Captain's Log

Guiding Your Financial Journey

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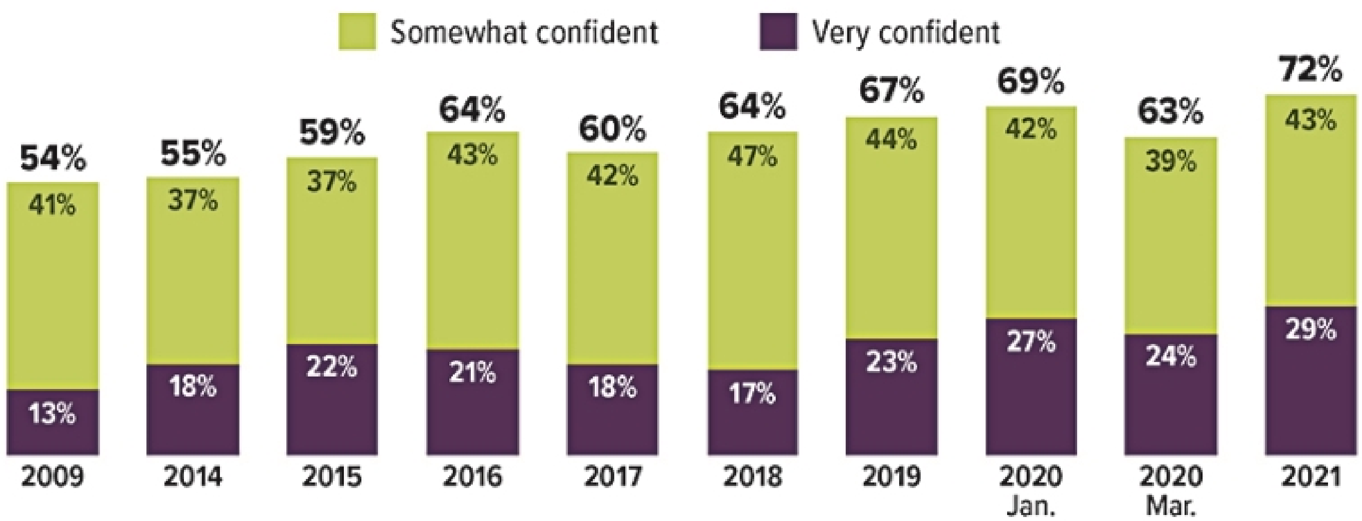
Can You Fund Your Retirement?

In January 2021, more than seven out of 10 workers were very or somewhat confident that they would have enough money to live comfortably throughout their retirement years. This was the highest confidence level since 2000 and a significant rebound from levels in March 2020 after the pandemic began. Overall, retirement confidence has trended upward since the Great Recession.



Source: Employee Benefit Research Institute, 2021 (two surveys were conducted in 2020)

Stock Market Risks in the Spotlight

During March 2021, the widening availability of COVID-19 vaccinations, signs of improving economic conditions, and a third, $1.9 trillion stimulus package brought about more optimistic growth projections. Even though a healthy economy could be good news for many businesses and the financial markets, rising inflation expectations caused a multi-week sell-off in U.S. government bonds that pushed up longer-term yields and sent the Nasdaq Composite Index into correction territory on March 8, 2021.[1]

Promising a patient approach, the Federal Reserve stated that it would not raise interest rates until the labor market fully recovers and inflation moderately exceeds the 2% target for some time.[2] But some investors worry that sharply higher inflation could force policymakers to boost rates sooner than originally expected.

Here's a closer look at some specific types of investment risk that could influence individual stock prices and/or cause broader market swings during the second half of 2021.

Inflation and Interest-Rate Fears

Inflation and interest rates are two different but closely related investment risks. The Federal Reserve is tasked with fostering full employment and controlling inflation. One way it balances these two goals is by lowering interest rates to stimulate business activity or raising rates to help slow inflation when the economy is heating up too fast.

High inflation erodes the value of investment returns, but when interest rates rise, bond values fall (and vice versa). These risks are obvious considerations for bond owners, but they also impact stocks. When goods, services, and credit cost more, consumers have less purchasing power, which can hurt company earnings and stock prices as well.

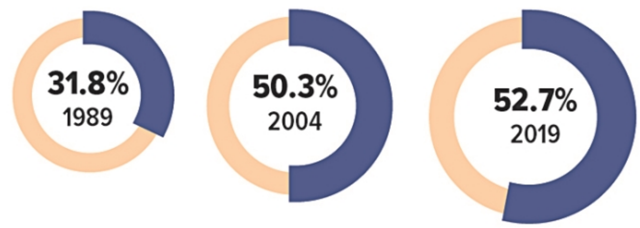
Rising bond yields might continue to have a negative effect on stock values, because as they move up, borrowing costs for most businesses also rise, cutting into profits. Higher yields could also entice risk-averse investors to sell their stocks and buy more stable bonds instead.

Legislative or Regulatory Impacts

Some government actions (such as antitrust lawsuits, higher taxes, and more stringent regulations or standards) make it more difficult and expensive for companies to do business, which can adversely affect their earnings and stock prices. On the other hand, government subsidies and tariffs on foreign products can provide competitive advantages.

