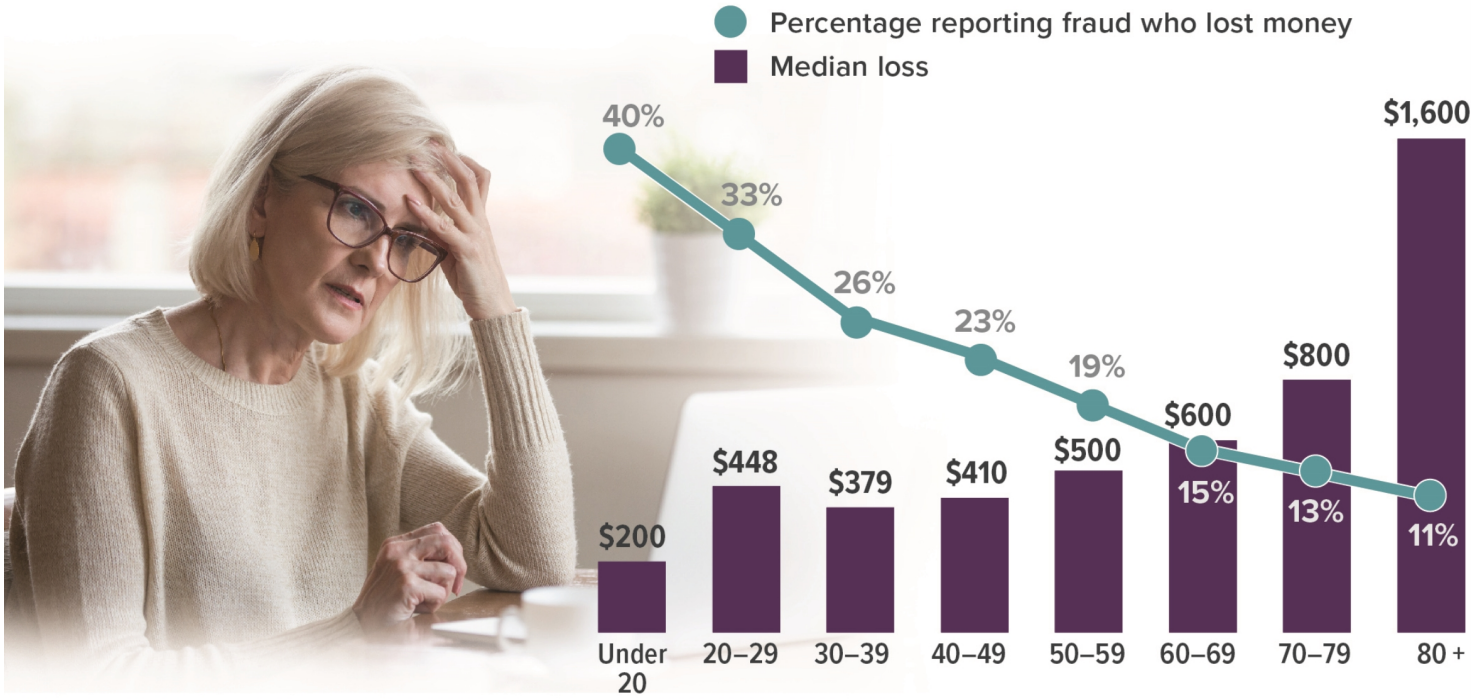
RASKIN PLANNING GROUP
WEALTH IS A JOURNEY

Skeptical Yet Vulnerable

Older people who encounter fraud are less likely to lose money than younger people, but those who do lose money tend to have higher losses. The Federal Trade Commission received almost 1.7 million fraud reports in 2019, and about half of reports included consumer age information. This chart shows the percentage of those who reported a fraud loss and their median loss, by age group.



Source: Federal Trade Commission, 2020

Mid-Year Is a Good Time to Fine-Tune Your Finances

The first part of 2020 was rocky, but there should be better days ahead. Taking a close look at your finances may give you the foundation you need to begin moving forward. Mid-year is an ideal time to do so, because the planning opportunities are potentially greater than if you waited until the end of the year.

