



CLIENT NEWSLETTER

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Can you put Money in an IRA or a Roth IRA if you don't Have Wage Income?

Individual Retirement Accounts (IRAs) were introduced in the mid-70s to help employees save for retirement and reduce their taxable income. So, it stands to reason that to make a contribution — and get the tax benefit — you'd need to have income from a job.

And in fact, contributions to both traditional and Roth IRAs can only be made from what the IRS determines to be "earned income". However, wages aren't the only form of earned income. Let's start by looking at the definition.

WHAT'S CONSIDERED EARNED INCOME

You don't have to work for someone else to have taxable earned income. You can also work for yourself. Compensation from either type of employment would be considered earned income, but the complete definition is a bit broader. According to the IRS, taxable earned income includes:

- Wages, salaries, and tips.
— Union strike benefits.
— Long-term disability benefits received prior to minimum retirement age.
— Net earnings from self-employment.

In terms of an IRA contribution, the amount of your earned income is also important. The maximum contribution you can make for 2021 is \$6,000 (\$7,000 if you're over 50). But if your taxable income is less than the maximum contribution, you can only contribute up to the actual dollar amount of your earned income for the year. In other words, you can't contribute more to your IRA than you earn.

Also, if you are a married non-working spouse who files a joint tax return, and your spouse has "earned income" then their income can be used to determine if you qualify and can fund your own IRA even though you don't have earned income.

John Lachapelle, Financial Advisor

If you enjoy our monthly newsletter and know someone who would benefit from receiving it, please contact us or email our Office Manager at Laura.Fleming@ceterawealth.com

Table with Interest Rates and Mortgage Rates sections. Interest Rates table has columns for Type, July, and June. Mortgage Rates table has columns for Type, July, and June. Source: Bankrate.com

## Financial Tip of the Month

### Is it Time to Downsize Your Home?

There are plenty of reasons to sell and seek out a house that is smaller and one that fits your lifestyle. On the flip side, there are reasons you may want to stay in your home. Now that you are in retirement or are nearing retirement, the mortgage may be paid off or you might have a significant equity stake in your primary residence.

Much goes into a decision to sell your home, and the process may seem daunting if you have lived in your house for years. Here are some questions to think about.

#### **If we move, where do we want to buy?**

What are housing costs in my neighborhood versus an area we are considering?

Do I want to be near family members? Which ones?

Should we pay off the mortgage or consider a reverse mortgage?

What are the services that will be available in the area we are considering?

What amenities are important to us, including restaurants, shops, recreation, and entertainment?

Are the medical services I need readily accessible?

Do we need the equity in our home to help with retirement?

Does the emotional attachment to our home we've lived in for many years outweigh the advantages of a new home?

Do I want to consider a retirement community?

Let's look at some of the advantages and disadvantages of moving and downsizing, and reasons you might consider downsizing.

#### **Save money**

If you are still paying on your mortgage, sale of your primary residence could wipe out your debt and leave you with cash. That's cash you may put towards retirement, travel, savings, or any number of items.

A smaller home that's better adapted to your lifestyle may also reduce expenses such as utilities, further reducing your monthly cash outflow. Reducing your monthly upkeep gives you options. It will allow you to either save money or spend on lifestyle choices that are fun and enrich retirement.

**My current place is too big and or it does not meet my needs.** You may be at that place where your home is too big or too hard to clean or maintain. Maybe it is becoming increasingly difficult to shovel snow off the long driveway, and cleaning rooms and bathrooms that are rarely used is time-consuming. What about stairs? You enjoy having the distance and solitude of a second floor, but you now find that stairs are becoming increasingly challenging. The thought of having everything on one floor has become increasingly appealing.

**Your career and company no longer dictate where you live.** Younger folks may have the option to telecommute, while those in retirement may no longer be tied to the city and state where they live. Are there new locations you might consider? A new adventure is always exciting.

#### **Potential Drawbacks to Downsizing**

**We tend to overestimate the value of our home.** This is common. What you value may or may not translate into a higher sales price. Various sites online can help you estimate the value of your home, but these are simply ballpark estimates. A good realtor can help you realistically estimate the value of your home.

*Continued on Page 5*

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– REMEMBER –

WE WANT YOU TO CONTACT US WITH YOUR "HERE'S WHAT WE'RE THINKING ABOUT DOING" QUESTIONS, NOT YOUR "GUESS WHAT WE JUST DID!" COMMENTS!

