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Managing Bond Risks

All investments are subject to risk, although the types of risk can vary. While you can't totally eliminate those risks, you can develop strategies to minimize them. For bonds, consider these strategies:

Interest rate risk — Interest rates and bond prices move in opposite directions. A bond's price will rise when interest rates fall and decrease when interest rates rise. This occurs because the existing bond's price must change to provide the same return as an equivalent, newly issued bond paying prevailing interest rates. The longer the bond's maturity, the greater the impact of interest rate changes. Also, the effects of interest rate changes tend to be less significant for bonds with higher coupon interest rates.

To reduce this risk, consider holding the bond to maturity. This eliminates the impact of interest rate changes, since the total principal value will be paid at maturity. Thus, selecting a maturity date that coincides with your cash needs will help reduce interest rate risk. However, you may still receive an interest income stream that is lower than current rates. Selecting shorter maturities or using a bond ladder can also help with this risk.

Reinvestment risk — You typically know what interest income you will receive from a bond, but you must then take the periodic income and reinvest it, usually at varying interest rates. Your principal may also mature at a time when interest rates are low.

Staggering maturities over a period of time (laddering) can lessen reinvestment risk. Since the bonds in your ladder mature every year or so, you reinvest principal over a period of time instead of in one lump sum. You may also want to consider zero-coupon bonds, which sell at a deep discount from par value. The bond's interest rate is locked in at purchase,

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Use Conservative Assumptions

How can you ensure you'll have sufficient funds to last your entire retirement? So many of the variables used to calculate this amount seem uncertain.

What is a reasonable rate of return for your investments over the long term? How long will you live, knowing life expectancies are increasing? How much can you count on from Social Security and pension plans?

If you're concerned about running out of money during retirement, you need to be very conservative with your assumptions. Some tips to consider include:

- **Assume your retirement income needs to be at least 100% of your current income.** Most rules of thumb indicate you'll need between 70% and 100%, but figure on at least 100% to be safe. Nowadays, retirees want to travel, pursue hobbies, and live an active lifestyle, which generally means you'll need the higher end of these estimates.
- **Add a few years to your life expectancy.** You should probably plan on living until at least age 85 or 90. If your family has a history of longevity, add a few more years to these figures. While you may find it hard to believe you'll live that long, you don't want to reach age 75 or 80 and find out you've run out of money. At that point, you might not be able to return to work.
- **Reduce your estimates of Social Security benefits.** While Social Security is currently in sound financial condition, that is expected

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Bond Risks

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but no interest is paid until maturity. Thus, you don't have to deal with reinvestment risk for interest payments, since you don't receive the interest until your principal matures.

Inflation risk — Since bonds typically pay a fixed amount of interest and principal, the purchasing power of those payments decreases due to inflation, which is a major risk for intermediate- and long-term bonds.

Investing in short-term bonds reduces inflation's impact, since you are frequently reinvesting at prevailing interest rates. You can also consider inflation-indexed securities issued by the U.S. government, which pay a real rate of return above inflation.

Default and credit risk — Default risk is the risk the issuer will not be able to pay the interest and/or principal. Credit risk is the risk the issuer's credit rating will be downgraded, which would probably decrease the bond's value.

To minimize this risk, consider purchasing U.S. government bonds or bonds with investment-grade ratings. Continue to monitor the credit ratings of any bonds purchased.

Call risk — Call provisions allow bond issuers to replace high-coupon bonds with lower-coupon bonds when interest rates decrease. Since call provisions are generally only exercised when interest rates decrease, you are forced to reinvest principal at lower interest rates.

U.S. government securities do not have call provisions, while most corporate and municipal bonds do. Review the call provisions before purchase to select those most favorable to you.

Keep in mind that the assumption of risk is generally rewarded with higher return potential. One of the safest bond strategies is to only purchase three-month Treasury bills, but this typically results in the lowest return. To increase your return, decide which risks you are comfortable assuming and then implement a corresponding bond strategy. ❍❍❍

Avoid These Estate Planning Mistakes

When it comes to estate planning, Americans are making a lot of mistakes. You can save time and money for those you leave behind by not making these estate planning mistakes.

Not Having a Will — Not having a will is probably the biggest estate planning mistake you can make. It's also one of the easiest to fix. An attorney can help you draft a simple will that offers instructions on what to do with your assets and who should care for your minor children, among other matters. What happens if you don't have a will? The courts decide who gets your property and who will assume guardianship of your kids — and it may not be who you would have chosen.

Not Updating Your Estate Plan after Life Changes — Some people think that estate planning is a set-it-and-forget-it issue. But your estate plan needs to evolve with your life. If your family grows, a marriage ends, or you acquire new wealth, you may need to update your will, beneficiary designations, and other documents. One key thing to remember: don't forget to check your beneficiary designations on retirement plans and insurance polices periodically. The people listed on these forms will receive those assets, even if your will says otherwise.