Renew Your Resolutions

At the beginning of the year, you may have vowed to change your financial situation, perhaps by saving more, spending less, or reducing your debt. Are these resolutions still important to you? If your income, expenses, and life circumstances have changed since then, you may need to rethink your priorities.

While it may be difficult to look at your finances during turbulent times, review financial statements and account balances to determine whether you need to make any changes to keep your financial plan on track.

Take Another Look at Your Taxes

Completing a mid-year estimate of your tax liability may reveal planning opportunities. You can use last year's tax return as a basis, then factor in any anticipated adjustments to your income and deductions for this year.

Check your withholding, especially if you owed taxes or received a large refund. Doing that now, rather than waiting until the end of the year, may help you avoid a big tax bill or having too much of your money tied up with Uncle Sam.

You can check your withholding by using the IRS Tax Withholding Estimator at irs.gov. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.

Review Your Investments

Review your portfolio to make sure your asset allocation is still in line with your financial goals, time horizon, and tolerance for risk. Look at how your investments have performed against appropriate benchmarks, and in relationship to your expectations and needs. Changes may be warranted, but be careful about making them while the market is volatile.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investing involves risk, including the possible loss of principal and there is no guarantee that any investment strategy will be successful.

Check Your Retirement Savings

If you're still saving for retirement, look for ways to increase retirement plan contributions. For example, if you receive a pay increase this year, you could contribute a higher percentage of your salary to your employer-sponsored retirement plan, such as a 401(k), 403(b), or 457(b) plan. If you're age 50 or older, consider making catch-up contributions to your employer plan. For 2020, the contribution limit is $19,500, or $26,000 if you're eligible to make catch-up contributions. If you are close to retirement or already retired, take another look at your retirement income needs and whether your current investment and distribution strategy will provide enough income.

Read About Your Insurance Coverage

What are the terms of your homeowners, renters, and auto insurance policies? How much disability or life insurance coverage do you have? Your insurance needs can change; make sure your coverage has kept pace with your income or family circumstances.

More to Consider

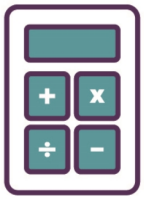
Here are some other questions you may want to ask as part of your mid-year financial review.

Do you have an emergency fund?

Are your beneficiary designations up-to-date?

Have you checked your credit score recently?

Do you need to create or update your will?



How much is left in your flexible spending account?

Investor Psychology: Behavioral Biases That Can Lead to Costly Mistakes

The field of behavioral finance focuses on the emotional and cognitive aspects of investing. In recent decades, well-known economists have advanced the theory that investors' decisions can be driven by human emotions such as greed and fear, which helps explain why asset prices sometimes fluctuate erratically.[1]

It can be difficult to act rationally when your financial future is at stake, especially when unexpected events upset the markets. But understanding certain aspects of human nature, and your own vulnerabilities, might help you stay levelheaded in the heat of the moment.

Every investment decision should take your financial goals, time horizon, and risk tolerance into account. That's why it's important to slow down and try to consider all relevant factors and possible outcomes.

Here are six behavioral biases, which could also be called mental shortcuts or blind spots, that might lead you to make regrettable portfolio decisions.

1. Herd mentality. Many people can be convinced by their peers to follow trends, even if it's not in their own best interests. When investors chase returns and follow the herd into "hot" investments, it can drive up prices to unsustainable levels and create asset bubbles that eventually burst. Joining the crowd and fleeing the stock market after it falls, and/or waiting too long (until prices have already risen) to reinvest, could harm your long-term portfolio returns.

2. Availability bias. People tend to base their judgments on information that immediately comes to mind. This could cause you to miscalculate risks or expected returns. In the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean, a recent news article can shape how you perceive the quality of an investment opportunity.

