SilverStar Insights

for your wealth

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The financial markets have recovered nicely from their lows in March in response to some positive economic news and expectations. The Covid-19 crisis is still affecting many parts of the economy and will dampen a full economic recovery until a favorable treatment and vaccine is widely available. Please read our Market View below and be *sure to RSVP for our webinar,* Managing Health Care Expenses in Retirement: What Baby Boomers Need to Know About Medicare and Long-Term Care. A replay will be available to all who RSVP. See page 3.

Market View

2020 Year-to-Date Performance of Capital Markets	
S&P 500 - The S&P 500 (Standard & Poor's Index) is a stock market index containing the stocks of 500 American corporations with large market capitalization that are considered to be widely held.	**7.38%**
MSCI EAFE – The MSCI EAFE serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia.	**- 5.61%**
Barclays U.S. Aggregate Bond – The Barclays U.S. Aggregate Bond Index is an index of U.S. dollar-denominated, investment-grade U.S. corporate, government and mortgage-backed securities.	**6.44%**
10-Year Treasury Yield Rate (as of 06/30/20)	**0.69%**

Sources: Morningstar (Performance from 1/1/20 to 9/30/2020)
Treasury.gov (As of 9/30/2020)

The stock markets continued their rebound through the third quarter before seeing an increase in market volatility in September, as is typical with the major runups as seen since the lows of March. The economic landscape is very positive for continued growth if you take out the sectors of the economy seriously affected by Covid-19.

Low-interest rates, which are spurring new home sales and starts, will likely continue for some time. In the Feds September meeting, all 17 officials said they expect to keep rates near zero through next year and possibly 2023.[1]

Employment has recovered to a point, but the energy, travel, and hospitality sectors will take some time for a broader economic recovery.

Additional government financial stimulus will certainly help in this recovery, but when the expected Covid-19 vaccine arrives, it should breathe new life in the outlook for the future, regardless of the election outcome.

1 Nick Timiraos, "Fed Signals Low Rates Likely to Last Several Years," The Wall Street Journal," September, 2020.

4 Key Election Year Lessons

The political environment is becoming toxic due to the upcoming presidential election and the COVID-19 crisis. Both issues are causing financial anxiety.

Some may be fearful of what the future may hold if a particular candidate wins. Chris Davis, Portfolio manager of Davis Advisors, recently stated, "the future happens one day at a time." Any changes will be incorporated over time and not overnight.

History shows that we experienced good markets with both parties in control since 1948 as shown in Table 1.

Table 1. Political Market Performance

	Avg. GDP Growth	**Avg. Ann. Return**	**% of The Time**
Republican	2.8%	11.8%	11%
Democrat	4.4%	9.2%	27%
Divided Gov't	2.7%	6.0%	62%

Source: FactSet, Office of the President, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are from 1948 to June 30, 2020.

Financial anxiety can cause investors to focus on the negative aspects while overlooking the bigger picture and risks. We will review four Key Lessons to help us make informed decisions.

Lesson 1- Avoid Myopic Vision. Macmillan dictionary defines Myopic vision as:

1. Not able to see clearly things that are far away.
2. Not thinking about what the results of your actions will be.[2]

Myopic vision can be very costly to investors. One example may be an ultra-conservative investor who has no tolerance for short-term investment risk and invests only in CDs while overlooking the bigger risk of not earning enough to stay ahead of inflation and potentially running out of money in retirement in the long term.

Another may be trying to time the financial markets based on current headlines and fear.

Lesson 2: Understand Negativity Bias or Effect. Our minds are inundated with stressful, negative news daily because bad news sells. The reason that bad news sells is that "bad is stronger than good… and this power of bad goes by several names in the academic literature: the negativity bias, negativity dominance, or simply negativity effect."[3]

Various studies have confirmed this negativity bias with investors where the pain of investment losses was far worse than the pleasure of investment gains of the same percentage. Investors want the gains but not the losses.

Understanding this tendency of bad to overpower our decision-making process can help us avoid costly mistakes with investing. As stated, "The negativity effect is a simple principle with not-so-simple consequences. When we don't appreciate the power of bad to warp our judgment, we make terrible decisions."[4]

As investors, it is essential to understand how bad news may impact our decisions.

Lesson 3: See the Whole Picture Without Emotions. Having a roadmap or retirement plan can help investors step back and see the whole picture as it relates to their goals and purpose, current and future income needs, the impact of inflation and taxes, estate planning, and investment considerations.

Seeing the whole picture can help us see the impact of being too conservative or too aggressive. The **Rule of 72** states that if an investor divides the rate of return into 72, the rule will tell them how long it takes to double the money. Examples: 72/1% rate of return will require 72 years to double the money. 72/6% rate of return will require 12 years to double the money.

