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Avoid These Investor Mistakes

Avoid these common mistakes when making investment portfolio decisions:

✔ **Chasing performance.** Investors often pull out of sectors that are not performing well, moving that money to high performing investments. But the market is cyclical, and often those high performers are poised to underperform, while the sectors just sold are ready to outperform. A classic example is technology stocks in early 2000. Many investors rushed to purchase technology stocks just as they reached their peak and were headed for a long slide down. Rather than trying to guess which sector is going to outperform, broadly diversify your portfolio across a range of investment sectors.

✔ **Looking for get-rich-quick investments.** When your expectations are too high, you have a tendency to chase after high-risk investments. Your goal should be to earn reasonable returns over the long term, investing in high-quality investments.

✔ **Avoiding the sale of an investment with a loss.** When selling a stock with a loss, an investor has to admit that he/she made a mistake, which is psychologically difficult to do. When evaluating your investments, objectively review the prospects of each one, making decisions to hold or sell on that basis rather than on whether the investment has a gain or loss.

✔ **Selecting investments that don't add diversification benefits to your portfolio.** Diversification helps reduce your portfolio's volatility, since various investments respond differently to economic events and market factors. Yet it's common for investors to keep adding investments that are similar in nature. This does not add much in the way of diversification, while

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Planning Year Round

Many people confuse tax planning with tax preparation and only think about it when preparing their annual tax return. However, there is little you can do to actually lower your tax bill when preparing your return. If your goal is to reduce income taxes, you need to be aware of tax planning opportunities throughout the year.

Take time early in the year to assess your tax situation, looking for ways to reduce your tax bill. Consider a host of items, such as the types of debt you owe, how you're saving for retirement and college, which investments you own, and what tax-deductible expenses you incur. It often helps to discuss these items with a professional.

During the year, consider the tax consequences before making important financial decisions. This will prevent you from finding out later that there was a better way to handle the transaction for tax purposes.

Look at your tax situation again in the fall, which gives you plenty of time before year-end to implement any additional tax planning strategies. At that point, you'll also have a better idea of your expected income and expenses for the year. ❍❍❍

Investor Mistakes

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making the portfolio more difficult to monitor.

Not checking your portfolio's performance periodically. While everyone likes to think their portfolio is beating the market, many investors simply don't know for sure. So analyze your portfolio's performance periodically. Compare your actual return to your targeted return. If you aren't achieving your targeted return, you risk not achieving your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

Letting market predictions cause inaction. No one has shown a consistent ability to predict where the market is headed in the future. So don't pay attention to gloomy or optimistic predictions. Instead, approach investing with a formal plan so you can make informed decisions with confidence.

Expecting the market to continue in its current direction. Investors tend to make investment decisions based on current trends in the market. Thus, if the stock market has been performing well for a period of time, investors tend to move more and more funds into that area. However, when the markets have an extended period of above or below average returns, they have a tendency to revert back to the average return. For instance, following an extended period of above-average returns in the 1990s, the stock market experienced a significant downturn, helping to bring the averages back in line.

Not understanding that saving and investing are two different concepts. Saving involves not spending current income, while investing requires you to take those savings and do something with them to earn a return. Saving often becomes easier when separated from the choice of where to invest. Find ways to make saving as automatic as possible, then take your time to research and select specific investments.

Considering only pretax returns. One of the most significant expenses that can erode your portfolio's value is income taxes. Thus, don't just consider your pretax returns, but look at after-tax returns. If too much of your portfolio is going to pay taxes, implement strategies that can help reduce those taxes.

Not realizing that help is only a phone call away. The investment world has become very complex, with a vast assortment of investment vehicles now available. If you need help with your investment decisions, please call.

Retirement Planning Mistakes to Avoid

There are some common mistakes that people make when it comes to retirement planning that you should avoid:

Not Taking Advantage of Your Employer Match — If your company offers a 401(k) with a match program, you should contribute enough to the account to take full advantage of the match.

Borrowing from Your Retirement Account — When you take money out of the account, you're losing the opportunity for the money to grow and compound, and it is hard to make up for lost time. An additional risk when borrowing from your retirement plan is if you leave the company before paying back the loan. In some situations, it may be treated as an early distribution.

Not Diversifying Investments — When the market is doing well, higher risk investments can produce some great returns. But when the market takes a correction, having all your funds in one asset class can seriously damage your retirement plan. With a proper diversification strategy, you can reduce your risk while maximizing your return. When one asset class is doing poorly, other asset classes may be performing better, which balances your risk and returns.