## Is it Time to Downsize Your Home? Continued

**Conversely, we tend to underestimate the cost of a new home.** The latest upgrades in a kitchen and master bathroom will add to the cost of a new house. Plus, that extra bedroom could come in handy for guests or make the perfect office. Sure, they may be worth it, but let's budget for them. If you are considering a new home, a smaller place can reduce utilities, but factor in the cost of a monthly HOA if the community you are interested in is governed by one.

**Will you owe taxes?** Most individuals and couples can exclude the first \$250,000 and \$500,000, respectively, in profits from taxes. You must have owned the house and have used it as your primary residence over the last two years. As with any tax matters, complexities may arise. Please feel free to consult with your tax advisor.

**Factor in the costs to move.** Moving is not cheap. You will have expenses related to selling your home, buying a new home, and moving to a new location.

**Time to declutter.** You may look forward to downsizing, but that means less space for your pictures, art, furniture, heirlooms, and more. Parting with long-term possessions can be a difficult process for some folks.

**Less space may feel cramped.** Do you entertain friends and family often? Have you become accustomed to extra space? Do you sometimes have overnight guests? You may miss the big family room or dining room in smaller quarters, and you will have less space when family or friends join you for an extended visit.

Many folks will decide to stay in their home. For others, a change is welcome. Our goal is to help provide you with some of the advantages and drawbacks as you consider a life-changing decision.

*John Lachapelle, Financial Advisor*

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## Why are Houses so Expensive in the U.S. Right Now?

It is very common for clients to ask why houses are so darn expensive in the U.S. right now. In fact we have had many clients sell second homes, or even third homes, realizing as much as a 150% sale price from what they assumed the property was worth. The real estate industry is not like we have ever seen. Even tougher for the younger generation just trying to find a first home, realizing how difficult it is to acquire a reasonably priced single-family dwelling within the town they hoped.

I'm sure you have heard stories of properties being listed, then bidding wars ensue, resulting in multiple offers on the first day of the listing, many of which are way above the asking price.

In my opinion, many factors have contributed to the massive increase in home sales. Some folks have been scared out of the cities by the pandemic. We hear of an increase in requests for Northern properties every day by local real estate agents. People have commented that they expect to stay working remotely, therefore not needing to enter the city office of their employer. For many this has allowed them to move out of the city.

Let's not forget the higher cost of land, labor and building materials. This has surely impacted homebuilders. In most cases it has resulted in the prices of existing single-family dwelling's going up. When comparing land and the cost to build, many buyers opt to purchase an older single-family dwelling.

A third factor, one most of us are aware of, is that the 30-year fixed mortgage is around a fifty-year low. This has resulted in helping the strong demand for real estate, therefore pushing prices up even more. When folks are used to having a 4% or 5% mortgage rate, and are provided a rate below 3%, it has made the purchase of real estate much more appealing to the buyer.

Like anything, it is always good to sell high, and buy low. If you're looking to sell, now's the time!

*John Creteau, Investment Adviser*

## What is a Power of Attorney?

A power of attorney is a legal document that gives someone you choose the power to act in your place. In case you ever become mentally incapacitated, you'll need what are known as "durable" powers of attorney for medical care and finances. A durable power of attorney simply means that the document stays in effect if you become incapacitated and unable to handle matters on your own. (Ordinarily, or "nondurable", powers of attorney automatically end if the persons who makes them loses mental capacity).

With a valid power of attorney, the trusted person you name will be legally permitted to take care of important matters for you - for example, paying bills, managing your investments, or directing your medical care - if you are unable to do so yourself.

Taking the time to make these documents is well worth the small effort it will take. If you haven't made durable powers of attorney and something happens to you, your loved ones may have to go to court to get authority to handle your affairs.

To cover all the issues that matter to you, you'll probably need two separate documents; one that addresses health care issues and another to take care of your finances. Fortunately, powers of attorney usually aren't difficult to prepare.

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## Financial Power of Attorney

A financial power of attorney is a power of attorney you prepare that gives someone the authority to handle financial transactions on your behalf. Some financial powers of attorney are very simple and used for single transactions, such as a real estate deal. But the power of attorney we're discussing here is comprehensive; it's designed to let someone else manage all of your financial affairs for you if you become incapacitated. It's called a "durable power of attorney for finances".

With a durable power of attorney for finances, you can give a trusted person as much authority over your finances as you like. The person you name is usually called your "agent" or "attorney-in-fact," though he or she most definitely does not have to be an attorney.

