

FINANCIALink

Your Money Management Newsletter

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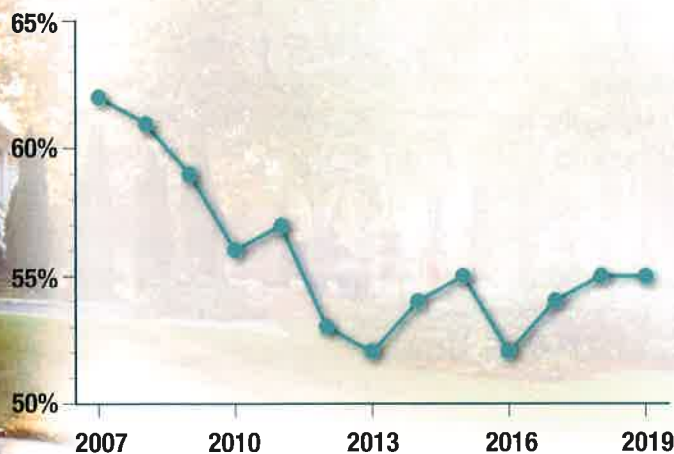


Gregory Taranto, CPA

Stock Ownership Slow to Recover

Fifty-five percent of Americans said that they (and/or a spouse) had money invested in the stock market in 2019, the same as in 2018. Stock ownership still lags pre-recession levels, suggesting that caution remains despite a decade of strong market recovery.

Percentage of adults with money invested in the stock market, personally or jointly with a spouse



Source: Gallup, 2019



\$161.96

Estimated average spending on Valentine's Day in 2019, topping the previous record of \$146.84 set in 2016. Spending has risen by almost 60% since 2009, even though the percentage of adults who celebrate the holiday has dropped from 63% to 51%.

Source: National Retail Federation, 2019

Securities Offered Through:

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Practical insights for your **FINANCIAL GOALS**

Mixing It Up: Asset Allocation and Diversification

Asset allocation and diversification are so fundamental to portfolio structure that it is easy to lose sight of them as you track the performance of specific securities or the dollar value of your investments. It might be worth considering how these strategic tools relate to each other and to the risk and potential performance of your portfolio.

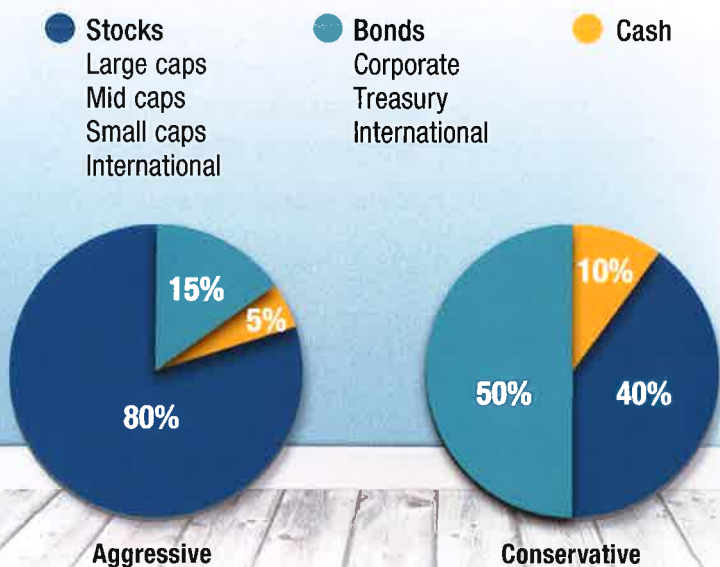
Keep in mind that asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Establishing Balance

Asset allocation refers to the mix of asset types in a portfolio — generally stocks, bonds, and cash alternatives. Different asset classes have different growth and risk profiles and tend to perform differently under various market conditions. Stocks typically have higher long-term growth potential but are associated with greater volatility, while bonds tend to have moderate growth potential with less volatility. Cash alternatives usually have low growth potential but are the most stable of the three asset classes; however, if cash investments do not keep pace with inflation, they could lose purchasing power over time.

Sample Portfolios

This chart shows how aggressive and conservative portfolios could be diversified by dividing asset classes among different types of securities. The percentage of each type of security might vary widely depending on the investor's situation and preferences, and many investors may not hold all types of securities.



These hypothetical portfolios are shown for illustrative purposes only. They are examples, not recommendations.

