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Review Your Portfolio's Performance

At least annually, you should review your portfolio's performance, comparing it to relevant benchmarks and determining whether you are making progress toward accomplishing your financial goals. Consider these steps in the process:

1. Measure the performance of each investment in your portfolio. Many investments and investment managers will provide you with periodic performance information. When reviewing this information, keep in mind the following points:

✔ Often, an investment's return is reported on a time-weighted basis, which does not consider when you invested.

✔ Information that reports your portfolio's return is generally expressed on a dollar-weighted basis, which measures the investment return based on when cash inflows and outflows occurred.

While this is a more relevant measure when evaluating your portfolio, time-weighted returns can make it easier to compare the returns of different investments.

✔ Investments often report cumulative annualized returns over a period of time, representing the average annual performance over that time. Since returns can fluctuate significantly on a year-to-year basis, this annualized return can help you evaluate the long-term performance of an investment.

If you invest in individual stocks and bonds, you may need to calculate those returns yourself. Conceptually, your total return on an investment equals the change in market value plus any dividends, interest, or capital gains, divided by the beginning market value. Total return can be difficult to calculate, especially if you make additional investments or withdrawals during the year. You may need the help of a computer program to calculate your total return precisely.

Continued on page 2

Retirement Withdrawal Strategies

Like the plan that got you here, you need to develop a withdrawal plan that will give you the best chance to not outlive your assets.

Where to Start: You want a plan that ensures you can meet your expenses and has the potential to keep growing, all while weathering inflation, market volatility, and taxes. Determine how you want to live in your retirement years. One withdrawal strategy may be to use your reliable income for essential expenses and your investment income for things you want to do.

Keep It Growing: You will need an asset allocation strategy that uses a target asset mix of investments aligned with your risk tolerance, which will probably be different at this stage of your life.

Monitoring and Rebalancing: Just like during your saving years, you need to monitor your portfolio on a regular basis. It may be wise to rebalance your portfolio due to market conditions or other factors that impact your life. While in the early years of your retirement, you may take more risk; as you age, you may want to be more conservative. ❍❍❍

Portfolio's Performance

Continued from page 1

2. Find an appropriate benchmark to compare to each component of your portfolio. A wide variety of market indexes now exist, covering different segments of the market. Find ones that track investments similar to each component of your portfolio. Making comparisons to a benchmark should help you identify portions of your portfolio that may need to be changed or that need closer monitoring.

3. Calculate your overall rate of return, comparing it to your estimated return. When designing your investment program, you probably assumed a certain rate of return, which determined how much you need to invest to reach your financial goals. Calculating your actual return will determine if you are on track. If your actual return is below the return you estimated, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future. Performing this analysis annually should allow you to make these changes gradually.

4. Review your overall investment allocation to determine if changes should be made. This annual review is a good time to compare your actual allocation to your desired allocation. You may find you need to make changes for a variety of reasons. If certain portions of your portfolio have performed well, you may find they make up a larger percentage of your portfolio than originally planned. You may find you need to sell certain investments that are not performing well. You may also need to refine your asset allocation percentages.

You should review your portfolio's performance annually to ensure your investment strategy is on track. Please call if you'd like help with this analysis. ❍❍❍

Retirement Planning for Stay-at-Home Parents

Millions of Americans are stay-at-home parents. While they may not get paid a regular salary, they perform vital work caring for children and managing the household. Unfortunately, since this work doesn't come with a paycheck, it leaves those moms and dads in a tough spot when it comes to retirement.

A nonworking spouse is going to have a tougher time preparing for retirement. Obviously, no income means saving for the future is difficult. Plus, a person who doesn't work isn't paying into the Social Security system. Even if you're out of the workforce for just a few years while your kids are young, those nonworking years can cause you to fall behind in retirement savings. But staying home with the kids doesn't have to mean jeopardizing your financial future, provided you have a plan.

Don't Neglect Your 401(k) Plan — Many parents work outside the home for a time before they decide to stay home. If you had a 401(k) plan before you left the workforce, don't forget about those funds when you take time off. Depending on your plan's requirements and the investment options available, you may be able to keep your money where it is, or you might want to roll over your savings to an IRA. In either case, you'll want to keep an eye on your funds, making sure you have the proper asset allocation and that your investments are rebalanced as necessary.

Whatever you do, you don't want to cash out your savings unless it's truly a financial emergency. Doing so will put you even further behind.

Set Up a Spousal IRA — Usually, you must have earned income to contribute to an IRA. But the IRS has created a special exception to help nonworking spouses prepare for retirement. It's called a spousal IRA, and works just like a traditional IRA. The husband or wife who works can contribute $6,000 a year to an IRA on behalf of their spouse ($7,000 if you're over age 50). The money can go into either a traditional or Roth IRA, provided all the other requirements are met.