Not Working with an Estate Planning Attorney — Online legal sites and fill-in-the-blank documents have given many people the mistaken idea that estate planning is a do-it-yourself activity. The legal issues surrounding estates can be quite complicated. A skilled attorney (working in partnership with your other advisors) can help you avoid complications and design an estate plan that is complete without unintended consequences.

Not Thinking about Long-Term Care — The average 65-year-old has a 68% chance of becoming disabled and needing long-term care during their lifetime. If you don't have a plan for how you might pay for that care, you can quickly exhaust your savings, leaving little for your heirs when you do pass away. Smart planning strategies, like purchasing long-term-care insurance or certain types of life insurance, can allow you to protect your wealth for your loved ones while also helping you afford the care you need.

Not Taking Steps to Avoid Family Conflict — Disagreements among family members over how your assets are distributed after your death can lead to permanently damaged relationships and expensive litigation. A detailed, well-thought-out estate plan will help prevent conflict, as your wishes will be clear and there will be less opportunity for legal challenges. Even more important, however, is thinking about your unique family dynamics and taking steps to ensure everyone you love is treated fairly.

Not Thinking about Digital Assets — As you develop your estate plan, you may want to include instructions for how to handle your digital assets. Putting together a master list of accounts and passwords will make things easier on your family. But you may also want to include information about your other online assets, like social media accounts, online photo albums, libraries of digital videos and music, and even online businesses.

Fortunately, it is fairly easy to avoid any of these estate planning mistakes. Working with an experienced estate planning attorney, along with your financial advisor and other professionals, can allow you to create a comprehensive estate plan. ❍❍❍

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Assumptions

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to change after all the baby boomers retire. To be safe, count on benefits that are somewhat less than the Social Security Administration is estimating, and don't plan on adjustments for inflation.

❍ **Cut back on living expenses now.** This has a two-fold impact on your retirement. First, it frees up money to set aside for retirement. Second, you get used to a lower standard of living, which should also reduce your expected lifestyle for retirement.

❍ **Reach retirement with no debt.** Mortgage and consumer debt payments consume a significant portion of most people's income. Pay off all those debts by retirement and you significantly reduce your cost of living.

❍ **Forget about early retirement.** Saving enough to last from age 65 to age 85 or 90 is a difficult task. Trying to retire at age 55 or 60 is just not practical for most individuals, unless you're willing to significantly reduce your lifestyle. Working a few more years can go a long way in helping to fund your retirement. Those years are typically your highest earning years, so hopefully you'll save significant sums during that period. Also, every year you work is one year you don't have to support yourself with your retirement savings.

❍ **Consider working during retirement.** Especially during the early years of retirement, you should consider working at least on a part-time basis. Even modest earnings can help significantly with retirement expenses.

❍ **Plan on taking conservative withdrawals from your retirement assets.** Don't plan on taking out more than 3% to 4% of your balance annually. Your funds should last for decades with that level of withdrawal. ❍❍❍

5 Estate-Planning Tips for Dependents

When you have people who are dependent on you, like children or elderly parents, you want to ensure they will be well taken care of in the event you can no longer care for them. Here are five tips for creating a comprehensive estate plan:

1. Hire an estate planner — An estate planner will make sure you think of and lay out every aspect of your estate plan. Estate planners stay up-to-date on tax rules and regulations, so they can help you ensure your plan is legally and financially sound, leaving your dependents in the best situation possible.

2. Choose a guardian — Choosing someone to take care of your children in the event that both you and the children's second parent are deceased is a huge decision to make and deserves great care and time. You want to choose a guardian who loves your children and has the capacity to take care of them into their adulthood. That means a guardian who has the financial capacity to care for your dependents, as well as the physical capacity to do so.

So even though grandparents may be able to love and care for your children just as you did, they may not be in good enough health to care for a child or children. On the other hand, your sister may be able to love your dependents just as much as you did and be in perfect health, but is unable to hold a steady job or stay in a committed relationship. The goal of choosing a guardian is to make sure your children are loved and taken care of adequately, they receive a good education, their lives remain as stable as possible, and they receive emotional support to cope with your loss. It's crucial to communicate with your chosen guardian. Ask early (and often) if they are comfortable being the guardian of your child or children.

3. Develop a trust — A trust is often used when people have minor children or dependents that are incapable of taking care of themselves. You, the trustor, puts a trustee in charge of the beneficiary's property and/or assets until the beneficiary meets certain requirements such as reaching a specific age or milestone. Usually the named guardian is also the trustee, however every situation is different. Just like choosing a guardian, make sure you take time in choosing a trustee and pick someone who is trustworthy and capable.