Not Rebalancing Your Portfolio — A portfolio that started with 50% stocks and 50% bonds will shift over time. For example, if stocks experience significant growth and bonds are not growing very much, your portfolio could change into a mix of 70% stocks and 30% bonds. It is important to rebalance your portfolio on a regular basis with a mix that is appropriate for both your age and risk tolerance.

Cashing Out Your 401(k) — Often times, when people leave their employer for another job, they cash out their retirement account. Some do this with the intent to reinvest the funds into another retirement account, and then miss the 60-day window for investing the money into a qualified account. If you intend to roll the money over into another account, you should do a trustee-to-trustee transfer so that you don't have to worry about paying taxes and a penalty.

If you intentionally cash out the account, be forewarned that you could lose up to half the value of the account due to taxes and a penalty based on your age and how vested you are in the account.

Becoming Paralyzed — Retirement planning can be overwhelming, but avoidance and inaction are the biggest mistakes you can make. Time is your friend when saving for retirement, so just start saving in an employer plan or an IRA to get started.

Taxes and Your Investments

One of your portfolio's largest expenses is probably taxes. One way to help keep your portfolio growing is to invest in a tax-efficient manner. Some suggestions include:

✔ **Contribute to your 401(k) plan.** Contributions are made on a pre-tax basis, so you don't pay income taxes currently (Social Security and Medicare taxes are paid) and earnings grow on a tax-deferred basis until withdrawn. In 2020, you can contribute a maximum of $19,500 to a 401(k) plan, although your contributions may be limited to a certain percentage of your pay to comply with nondiscrimination rules. Individuals over age 50 may be able to make an additional catch-up contribution of $6,500 in 2020. Many employers also match your contribution, so you get additional funds at no cost to you.

✔ **Make contributions to an individual retirement account (IRA).** In 2020, you can contribute a maximum of $6,000, plus those over age 50 can make an additional $1,000 catch-up contribution. Investigate whether you're eligible to contribute to a traditional deductible IRA or a Roth IRA and then decide which option is best for you. While you can't deduct your contributions to a Roth IRA, your earnings grow tax free as long as you make qualified distributions from the IRA. With a traditional deductible IRA, your contribution is deductible on your current year income tax return and earnings grow tax deferred.

✔ **Carefully decide which investments to hold in tax-advantaged and taxable accounts.** Gains from investments held in retirement accounts, such as 401(k) plans and traditional IRAs, are taxed at ordinary income tax rates when withdrawn, rather than the lower capital gains tax rates. It may make sense to hold investments that produce ordinary income or that you want to trade frequently in retirement accounts, and investments that generate capital gains in taxable accounts. But factors such as your investment period should also be considered.

✔ **Analyze the tax consequences before rebalancing your portfolio.** Portfolio rebalancing is a taxable event that may result in a taxable gain or loss. In general, avoid selling investments from your taxable portfolio for reasons other than poor performance. Bring your asset allocation in line through other methods.

✔ **Consider municipal bonds or stocks generating dividend income if you are in a high tax bracket.** Since municipal bond interest is exempt from federal (and sometimes state and local) income taxes, your marginal tax bracket is a major factor when deciding whether to include municipal bonds in your portfolio. Thus, you should determine how a muni bond's yield compares to the after-tax yield of a comparable taxable bond.

✔ **Look into tax-advantaged ways to save for college.** If you are saving for college, look at education savings accounts (ESAs) and Section 529 plans. The annual contribution limit to ESAs is $2,000. While you can't deduct the contribution on your tax return, earnings grow tax free as long as funds are used for qualified education expenses. With Section 529 plans, you can contribute up to $75,000 to a qualified plan ($150,000 if the gift is split with your spouse) in one year and count it as your annual $15,000 tax-free gift for five years. However, if you die within the five-year period, a pro-rata share of the $75,000 returns to your estate. Distributions from 529 plans to pay qualified higher-education expenses are excluded from income.

✔ **Consider owning a home.** Owning a home has significant tax advantages. Mortgage interest and property taxes can be deducted on your tax return. When you sell your home, you can exclude up to $250,000 of gain if you are a single taxpayer and up to $500,000 of gain if you are married filing jointly, provided the home was your primary residence in at least two of the preceding five years. You no longer have to purchase another home to qualify for the exclusion. ❍❍❍

Ten Years and Counting

Ten years. Wow. I have been working with John and the Burke Financial Strategies team for ten years. Sometimes I feel like I joined yesterday and other times I feel like I've been here forever (which is a good thing). The one thing that is important to know is how grateful I am that John gave me this opportunity back in 2010. Let's travel back a few years before then to see where my love for this business started, shall we?