Your agent can handle mundane tasks such as sorting through your mail and depositing your Social Security checks, as well as more complex jobs like watching over your retirement accounts and other investments or filing your tax returns. Your agent doesn't have to be a financial expert; just someone you trust completely who has a good dose of common sense. If necessary, your agent can hire professionals (paying them out of your assets) to help.

*Source: Nolo.com/legal*



## Many Clients Report Scams – How to Resist It

Regardless of your age or financial knowledge, you can be certain that criminals are hatching schemes to separate you from your money. It seems like monthly we hear of a client who has received an e-mail or phone call, each time it is the scammers at work.

Here are four common practices that may help you identify a scam and avoid becoming a victim.

**Scammers pretend to be from an organization you know.** They might claim to be from the IRS, the Social Security Administration, or a well-known agency or business. The IRS will never contact you by phone asking for money, and the Social Security Administration will never call to ask for your Social Security number or threaten your benefits. If you wonder whether a suspicious contact might be legitimate, contact the agency or business through a known number. Never provide personal or financial information in response to an unexpected contact. Make sure to ask the caller's name, and number, and let them know you will be in touch.

**Scammers present a problem or a prize.** They might say you owe money, there is a problem with an account, a virus on your computer, an emergency in your family, or that you won money but must pay a fee to receive it. If you are not aware of owing money, you probably do not. If you did not enter a contest, you cannot win a prize and you would not have to pay for it if you did. If you are concerned about your account, call the financial institution directly. Computer problems? Contact the appropriate technical support. If your "grandchild" or other "relative" calls asking for help, ask questions only the grandchild/relative would know and check with other family members.

**Scammers pressure you to act immediately.** They might say you will "miss out" on a fantastic opportunity or be "in trouble" if you do not act now. Disengage immediately if you feel any pressure. A legitimate business will give you time to decide.

**Scammers tell you to pay in a specific way.** They may want you to send money through a wire transfer service or put funds on a gift card. Or they may send you a fake check, tell you to deposit it, and send them money. By the time you discover the check was fake, your money is gone. Never wire money or send a gift card to someone you do not know; it is like sending cash. Lastly, never pay money to receive money.

*John Creteau, Investment Adviser*



## Moving?

Moving can be time consuming and stressful. We make it easy to keep your investments, retirement, and insurance accounts up to date.

Just email us at [Laura.Fleming@ceterawealth.com](mailto:Laura.Fleming@ceterawealth.com) with the subject line: **Change of Address** and include your name, your old address and your new address and updated phone numbers.

Or call the office at 603-332-6518 ~



## Health Tip Of The Month

### 5 Healthy Summer Activities

The summer sun can bring out our indulgent side, leading to weeks spent indulging in such activities as: beers on a breezy patio, ice creams by the ocean, and lounging in the garden with a cocktail or two. While your body may be busy synthesizing vitamin D while you're lazily drinking up the sun, the temptation to be more sedentary during these months can have an impact on your health and fitness later.

To counteract that temptation, here are five healthy summer activities that promote good health, help keep you in shape, and allow you to have fun outdoors!

#### 1. Outdoor Swimming

I'm a huge fan of freshwater and ocean swimming. There's no chlorine, no lane restrictions, lot of fresh air and beautiful surroundings – what's not to love! Plus, swimming is a really great way to stay active, healthy, and cool in the summer. Add an extra fitness challenge by cycling to your nearest natural body of water before diving in for a few refreshing laps.

Always make sure to check your local resources for water safety announcements, wear waterproof sunscreen and shower afterward.

#### 2. Cycling Tours of Local Vineyards, Orchards and Fruit Stands

Like many people, I enjoy a tippie or two in the sunshine with friends, but how about really earning that glass of wine by taking a cycling tour of local vineyards? Vineyard cycle touring companies are shooting up all over the place, with many offering a handy van to transport you and your bike back home once you've had a little too much to cycle safely.

#### 3. Berry-Picking

If you're lucky enough to live in close proximity to fruit farms with a 'you-pick' operation, berry-picking is a great way to spend a summer's day with family. Use the opportunity as a fun way perk your kids' interest in healthy eating!

If you don't have any close by 'you-pick' berry options, think about tracking down a local berry hotspot, either in the city or along a hiking trail, and take a bucket or two to haul your spoils home in. Remember to be bear aware!