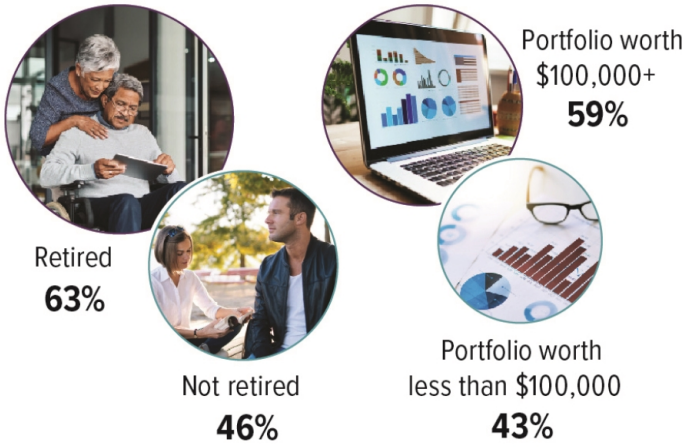
3. Confirmation bias. People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be more likely to ignore critical facts and focus on data that supports your opinion.

4. Overconfidence. Some individuals overestimate their skills, knowledge, and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

5. Loss aversion. Many investors dislike losses much more than they enjoy gains. Because it actually feels bad to experience a financial loss, you might avoid selling an investment that would realize a loss, even though it might be an appropriate course of action. An intense fear of losing money may even be paralyzing.

Market Moods

Retirees and higher-net-worth investors were more likely than other groups to say that their daily mood is sensitive to changes in their investment portfolios. The following chart illustrates the percentage of U.S. investors who say the performance of their investments affects their daily mood (a little or a lot).



Source: Gallup, 2019

6. Anchoring effect. When making decisions, people often depend heavily on the first information they receive, then adjust from that starting point based on new data. For investors, this translates into placing too much emphasis on an initial value (or purchase price) or on recent market performance. Investors who were "anchored" to the financial crisis may still be fearful of the stock market, even after years of strong returns. Another investor who has only experienced years of gains might be inclined to take on too much risk.

Even the most experienced investors can fall into these psychological traps. Having a long-term perspective and a thoughtfully crafted investing strategy may help you avoid expensive, emotion-driven mistakes. It might also be wise to consult an objective third party, such as a qualified financial professional, who can help you detect any biases that may be clouding your judgment.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Although there is no assurance that working with a financial professional will improve investment results, a financial professional can provide education, identify strategies, and help you consider options that could have a substantial effect on your long-term financial prospects.

1) "From Efficient Markets Theory to Behavioral Finance," *Journal of Economic Perspectives* , Winter 2003

The ABCs of Finance: Teaching Kids About Money

It's never too soon to start teaching children about money. Whether they're tagging along with you to the grocery store or watching you make purchases online, children quickly realize that we use money to buy the things we want. You can teach some simple lessons today that will give them a solid foundation for making a lifetime of sound financial decisions.

Start with an Allowance. An allowance is often a child's first brush with financial independence and a good way to begin learning how to save money and budget for the things they want. How much you give your children will depend in part on what you expect them to buy and how much you want them to save. Make allowance day a routine, like payday, by giving them a set amount on the same day each week or month.

Help Them Set Financial Goals. Children might not always appreciate the value of putting money away for the future. Help them set age-appropriate short- and long-term financial goals that will serve as incentives for saving money. Write down each goal and the amount that must be saved each day, week, or month to reach it.

Teach younger children some simple lessons today that will give them a solid foundation for making a lifetime of sound financial decisions.

Let Them Practice. As children get older, they can become more responsible for paying other expenses (e.g., clothing, entertainment). The possibility of running out of money between allowance days might make them think more carefully about their spending habits and choices and encourage them to budget more effectively.

Take It to the Bank. Piggy banks are a great way to start teaching young children to save money, but opening a bank savings account will reinforce lessons on basic investing principles such as earning interest and the power of compounding. Encourage your children to deposit a portion of any money they receive from an allowance, gift, or job into their accounts.

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