Nicholson Financial Services

Did You Know...?

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RAYMOND JAMES®

Surely, I am not alone in saying I am happy 2020 is over. I always thought if I made the statement "what a terrible year," it would be because my business was down or the stock market was doing poorly. Neither were the case, yet a virus managed to change our world in a big way. The DJIA crossed 30,000 for the first time in 2020, and the S&P 500 hit new highs as well. Back in March when the markets were down over 30%, I don't think any of us would have thought that possible or likely. It shows how resilient our financial system is. We have all needed to adjust to new norms: working/schooling from home, avoiding crowds, refraining from travelling, and of course, wearing masks. We all look forward to this situation ending. The good news is, it will end and the vaccine distributions are a light at the end of the tunnel. I am learning an increasing number of my clients have or have had Covid 19, from mild to severe cases. Please take this seriously and do your best to avoid it.

Baby Boomers Buying More Online

The coronavirus pandemic has forced consumers to change many habits, including how they shop. This is particularly true for baby boomers (ages 56 to 74). Nearly half (45%) said they shop online more, with some product categories seeing a large shift in online purchases.

Source: National Retail Federation, 2020

So, What Next?

A little more than 8 years ago, I wrote a newsletter article entitled "Dow 30,000." It was fall 2012, and the Dow was trading around 13,000 as we recovered from the Financial Crisis. To provide some confidence to investors at the time, I wrote: "If the DJIA averages 6 percent per year, it would take about 12 years to double. That would be 26,000 by 2025. Considering that the DJIA has averaged roughly 9.5 percent per year since 1900 and considering that over the last 10 years it underperformed its long-term average at only 4.5 percent per year, 6 percent doesn't seem outlandish. If it averages better than 6 percent, the time to double decreases. At 9 percent per year, the DJIA would double in about 8 years."

As you know, and as I mentioned in my intro, the Dow surpassed 30,000 in 2020. My assumptions were correct but showed to be too conservative. A common question I have been getting lately is "where do the markets go from here?" Well, that is a bit more complicated. In the same article back in 2012, I also wrote: "Theoretically, there is no limit to how high an index can go. The DJIA is meant to represent our economy and economies are meant to grow. Our economy faces challenges, but it always has."

If you had told me in January 2020 the year would unfold the way it did, I would not have believed it. If you told me the Dow would hit 30,000 in the middle of a global pandemic, I don't think I would have believed that either. Yet here we are. Last August, I wrote a newsletter article entitled "Covid Concerns" where I brought up a number of issues that were concerning me at the time. I stated: "I feel this environment is like driving a car through a thick fog." Although we have some clarity on some issues, many of the same concerns still exist.

***** As of 1/14/21, the forward-looking P/E ratio for the S&P 500 is 22.42 times earnings. That is the highest it has been since early 2000, right before the tech bubble popped.

***** This is the narrowest market anyone has ever seen. The top 5 stocks in the S&P 500 currently represent more than 23% of the value of the index. That means those 5 tech stocks (Amazon, Apple, Google, Facebook and Microsoft) now represent more than 1/5th of the index.

***** The equity markets have benefited from the low interest rate environment, and the unprecedented actions of the Treasury and Federal Reserve. The markets have never seen this much liquidity before.

***** Even though vaccines are starting to roll out, the pandemic has only gotten worse in the winter months. I have a hard time imagining a scenario where this will not have an impact on employment and the economy.

***** We are in uncharted waters where the economic recovery will likely depend on the distribution of vaccines.

My clients often hear me use the term “a double-edged sword.” That certainly applies here. The low rates and liquidity are certainly positives for stocks. However, how long can the government spend at this rate to support the financial system? When does the valuation issue in the first bullet point cross the line when investors finally think stocks are too expensive? I don’t think we will have answers until after the fact.

What I do know is this: back in late 1999 and early 2000, the market was hitting new all-time highs; valuations were lofty; the market was very concentrated in a handful of names and sectors; and concerns about risk disappeared. I see many of the same things happening now, with a global pandemic added to boot. Multiple market strategists I follow have stated there are clear areas of speculation existing and are not sustainable. Truly, I can't tell you what happens next. What I can tell you is what has happened in the past when some of these conditions were present. There is no question they were times when a more cautious approach was prudent.

Times like these are when having proper investment strategies are so important to help reduce risk until the fog clears.

Watch Out for These Financial Pitfalls in the New Year

As people move through different stages of life, there are new financial opportunities and potential pitfalls around every corner. Here are common money mistakes to watch out for at every age.

Your 20s & 30s

Being financially illiterate. By learning as much as you can about saving, budgeting, and investing now, you could benefit from it for the rest of your life.

Not saving regularly. Save a portion of every paycheck and then spend what's left over — not the other way around. You can earmark savings for short-, medium-, and long-term goals. A variety of mobile apps can help you track your savings progress.