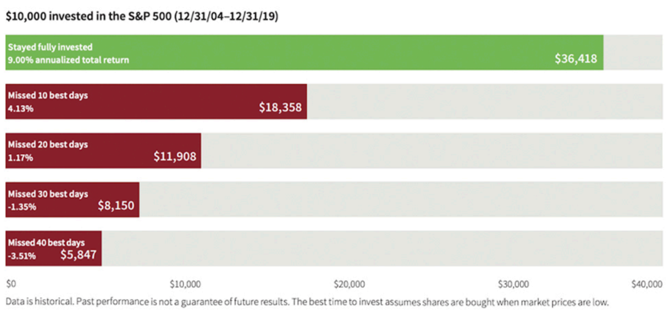
Based on these calculations, one can easily see how investing only in CDs at today's low rates; someone can run the risk of going broke safety and quickly.

Investors should allocate and diversify their investments according to their risk tolerance, time horizon, and goals (the whole picture).

2 macmillandictionary.com
3 John Tierney and Roy F. Baumeister, *The Power of Bad* (New York: Penguin, 2019), 1.
4 John Tierney and Roy F. Baumeister, *The Power of Bad* (New York: Penguin, 2019), 2.

Resist the urge to try to time the markets! It bears revisiting the Risk of Market Timing in Figure 1 below.

Figure 2. The Risk of Market Timing



Source: Putnam Investing

Some of the best market performance days can come during times of fear and uncertainty as experienced the in the past few months.

Having adequate stable/guaranteed retirement income can help provide sustainable retirement income during times of market volatility.

Creating a holistic plan allows us to make informed decisions based on the whole picture and not just emotional headlines.

Lesson 4: Know the Real Risks. Our biggest risks are not from the emotional headlines, but from what is not seen. These risks can be far more costly if ignored!

Longevity Risk. The risk of outliving our money today is far greater than for our parents and grandparents due to longevity. Age 60 is the new age 50 according to some. We want to have money at the end of life and not life left at the end of money.

Inflation Risk. The cost of goods and services rise over time. Many of our parents were buying homes for $30,000 - $40,000 years ago, and we and now buying cars today for the same amount. If our investments are not growing by more than the inflation rate, then we are losing purchasing power to the silent thief known as inflation.

Tax Risk. It is important to plan to minimize the amount of taxes we pay over our lifetimes.

There are many different retirement and non-retirement accounts available that are taxed differently and should be considered.

Two most common accounts are Pre-tax IRAs/401(k)s and after-tax Roth IRAs/401(k)s. Roth accounts offer no tax savings at the time of the contribution but if the distribution is qualified, there will be no taxes on the distribution. You pay taxes on the seed money going in but no taxes on the harvest. For Roth Distributions to be qualified, two conditions must be met; 1. The Roth account must have been established for at least 5 years, and 2. The owner must be age 59 ½ at the time of distribution.

Health and Long-Term Care Risk. With longer life expectancies and medical advancements, healthcare and long-term care will represent a significant cost in our retirement years and should be planned for. Learn more by attending the webinar in this issue.

Summary

We should focus on the things we can control and plan for the real risks by having a well thought-out retirement plan so we can make informed decisions rather than emotional ones.

Wealth Planning Webinars

Managing Health Care Expenses in Retirement: What Baby Boomers Need to Know About Medicare and Long-Term Care

At this workshop you will learn:

• How Medicare enrollment periods work—and what you need to do to avoid late-enrollment penalties
• How much you can expect to pay in health care costs after going onto Medicare
• How Medicare works with private insurance to provide comprehensive coverage
• Why most people pay too much for private insurance and how you can avoid excess costs
• Why you must plan for higher health care costs in retirement—including the possibility of needing long-term care

Guest Speaker: Denise Burleigh with Insurance of All Ages, LLC will join us in presenting your many options for Medicare and Long-Term Care

Tuesday, November 10th, 6:00-7:00 pm

A REPLAY of this webinar will be sent to all who register! Limited Registration.

RSVP at **www.SilverStarWealth.com** under Upcoming Events or call us. Invite a friend!

Humor Matters

Source: Unknown. Thank you, Paula B. for sending these in.

Please send us your favorite joke and if we use it, we will send you a gift certificate to your favorite restaurant.

Words of Wisdom

"The four most dangerous words in investing are 'this time it's different.' "

- *Sir John Templeton*

"We have met the enemy, and he is us."

- *Walt Kelly*

Please call us if you have any questions, would like to review your portfolio, update your financial plan, or if we can help you in any other way.

The SilverStar Team

Register for Webinar with REPLAY

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