#### 4. Paddleboarding

Anyone who lives by the ocean, or a decent sized river has probably encountered a paddleboarder or two in recent years. This watersport is great exercise and ideal for those who enjoy being out on the water, but who lack the waves to surf.

To get started, check your local community center for beginner paddle boarding class, or search for a meet-up group nearby. After just a couple of hours of trying to balance on your board in the fresh wake of a boat, you'll see that paddle boarding can be a tremendous core and leg workout. You may even discover muscles you never knew you had!

#### 5. Park Yoga

If it's not already happening in a park near you, consider befriending a local yoga studio to encourage them to put on free community outdoor yoga. My nearest park has two sessions every day during summer, attracting at least a dozen people each time, some of whom have never done yoga before. It's a great way for new practitioners to make a name for themselves in the community, and a lovely way to spend some mindful time outdoors. Keeping those stress levels in check and those limbs limber during summer with a little restorative, outdoor yoga.



#### Source:

<https://naturalfactors.com/en-us/articles/5-healthy-summer-activities/>

## Client Quiz!

### This Month's Quiz

**Question:** Which of the following statements concerning hedge funds is TRUE?

- a. They are highly liquid.
- b. They must be registered with the SEC.
- c. They are typically sold to accredited investors.
- d. They may charge a maximum load of 8.5%.

**Source:** *John R. Creteau*

### Answer to Last Month's Quiz

**Quiz:** The security with the longest expiration date would normally be?

- a. Put
- b. Call
- c. Warrant (CORRECT)
- d. Right

A warrant is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed price, called the exercise price, until the expiration date.

**Source:** *John R. Creteau*

## Did you Pass my 2021 Summertime Test from Last Month?

1. If market interest rates increase, the price of outstanding bonds:
  - a. Will remain unchanged.
  - b. Will revert to their call price.
  - c. Will increase.
  - d. Will decrease. **(CORRECT)**
2. Which of the following is a characteristic of a Roth IRA?
  - a. Contributions are made in after-tax dollars. **(CORRECT)**
  - b. Contributions are permitted regardless of an individual's gross income.
  - c. Contributions from the plan are taxed as long-term capital gains.
  - d. Qualified distributions are taxed as ordinary income.
3. An investment company that diversifies its portfolio with stocks, bonds, and money market instruments, but will always hold some of each, is called:
  - a. Equity income fund
  - b. Balanced fund **(CORRECT)**
  - c. Growth fund
  - d. Asset allocation fund
4. During a period of rising interest rates, and individual who invests in mortgage-backed securities is MOST concerned with:
  - a. Credit Risk
  - b. Opportunity risk **(CORRECT)**
  - c. Legislative risk
  - d. Prepayment risk
5. A type of bond in which the investor receives one payment is referred to as:
  - a. Floating rate bond
  - b. Convertible bond
  - c. Zero-coupon bond **(CORRECT)**
  - d. Term bond

**Twenty points each, 80% is passing. I hope you passed!**

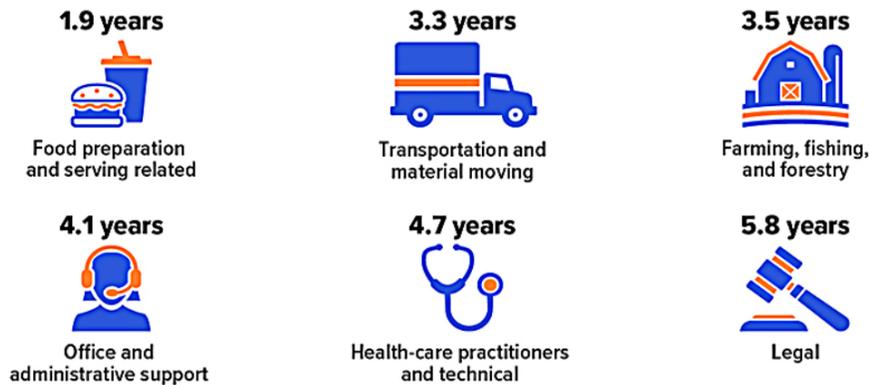
*John Creteau, Investment Adviser*

## How Long Do Workers Stay with Their Employers?

The median number of years that wage and salary workers had been with their current employer was 4.1 years in January 2020. However, employee tenure tends to vary based on many factors, including type of occupation, and the impact of the COVID-19 pandemic on tenure remains to be seen.

**Source:** U.S. Bureau of Labor Statistics 2020

### Employee tenure, by occupation



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