THE Wealth REPORT

What are your financial goals for the coming year? The beginning of a new year is a good time to look at shoring up weak spots and simplifying your financial plan.

START THE NEW YEAR OFF RIGHT

Overview

At the end of every December, we celebrate and hope for a healthy and prosperous new year, but we never know what to expect. And since we can't know the unknowable, it's important to be prepared. This is a good time of year to make sure your financial situation is sound and easy to access and understand — even for your loved ones — plus clean up any nettling issues. Even small loose ends can take time and hassle to resolve, so you may want to take care of them now.

This report provides seven steps everyone may want to consider to help make saving, earning, spending, investing, insuring, retiring and — yes, even passing away — easier for all involved.

1. Boost Your Emergency Resources

One of the best ways to help shore up your financial future is to have three months to a year's worth of emergency savings. At the very least, save in an account with liquid access to securities that have no tax or penalty consequences, such as a checking or savings account.

Having available cash to pay for unexpected expenses and/or supplement the loss of regular income can help prevent you from racking up high-interest debt and help protect against having to tap into investments. This is likely your best defense against potential financial strain caused by the loss of income due to a natural disaster, a possible recession, or a major medical or home expense.

2. Diversify Your Income

We can't always predict when the next market downturn will come or how much it will affect your income when it happens. One way to help protect against a downturn is to diversify your income sources so that you have multiple streams in case one or more are threatened, whether that's from a market downturn, job loss or some other unexpected event.

There are multiple ways to add new income streams. Some people might consider taking a second job or going back to work after retirement. Others may purchase a rental property or monetize a hobby. You might also consider diversifying a portion of your portfolio among different income-producing vehicles, such as bonds, annuities or dividend stocks. There are many innovative products that provide differentiated income sources to help insulate your monthly cash flow; your financial advisor can help you identify and select the right options for you.

3. Inflation-Proof Your Portfolio

High prices continually test the buying power of household budgets. While you might not be able to do much about rising costs due to inflation, you can help protect your investments from its impacts. Consider allocating a portion of your portfolio to investments that tend to grow in tandem with inflation. The following are some ideas you may wish to discuss with your financial advisor:

- **Treasury Inflation-Protected Securities (TIPS)** — These securities allow an investor's principal to increase in tandem with inflation and decrease when inflation declines. The coupon rate remains fixed, so payouts vary based on the inflation-adjusted principal. Upon maturity, the investor receives the greater of the adjusted principal or the original principal.[1]
- **Dividend-Paying Stock Index Fund** — An index fund composed of dividend stocks offers both diversification and inflation-hedged income via rising dividends.[2]
- **Real Estate Investment Trust (REIT)** — This is a company that owns or finances a range of income-producing real estate, such as office buildings, apartment buildings, warehouses, retail centers or hotels. REITs pay out reliable dividend income that tends to rise with inflation, along with rental prices.[3]

4. Check on Your Volatility Risk

When investment markets decline, it is important not to panic sell. In fact, if you are financially stable, you can use the occasional dips to purchase more shares for potentially greater profits when the market recovers.

Now may be a good time to consult with your financial advisor to "stress test" your investment portfolio. If you own holdings that are particularly vulnerable to periodic bouts of volatility, you may want to consider repositioning those assets to alternatives that tend to perform reliably under duress, such as:

- Government bonds
- Consumer staples stocks
- Buffered exchange-traded funds (ETFs)
- Fixed index annuities (FIAs)

Un-Diversify

Many times in our efforts to diversify, we over diversify. Investments spread out over a range of mutual funds and individual securities may overlap substantially — which means you may actually be less diversified than you think. Take some time at the beginning of the year to review the underlying holdings of your investments. You may find significant overlap among the different types of accounts you hold, such as a 401(k) plan, an IRA and a brokerage account with stocks, bonds, mutual funds and ETFs. Your financial advisor can help you understand what each part of your portfolio is trying to achieve and help remove redundancy where necessary.