Essentially, using a spousal IRA allows you and your spouse to double your IRA savings. However, you do need to file a joint tax return to be eligible for a spousal IRA. One other benefit of a spousal IRA is that the assets are held in the nonworking spouse's name. That means if the couple divorces, the spouse who doesn't work has retirement assets that are already their own.

Set Up a SEP-IRA or Individual 401(k) Plan — You may be a stay-at-home mom or dad, but that doesn't necessarily mean you're not working in some fashion. Many people who don't have careers outside the home earn money through consulting, freelance work, or home-based businesses. If this applies to you, you might want to consider setting up a SEP-IRA or an individual 401(k) plan to help you save for retirement. Assuming you earn enough money, you'll be able to save more than you would in a spousal IRA.

Don't Stop Saving — Whatever you do, don't forget about retirement saving just because you're out of the workforce for a while. Set aside what you can for the future, even if it's just a few dollars a month. That can be hard to do when your income is limited, but it's still important. You can also encourage your spouse to maximize their own retirement savings so you are both on track for retirement. ❍❍❍

Estate Planning and Retirement Accounts

Retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), are many people's most significant assets. While you may think you'll need every bit of money in those accounts for retirement, what would happen if you die at an early age? You should include these accounts in your estate plan so heirs inherit them with minimal estate and income tax effects. Some strategies to consider include:

✔ **Review your beneficiary designations.** These assets are distributed based on beneficiary designations, not your will or other estate-planning documents. Thus, you should name primary as well as contingent beneficiaries. Make sure you understand how your assets will be distributed if a primary beneficiary dies before you do. For instance, if your primary beneficiaries are your children, and one child dies before you, do you want that child's share to go to your remaining children or to that child's children? Review your beneficiary designations after major life changes, such as marriage, divorce, or a child's birth.

✔ **Consider rolling your 401(k) plan assets over to an IRA.** Now that most 401(k) plans and IRAs have similar distribution periods for beneficiaries, there is not as much need to roll 401(k) plan assets over to an IRA. However, with IRAs, you will often have many more investment options for your plan assets. You may also want to roll the plan assets over to a Roth IRA, but will first need to roll over to a traditional IRA.

✔ **Understand the new distribution periods when naming beneficiaries.** In the past, beneficiaries could take distributions from an inherited IRA over their lifetimes. However, the SECURE Act, which is effective starting on January 1, 2020, drastically changed those rules. Now, for individuals dying after December 31, 2019, designated beneficiaries (humans with a life expectancy) must withdraw all funds within 10 years. However, eligible designated beneficiaries can still withdraw funds from inherited IRAs over their life expectancy:

1. Surviving spouses
2. Minor children
3. Disabled or chronically ill individuals
4. Individuals who are not more than 10 years younger than the deceased IRA owner

Once a minor child reaches the age of majority, the remainder of the distributions must be completed within 10 years after that date. Withdrawals do not have to be taken out in equal installments over the 10-year period. The only requirement is that the entire balance must be withdrawn at the end of the 10-year period. This provision is expected to significantly increase tax revenue from inherited IRA distributions. It may be a particular problem for children who inherit parents' IRAs and are in their peak earning years. Some strategies to consider include:

1. Name younger or more lightly taxed beneficiaries for IRAs.
2. Name more beneficiaries so each receives less taxable income.
3. Gift IRAs to charities.
4. Buy life insurance to help beneficiaries fund the taxes from the distributions.
5. Utilize Roth IRA conversions. Even though Roth IRAs are still subject to the 10-year distribution rule, the distributions are not taxed.

✔ **Make sure your spouse understands the rules for inheriting an IRA.** The SECURE Act did not change the rules for spousal IRA inheritances. Your spouse should be careful not to roll the balance over to a spousal IRA too quickly. Once the balance is rolled over, some planning opportunities are lost. For instance, spouses under age 59½ can make withdrawals from the original IRA without paying the 10% federal income tax penalty. Once the account is rolled over, withdrawals before age 59½ would result in a 10% federal income tax penalty. Also, spouses who are older than the original owner can delay distributions by retaining the IRA. The spouse may want to disclaim a portion of the IRA, which must be done within nine months of the original owner's death. If the account is rolled over, that disclaimer can't be made. Thus, it is usually best for the surviving spouse to determine his/her financial needs before rolling over the IRA balance.

✔ **Consider rolling your traditional IRA balances over to a Roth IRA.** All taxpayers can now convert from a traditional IRA to a Roth IRA, regardless of income levels. You must pay income taxes on the taxable amount of the conversion, but those taxes can be paid with funds outside the IRA. That preserves the IRA's value and reduces your taxable estate. With the new 10-year distribution rule, this may be a valuable strategy for your beneficiaries. ❍❍❍

Why Do I Own Bonds?

