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1-800-647-0762

239 Baltimore Pike Glen Mills, PA • 6606 Central Ave. N. Sea Isle City, NJ
fdunbar@commoncentsplanning.com • www.commoncentsplanning.com

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CORONA CONFUSION

By Fred Dunbar

In mid-February, the markets were humming along and all seemed right with the world. Then the coronavirus burst on to the scene. On Feb. 15, our government evacuated 338 U.S. citizens from Yokohama, Japan who had been stranded aboard the widely infected Diamond Princess cruise ship. Since then, life seems like “Ball of Confusion,” the 1970 hit song by The Temptations: “Ball of confusion, that’s what the world is today (yeah, yeah)” sums it up nicely.

As I write this on Earth Day (April 22), there still seem to be more questions than answers. Over the past several weeks, the questions keep coming. Will my business survive? Will I be laid off or furloughed? (Will I even be able to get someone on the phone at the unemployment office?) Will I or one of my family members become ill? Will I get the money from the Small Business Administration Paycheck Protection Program? Where is my \$1,200 recovery rebate that I was promised per the CARES Act? After 5 weeks of shelter in place, everyone is getting antsy and wants to know when New Jersey will reopen.

Well, I hope you and yours are safe. This is something none of us have ever been through. As of this week, the U.S. had more than 26 million people apply for unemployment, and the number continues to rise, which is no surprise since the government basically closed the economy.

Many of you might not be opening your investment statements or your employer’s retirement statements. Don’t be an ostrich with your head in the sand. When you get a statement in the mail, always open it, look at the value, and don’t be shocked. If you didn’t sell, you didn’t lose. How many times have you heard someone say, “I lost money in the market”? Your portfolio may be down, but be patient because it should recover.

There are a couple of things you can do now since you might have a little time on your hands. Review your beneficiaries, and make sure they are current and in line with your estate plan. Take advantage of a down market, and harvest tax losses in your individual or joint accounts. Tax-loss harvesting is the practice of selling a security that has experienced a loss. Generally, I’m focusing on mutual funds and exchange-traded funds. By realizing or “harvesting” a loss, you are able to offset taxes on both capital gains and income. The mutual fund/ETF is replaced by a similar one, maintaining your asset allocation. The losses that you realize can be credited against your short- and long-term capital gains. Short-term gains and losses are on investments held for less than one year. Long-term gains and losses are on investments held for more than one year. The net capital losses in excess of \$3,000 can be carried forward indefinitely until the amount is exhausted.

When we introduce clients to this strategy, many reinvest their dividends and capital gains, purchasing additional shares. What they might not have realized is they have already paid income taxes on the dividends and capital gains in the year they were earned. When they review their statements, it looks like they have a profit, but in reality, they are able to take a tax loss. It’s ultimately an accounting move.

Don’t forget about risk management, which is a fancy way to say insurance. We were contacted by a client who wanted to discuss his life insurance. He was concerned with the value of his investments and asked if it made sense to purchase insurance to protect his family. He reviewed his net worth, which had

fallen due to the pandemic. He followed this up with us and asked, “Can I even purchase life insurance, since most companies are closed?” That was a great question. Yes, life insurance companies are open since they are considered essential.

Normally when you purchase life insurance, you complete an application and have a paramedic exam. Many companies have streamlined their underwriting process to accommodate social-distancing rules, making it easier on the applicant. The application and medical questions may be completed online, the insurance company will contact your physician to obtain your medical history, and if everything lines up, it will issue you a policy. Some companies may offer this streamlined underwriting on amounts up to \$3 million, based on age.

With many companies pinching pennies on employee benefits, one area we have found neglected is disability income protection. Many of you reading this might have been laid off or furloughed and realize how difficult it is to survive without a regular paycheck and how important disability insurance is. Some companies might offer short-term disability insurance, which is normally insuring your income for 26 weeks. After that, most people are left with no protection. Hopefully, this pandemic will end soon and most will be back on the job. Maybe if we are lucky, it will be by the time you are reading this article. What if you become disabled and your paycheck never started again? What would you do? Or more important, how will your family survive?

Also take time to review your auto and homeowner insurance. One of the most common statements we hear is, “I just saved a lot of money on our insurance.” We follow that up by asking if the coverages are identical, and most say, “I think so.” If you had an accident or fire, would your policy make you whole? While you have the time, review your policies before it’s too late.

One last thing to mention about risk management before signing off: What happens if you become ill, and I’m not talking about the novel coronavirus. Some people in the sunset of their lives become unable to care for themselves. Will you have enough money to survive a long-term illness for you and/or your spouse? If you are a tweener (not wealthy, not poor ... maybe somewhere in between) and without long-term care insurance, you will have to spend down your assets before you are eligible for long-term care from Medicaid. Taking the time to think about risk management should have you asking yourself, “Can I lay some of my risk onto insurance companies?” If you are not sure, contact your adviser or agent.

Once you are done reviewing your beneficiaries, harvesting tax losses, and assessing your risk, head down to the beach (but only if the governor has reopened it). Grab your favorite book, beach chair, beverage of your choice (a Corona beer?), and sunscreen. If you are a napper on the beach, maybe you will wake up and realize this was all a bad dream.

Happy summer!

Fred Dunbar, CLU®, ChFC®, RFC®, AIF®, is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He also offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. He’s always happy to meet with you “down the shore” at 6606 Central Avenue N. Sea Isle City, NJ. 08243.