The Justice Department, Federal Trade Commission, and numerous states are in the midst of antitrust lawsuits or major investigations into the business practices of several market-dominating tech companies.[3] In another example, the Securities and Exchange Commission is considering new standards for corporate disclosures related to environmental, social, and governance risks.[4]

Percentage of U.S. Households Who Own Stocks*



*Owned directly or indirectly through investment vehicles

Source: Investment Company Institute, 2021 (data from Federal Reserve Board Survey of Consumer Finances)

Event or Headline-Driven Volatility

Headline risk refers to the possibility that events reported in the media could hurt a company's reputation and/or earnings prospects. Troubling news can cause market backlash against a specific company or an entire industry. Companies try to manage this risk through public relations campaigns and other efforts to generate positive news that leaves a good impression on consumers. Events that threaten to disrupt business activity nationwide, regionally, or around the world can cause sudden stock market declines.

The market responds to news, good or bad, almost every day. For this reason, your portfolio should be designed to weather a range of market conditions and have a risk profile that reflects your ability to endure periods of market volatility, both financially and emotionally.

The principal value of bonds may fluctuate with changes in interest rates and market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

1) *The Wall Street Journal,* March 8, 2021

2) Federal Reserve, March 17, 2021

3) Reuters, December 16, 2020

4) *The Wall Street Journal,* February 24, 2021

Life Insurance Beneficiary Mistakes to Avoid

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. Naming your policy's beneficiaries should be a relatively simple task. However, there are several situations that can easily lead to unintended and adverse consequences you may want to avoid.

Not Naming a Beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together, or that your named beneficiary may die before you do. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

Death Benefit Paid to Your Estate

If your life insurance benefit is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payment to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming primary, secondary, and final beneficiaries may avoid having the proceeds ultimately paid to your estate. If the primary beneficiary dies before you do, then the secondary or alternate beneficiaries receive the proceeds. And if the secondary beneficiaries are unavailable to receive the death benefit, you can name a final beneficiary, such as a charity, to receive the insurance proceeds.

Naming a Minor Child as Beneficiary

Unintended consequences may arise if your named beneficiary is a minor. Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian — a potentially costly and time-consuming process — to handle the proceeds until the minor beneficiary reaches the age of majority according to state law.

If you want the life insurance proceeds to be paid for the benefit of a minor, consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

Per Capita or Per Stirpes Designations

It's not uncommon to name multiple beneficiaries to share in the life insurance proceeds. But what happens if one of the beneficiaries dies before you do? Do you want the share of the deceased beneficiary to be added to the shares of the surviving beneficiaries, or do you want the share to pass to the deceased beneficiary's children? That's the difference between per stirpes and per capita.

You don't have to use the legal terms in directing what is to happen if a beneficiary dies before you do, but it's important to indicate on the insurance beneficiary designation form how you want the share to pass if a beneficiary predeceases you. Per stirpes *(by branch)* means the share of a deceased beneficiary passes to the next generation in line. Per capita *(by head)* provides that the share of the deceased beneficiary is added to the shares of the surviving beneficiaries so that each receives an equal share.

Disqualifying a Beneficiary from Government Assistance

A beneficiary you name to receive your life insurance may be receiving or is eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to the government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

Review All Your Beneficiary Designations

In addition to life insurance, you may have other accounts that name a beneficiary. Be sure to periodically review the beneficiary designations on each of these accounts to ensure that they are in line with your intended wishes.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

Signs of a Scam and How to Resist It

Although scammers often target older people, younger people who encounter scams are more likely to lose money to fraud, perhaps because they have less financial experience. When older people do fall for a scam, however, they tend to have higher losses.[1]

Regardless of your age or financial knowledge, you can be certain that criminals are hatching schemes to separate you from your money — and you should be especially vigilant in cyberspace. In a financial industry study, people who encountered scams through social media or a website were much more likely to engage with the scammer and lose money than those who were contacted by telephone, regular mail, or email.[2]

Here are four common practices that may help you identify a scam and avoid becoming a victim.[3]

Scammers pretend to be from an organization you know. They might claim to be from the IRS, the Social Security Administration, or a well-known agency or business. The IRS will never contact you by phone asking for money, and the Social Security Administration will never call to ask for your Social Security number or threaten your benefits. If you wonder whether a suspicious contact might be legitimate, contact the agency or business through a known number. Never provide personal or financial information in response to an unexpected contact.

Scammers present a problem or a prize. They might say you owe money, there's a problem with an account, a virus on your computer, an emergency in your family, or that you won money but have to pay a fee to receive it. If you aren't aware of owing money, you probably don't. If you didn't enter a contest, you can't win a prize — and you wouldn't have to pay for it if you did. If you are concerned about your account, call the financial institution directly. Computer problems? Contact the appropriate technical support. If your "grandchild" or other "relative" calls asking for help, ask questions only the grandchild/relative would know and check with other family members.

Scammers pressure you to act immediately. They might say you will "miss out" on a great opportunity or be "in trouble" if you don't act now. Disengage immediately if you feel any pressure. A legitimate business will give you time to make a decision.

Scammers tell you to pay in a specific way. They may want you to send money through a wire transfer service or put funds on a gift card. Or they may send you a fake check, tell you to deposit it, and send them money. By the time you discover the check was fake, your money is gone. Never wire money or send a gift card to someone you don't know — it's like sending cash. And never pay money to receive money.

For more information, visit [consumer.ftc.gov/features/scam-alerts.](consumer.ftc.gov/features/scam-alerts)

1, 3) Federal Trade Commission, 2020

2) FINRA Investor Education Foundation, 2019