Living beyond your means. This is the corollary of not saving. If you can't manage to stash away some savings each month and pay for most of your expenses out-of-pocket, then you need to rein in your lifestyle. Start by cutting your discretionary expenses, and then look at ways to reduce your fixed costs.

Spending too much on housing. Think twice about buying a house or condo that will stretch your budget to the max, even if a lender says you can afford it. Consider building in space for a possible dip in household income that could result from a job change or a leave from the workforce to care for children.

Overlooking the cost of subscriptions and memberships. Keep on top of services you are paying for (e.g., online streaming, cable, the gym, your smartphone bill, food delivery) and assess whether they still make sense on an annual basis.

Not saving for retirement. Perhaps saving for retirement wasn't on your radar in your 20s, but you shouldn't put it off in your 30s. Start now and you still have 30 years or more to save. Wait much longer and it can be hard to catch up. Start with whatever amount you can afford and add to it as you're able.

Not protecting yourself with insurance. Consider what would happen if you were unable to work and earn a paycheck. Life insurance and disability income insurance can help protect you and your family.

Your 40s

Not keeping your job skills fresh. Your job is your lifeline to income, employee benefits, and financial security. Look for opportunities to keep your skills up-to-date and stay abreast of new workplace developments and job search technologies.

Spending to keep up with others. Avoid spending money you don't have trying to keep up with your friends, family, neighbors, or colleagues. The only financial life you need to think about is your own.

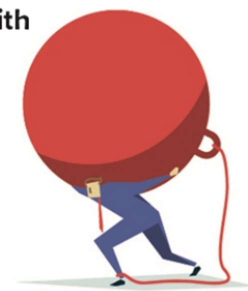
Funding college over retirement. Don't prioritize saving for college over saving for retirement. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Closer to college time, have a frank discussion with your child about college options and look for creative ways to help reduce college costs.

Using your home equity like a bank. The goal is to pay off your mortgage by the time you retire or close to it — a milestone that will be much harder to achieve if you keep moving the goal posts.

Ignoring your health. By taking steps now to improve your fitness level, diet, and overall health, not only will you feel better today but you may reduce your health-care costs in the future.

The Weight of Too Much Debt

Approximately 70% of workers with non-mortgage debt say their debt has impacted their ability to save for emergencies and retirement, with 40% saying their debt is a "minor" problem and 21% saying it is a "major" problem.



Source: Employee Benefit Research Institute, 2020

Your 50s & 60s

Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay — a less-than-ideal situation as you approach retirement.

Raiding your retirement funds before retirement. It goes without saying that dipping into your retirement funds will reduce your nest egg, a significant tradeoff for purchases that aren't true emergencies.

Not knowing your sources of retirement income. As you near retirement, you should know how much money you (and your partner, if applicable) can expect from three sources: your personal retirement accounts (e.g., 401(k) plans and IRAs); pension income from an employer; and Social Security at age 62, full retirement age, and age 70.

Not having a will or advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Four Tips to Help Avoid Burnout While Working from Home

The coronavirus pandemic has completely changed the corporate landscape. Many companies have transitioned to having a majority of their employees work from home. As a result, long commutes, office lunches, and face-to-face meetings could be a thing of the past.

Even when the pandemic eventually subsides, working remotely may be here to stay. According to a recent survey, three-quarters of adults who are able to work remotely would like to continue doing so at least one day a week after the pandemic is under control.[1]

While working from home has its advantages (e.g., no commuting costs, more flexibility), it also comes with certain challenges (e.g., lack of home office space, dealing with distractions at home). Often these challenges can make it difficult to have a healthy work/life balance. That's why it's important to take steps to help avoid burnout while working at home.

Here are some tips to help you stay on track.

1. Carve out a dedicated workspace. Ideally, your work-from-home setup should be located where you can avoid interruptions or distractions. If you don't have a spare room to use for your workspace, try carving out an area for your "office" wherever you can — even a dining room table or a desk in the corner of your bedroom can work.

2. Stick to a routine. Just because you aren't going into an actual office each day doesn't mean you should change your normal workday routine. Keeping a set schedule can help you stay focused and allow you to disconnect and wind down once the workday has come to an end.

It can take time to adjust to working from home, but you will eventually fall into a routine that works best for you and allows you to maintain a healthy work/life balance.

3. Break up the day. It's easy to forget to take breaks when your workspace is in your home. Going for a short walk, running a quick errand during lunch, and standing up to stretch once in a while will help you recharge and decompress throughout the day.

4. Stay connected. Working from home means you have less opportunity to interact regularly with your co-workers, which can feel isolating. That's why it is important to stay connected by using the technological resources that are available to you (e.g., video conferencing, instant messaging).

1) Morning Consult, 2020