5. Be Weather-Ready

Natural disasters can wreak unimaginable devastation. You never think your entire home and belongings will be wiped out, but it can happen. This may be a good time to climate-proof your life savings by helping make sure you are properly insured. There are many types of policies to consider in addition to a homeowner's policy, so consult with an insurance agent to help bolster potentially weak areas. For example:

- Flood insurance
- Supplemental insurance for accidents or long-term disability
- Personal umbrella policy
- Special riders for things like valuables (jewelry, furs, fine art, musical instruments, silver), antique and collector cars, watercraft/yachts, all-terrain vehicles
- A life insurance policy that offers a cash account from which you can make limited withdrawals

Also, recognize that climate change could potentially ravage your investment portfolio as well. Some industries are more affected by natural disasters than others, such as gas production, home improvement products and services, and property insurance. One way to help protect your portfolio may be by diversifying internationally. Since different hemispheres experience opposite seasons, they are not typically subject to the same types of weather disasters at the same time.

Remember, if you do suffer from portfolio losses, you may be able to offset them with tax deductions for property damage caused by a natural disaster. Check out the IRS website at www.irs.gov/newsroom/tax-relief-in-disaster-situations to see if you meet the criteria for tax relief.

6. Set a Date for Retirement

Have you set a retirement date? Even if your expectations change, it's better to have a plan than just wing it. This is particularly important when it comes to starting Social Security benefits. You and your spouse should consider coordinating your benefits strategy to help you start with the highest Social Security benefit for which you qualify. If you begin drawing benefits before your full retirement age (FRA), your payout will be permanently lower than if you wait until your FRA.

Moreover, you can fully optimize your lifelong Social Security benefit by delaying until age 70, during which time you will earn credits for a higher payout. An additional perk to delaying retirement is the ability to save and invest longer for a larger nest egg — which would then be needed for a shorter timeframe.

Consolidate

If you're like most people, you have likely worked for several different companies during your career and may have left a trail of 401(k) plans behind you. Now may be a good time to roll over and consolidate them. Consider transferring those assets to your current employer's 401(k) plan or rolling them into an IRA.
If you have multiple IRAs, consider consolidating them into one for ease of tracking performance, managing fees and taking required minimum distributions (RMDs) during retirement. If you have one traditional IRA and one Roth IRA, this may help diversify your tax liability later in life.

Automate

If you're not using online banking yet, you might want to set that up for the new year. This makes it easier to schedule bill payments, and you can even set up repeat bills to autopay when they're due. If you spend a fair amount of time away from home, request electronic bills instead of mailed ones. This makes it easier to pay your bills remotely, which can be beneficial for several reasons. For example, if you decide to live in a second home for part of the year, you'll still be able to pay bills without being at your primary residence to receive them.

It may also be a good idea to automate any incoming funds, such as RMDs, investment dividends and other payouts.

7. Get Your Estate Plan Sorted Out

The end of the year can be an ideal time to get all of your estate plans established and/or updated. Here are the items you might want to include in your estate plan:

- If you don't have a will, it might be time to draw one up — even if it's a simple one that leaves all your assets to one person. This is a roadmap that will make it easier for your beneficiaries to go through the probate process without having to prove how you intended to leave your assets.
- Revocable Living Trust — allows your beneficiaries to potentially avoid probate altogether.

- Advance Medical Directive — details treatment preferences (such as “do not resuscitate”) and appoints a person to make decisions about your medical care if you cannot.
- Living Will — states what you want to happen if you become incapacitated.
- Financial Power of Attorney — assigns a person the legal authority to act on your behalf concerning financial issues.
- Update beneficiary designations on your financial accounts any time there are changes to your family dynamic, such as marriage, new children, divorce or death.
- Work with an insurance agent to help ensure you have adequate financial support for your dependents should one or both spouses pass away.
- Maintain a file or notebook for all of your legal documents, financial accounts and insurance policies. Be sure to include your login credentials, any auto-payment information and named beneficiaries.

Final Thoughts

It’s important to recognize that you don’t have to do all your financial strategizing on your own. In fact, it may be better if you work with an experienced financial advisor so that someone else understands your needs and why you made certain decisions. Also include your spouse and children, when appropriate, so everyone is on the same page.

[1] TreasuryDirect. “Treasury Inflation Protected Securities (TIPS).” https://www.treasurydirect.gov/marketable-securities/tips/. Accessed Oct. 16, 2024.
[2] Morningstar. “Dividend Index Funds.” https://www.morningstar.com/best-investments/dividend-index-funds. Accessed Oct. 16, 2024.
[3] Peter Gratton. Investopedia. July 19, 2024. “REIT: What It Is and How to Invest.” https://www.investopedia.com/terms/r/reit.asp. Accessed Oct. 16, 2024.

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