As we compose this, the equity markets have just completed one of the worst weeks ever. The value of the S&P 500 is almost 11.5% lower than it was 5 days ago. That puts the index firmly in correction territory. Having set a record all-time high on 2/19, the trip from high to correction was the fastest on record. The coronavirus remains a wild uncertainty, but is now expected to at least weigh on first quarter economic numbers around the world, as well as on corporate revenues. One of our responsibilities as financial advisors is to help clients make informed, non-emotional decisions. This is one of the reasons that we stress the importance of portfolio diversification.

We design our portfolios in such a way as to reduce market volatility. In a new portfolio, we may utilize as many as 18 different asset classes. By investing in different asset classes, we expect to reduce volatility. We begin by finding the proper mix of stocks and bonds. During periods of equity market declines, we expect the market value of bonds to increase as investors seek refuge in the relative stability of bonds. For the last few years, we have spent quite a bit of time explaining to clients why bonds remain an important part of their portfolios.

Bonds are unique financial instruments. It is the one investment where, at purchase, an investor knows what the return will be, if it is held to maturity. On the date it is purchased, the investor knows the purchase price, the timing and amount of periodic coupon payments, and how much will be received at maturity and when. As long as the bond is not sold and the issuer does not default, the yield from purchase to maturity is guaranteed. As financial advisors, we evaluate the yield to maturity of a bond to determine whether or not it is a good investment relative to our clients' goals and/or other bonds. At the same time, the market value of the bonds is reflected on the statements, as are unrealized gains and losses.

As most bond investors know, bond yields are historically low. In fact, the 10-year Treasury yield is near all-time lows, causing Mohamed El-Erian, bond guru and former co-manager of the PIMCO Total Return Bond Fund, to tweet "Ugh. And getting worse. 1.06%."[1] You may remember that as yields rise, bond prices drop. If you owned investment grade bonds, you may have seen gains in those bonds over the last week. It would not seem unreasonable for an investor to expect that yields will rise from an all-time low. If the expectation is that rates will rise, it follows that the expectation is that prices will drop. However, we are in a 30-year bull market in bonds and have heard this story over and over.

Bond yields are low because demand for bonds is high. There are a number of reasons for this. The most recent is that, as the stock market has tumbled, many investors are opting for the relative safety of bonds. As demand for bonds rises, prices rise and yields fall. Before that, there were other factors exerting downward pressure on bond yields. Bond yields in most industrialized countries are lower than in the US and are not as highly rated for financial security. Some even offer negative (yes, negative) yields that do not mature for another 20 years. An investor would, if given the choice, purchase a bond with a higher yield issued by a more economically stable issuer. This adds to demand for US Treasuries. Next, inflation expectations remain extremely low. Longer term yields reflect inflation expectations. When the Fed began raising interest rates in 2017, it was believed that this would push US Treasury yields higher. The Fed affects the shortest maturities of Treasury issues. It pushed short-term yields up, but long-term yields did not rise as they had expected because inflation expectations remained low. This contributed, in some part, to the inversion of the yield curve. As the yields in Treasuries have fallen, investors have sought higher yields in corporate and municipal bonds, which puts downward pressure on those yields. The variables that have been forcing yields lower are still in place.

On the other hand, bonds are extremely expensive at the moment. Barron's quoted Warren Buffett as comparing the 10-year Treasury to a stock "trading for 70 times earnings that can't increase its earnings for 10 years." That quote was from an interview that Buffett gave on Monday, 2/24, during the first leg down. Barron's went on to explain that by using the same math, the number rose to 85 times earnings on Friday.[2] To provide context, as of 1/31/2020, a time at which we described equities as "getting expensive," the S&P 500 had a Forward P/E of about 18.[3] If the COVID-19 passes quickly and the equity markets resume their upward trend, investors may move back toward stocks, causing a rise in yields and a decline in bond prices.

We do not know which way yields are headed. That is compounded by the uncertainty that the COVID-19 coronavirus presents. We expect it to continue to fuel volatility in the equity markets, but we should expect volatility in the bond markets as well. Provided the credit quality of the bonds and your financial objectives have not changed, we will likely recommend continuing to hold them. For those investors for whom we are looking to purchase bonds, we expect the quest for a reasonable yield to take longer and may discuss alternatives.

Please contact us if you have any concerns or questions.

Sincerely,
Christopher M. Trainor
Christopher M. Trainor, CFP®
Financial Advisor

Please note that in the very near future we are planning to cancel our toll-free phone number, (866) 603-3700. Some time ago, a large company mistakenly listed that number as their customer service hotline. We continue to receive a lot of calls meant for them. Our records show that few, if any, of our clients use that number. If you would like us to maintain a toll-free number, please let us know and we will consider getting a new phone number.

[1]Mohamed A. El Erian, Twitter post, 3/1/2020, 7:58 p.m.

[2]Andrew Barry, *Seeing Opportunities in Uncertain Times,* Barron's 3/2/2020

[3]JPMorgan *Guide to the Markets*, January 31, 2020, p. 5