4. Start as soon as possible — As soon as you have a child or otherwise become responsible for a dependent, it is important to get an estate plan in place to protect them in case of emergency.

5. Reevaluate often — As time goes on, your situation may change quite a bit from your original plan. For example, anytime you acquire a new asset or debt, it should be included in your estate plan. Also, you may realize the guardian you originally chose for your dependent is no longer the right choice — they might get sick or die, or move far away. You may have more children or unexpectedly start caring for an elderly family member. Any time major changes happen in your life that impact what you would leave behind and who you'd want to leave it to, you should revisit your estate plan.

We all want the people we leave behind to be cared for after our deaths as we cared for them in our lives. You may have no control over when or how you will die, but you do have control over what happens to your dependents. ❍❍❍

Financial Data

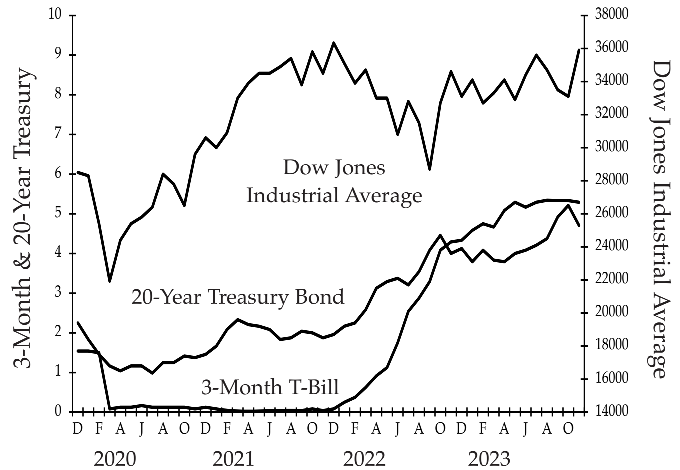
Indicator	Sep-23	Oct-23	Nov-23	Dec-22	Nov-22
	Month-end				
Prime rate	8.50	8.50	8.50	7.50	7.00
Money market rate	0.48	0.61	0.47	0.33	0.31
3-month T-bill yield	5.33	5.33	5.28	4.35	4.29
10-year T-bond yield	4.59	4.88	4.37	3.88	3.68
20-year T-bond yield	4.92	5.21	4.72	4.14	4.00
Dow Jones Corp.	6.08	6.34	5.83	5.54	5.46
30-year fixed mortgage	7.90	8.23	7.75	6.80	6.84
GDP (adj. annual rate)#	+2.20	+2.10	+5.20	+2.60	+3.20

Indicator	Sep-23	Oct-23	Nov-23	YTD	12-Mon.
	Month-end			% Change	
Dow Jones Industrials	33507.50	33052.87	35950.89	8.5%	3.9%
Standard & Poor's 500	4288.05	4193.80	4567.80	19.0%	12.0%
Nasdaq Composite	13219.32	12851.24	14226.22	36.2%	24.1%
Gold	1870.50	1996.90	2035.45	12.3%	16.1%
Consumer price index@	307.03	307.79	307.67	3.3%	3.2%
Unemployment rate@	3.80	3.80	3.90	5.4%	5.4%

— 1st, 2nd, 3rd quarter @ — Aug, Sep, Oct Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

December 2019 to November 2023



Past performance is not a guarantee of future results.

News and Announcements

Choosing Beneficiaries for Your 401(k) Plan

When you sign up for your 401(k) plan, you will typically be asked to fill out a beneficiary designation form, listing who should receive your 401(k) plan assets when you die. Make these selections carefully, since they typically override any provisions in your will.

If you are married, federal law dictates that your spouse is automatically your 401(k) plan's beneficiary. Even if you list another person as the primary beneficiary, your spouse will receive the proceeds unless he/she signs a written waiver. Thus, even if you are separated but not divorced from your spouse, he/she will be entitled to your 401(k) proceeds after your death.

Similarly, if you remarry and want to keep your children from a previous marriage as the beneficiaries, you must have your current spouse sign a waiver. You should not rely on a prenuptial agreement or other document.

When your beneficiaries are minor children, keep in mind that most 401(k) plans will not transfer money directly to minor children. Thus, you may want to set up a trust, so the trustee can take immediate control of the funds. Otherwise, a court-appointed trustee or guardian may need to be named before your children will have access to the funds.

If you are single and don't name a beneficiary, the proceeds will go to your estate and be distributed with the rest of your assets.

Periodically review your beneficiaries to determine if changes are needed. A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to beneficiaries. ❍❍❍ FR2023-0717-0060

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