I graduated high school in the early 1990s, and the first summer before college I had the opportunity to work on the American Stock Exchange (which doesn't exist as a stand-alone place anymore). I was a shy 18-year old, taking the train into the big city all by myself. My parents were living in northern California (we moved there from NJ when I started high school), so I went to stay with my grandparents for the summer. I can still remember the pungent odor of the World Trade Center Path Station as I rode that long escalator each day. On the floor of the exchange, the rush of the traders was a big change for this California girl! The firm I worked for traded mostly options and I barely knew what a stock was, let alone an option. I have to say, though, by the end of the 8 weeks that I spent in that poorly-lit, smelly, loud building, I was hooked! I knew that I would go on to some type of job in this business.

I worked there again the following summer. During that time, I visited colleges, got my NJ Driver's License, and braved the NY crowds, a little more confident than the summer before (but not much!). I continued to absorb as much as I could about the stock market, hoping to build up my knowledge, so I would be ready when I graduated 3 years later. During that summer, I realized that New Jersey was calling me, so I told my parents. They decided that after 5 years in beautiful Marin County, it was time to head back. I transferred to William Paterson University and while there, I worked as a waitress and a bank teller, building up my customer service skills which would be very beneficial to me in the future.

Once I graduated college, I took my new Finance degree and headed back to NYC. My first job was with Oppenheimer & Company in midtown as a Sales Assistant. which, in all honesty, was NOT the job I wanted. I wanted to be on a trading desk, buying and selling millions of shares at a time! I didn't want to file paperwork and try to talk someone into buying five shares of a stock (which I really didn't have to do, that's what the advisor did). Little did I know, that first job got me ready for the place I would be today. I'm so glad it did.

I put in some time with Oppenheimer and then landed a job at Midwood Securities, which was an institutional trade execution firm. Their clients included investment managers, corporations, pension plans, and other broker-dealers. Oh, and it didn't hurt that my Dad was the trading desk manager. He was an institutional trader and had worked at Merrill, Dean Witter, Prudential, and Montgomery Securities (which is how we wound up in California) before settling at Midwood. So, I got back into trading. I had so much more to learn, but I was very excited to be there. We did most of our trading manually, which means I would call the "floor" and tell them I wanted to buy or sell a certain number of shares, sometimes giving them a limit (which was in fractions at the time, no pennies). The floor clerk would call me back with reports that I would have to enter into a calculator to find the average price over the day. I knew there had to be an easier way, so I created average price spreadsheets. I'm sure many experienced people already knew what they were doing, but as a 24-year old, I was proud of those spreadsheets! These days, we have applications that do almost everything, but I am so glad I got to create the relationships I did, and to learn the lingo and the nuts and bolts of the business. I really believe it has been beneficial to my current role.

Working with my Dad was the highlight of that job. I can't even express how lucky I was to have that opportunity for those 6 years. I was still working with my Dad when I had my son in 2003. I worked until about 2 weeks before Christian was born. About 6 weeks after he was born, my Dad was diagnosed with a very rapid-spreading cancer. He passed away on November 27, 2003, 2 days before my sister's wedding (which was moved up due to his diagnosis). We still had the wedding. People asked, "how could we do that?" I replied, "how could we not?" My Dad loved being part of a celebration. He always made people feel at ease and his smile could light up a room. I don't think I could have learned from a better person and I miss him daily. In my office at home, I have a picture that was in his office, of Don Quixote. My mom always called my Dad a "cockeyed optimist." He wasn't quite as much of a dreamer as Don Quixote, but he taught me that knocking on a door may at least open a window.

After my dad passed, I took the Branch Manager licensing exam and stepped into his role, managing the small trading desk for the next 4 years. The business began to change and I moved into the role of Options Principal, which was more of a compliance-based position and gave me more time to spend with my young children. Then, 2008/2009 happened. By the winter of 2010, I realized I had to go back to work full-time and I began my search.

Coming to work with John and the team, I was definitely treading in different waters. I had about 6 accounts at the old job; here I have come to know over 400 families! I'm not the most outgoing person, and had little experience with bonds and mutual funds, but I was determined to make it work. I recall feeling very nervous that first day, but I persevered, made it through, and came back the next day. I brought with me the stock trading acumen that I had developed over the 13+ years prior, and John was a big help. I still have the notes that I took from my first few days and occasionally glance at them. I continue to have fun learning every day, but I am pretty sure if you need something here, I can get it done!

Sincerely,

Melissa Cipolletta

Melissa Cipolletta
Operations Manager