There is no right or wrong asset allocation. The appropriate allocation for you depends on your age, risk tolerance, time horizon, and specific goals. Younger investors might be comfortable with a more aggressive allocation heavily weighted toward stocks, because they have a longer time to recover from potential losses and may be willing to accept significant short- to medium-term drops in portfolio value in exchange for long-term growth potential. Older investors who are more concerned with preserving principal and those with near-term investment objectives, such as college funding, might prefer a more conservative allocation with greater emphasis on bonds and cash alternatives.

Adding Variety

Diversification refers to holding a wide variety of securities within an asset class to help spread the risk within that class. For example, the stock portion of a portfolio could be diversified based on company size or *capitalization* (large cap, mid cap, and small cap). You could add international stocks, which tend to perform differently than domestic stocks. A well-diversified portfolio should include stocks across a broad range of industries and market sectors.

A portfolio's bond allocation might be diversified with bonds of different types and maturities. Corporate bonds typically pay higher interest rates than government bonds with similar maturities, but they are associated with a higher degree of risk. U.S. Treasury bonds are guaranteed by the federal government as to the timely payment of principal and interest. Foreign bonds could also increase diversification. Longer-term bonds of all types tend to be more sensitive to interest rates but typically offer higher yields than bonds with shorter maturities.

Staying on Target

Once you have established an appropriate asset allocation and diversification strategy, it's important to periodically examine your portfolio to see how it compares to your targeted structure. Depending on the level of change, you may want to rebalance the portfolio to bring it back in line with your strategic objectives.

The principal value of stocks and bonds fluctuate with changes in market conditions. Shares of stock, when sold, and individual bonds redeemed prior to maturity may be worth more or less than their original cost. Concentrating in a particular industry or sector could expose your portfolio to significant levels of volatility and risk. Investing internationally involves additional risks, such as differences in financial reporting, currency exchange risk, and economic and political risk unique to the specific country or region. The principal value of cash alternatives may be subject to market fluctuations, liquidity issues, and credit risk; it is possible to lose money with this type of investment.

Stay-at-Home Spouse? Consider a Spousal IRA

An ongoing study of IRA accounts has consistently found that women, on average, have lower retirement savings balances than men (see chart). Though there may be multiple reasons for this disparity, the most fundamental are the wage gap between men and women and the fact that women are more likely than men to take time off to care for children and other family members.¹

The wage gap is narrowing for younger women, and more men are stay-at-home dads. But the imbalance remains.² Obviously, earning less makes it more difficult to save for retirement. And a mother — or father — who stays at home to take care of the children may not be contributing to a retirement account at all. The same situation could arise later in life if one spouse works while the other takes time off or retires.

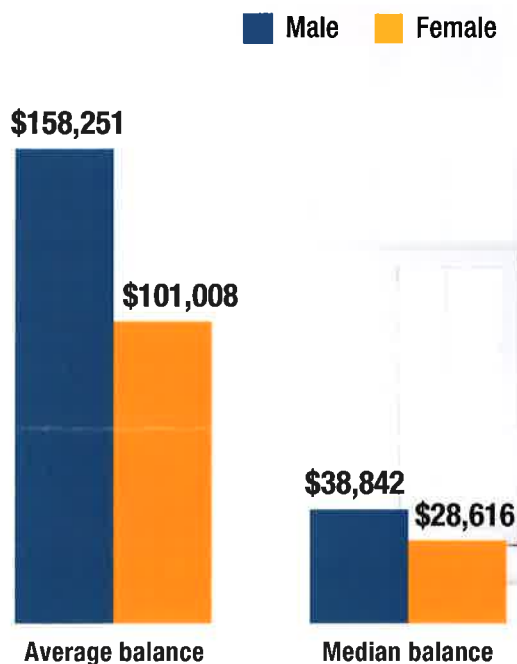
Additional Savings Opportunity

A spousal IRA — funded for a spouse who earns little or no income — offers an opportunity to help keep the retirement savings of both spouses on track. It also offers a larger potential tax deduction than a single IRA. A spousal IRA is not necessarily a separate account — it could be the same IRA that the spouse contributed to while working. Rather, the term refers to IRS rules that allow a married couple to fund separate IRA accounts for each spouse based on the couple's joint income.

For tax years 2019 and 2020, an individual with earned income from wages or self-employment can contribute up to \$6,000 annually to his or her own IRA and up to \$6,000 more to a spouse's IRA — regardless of whether the spouse works or not — as long as the couple's combined earned income exceeds both contributions and they file a joint tax return. An additional

Savings Gap

Average and median IRA balances, by gender



Source: Employee Benefit Research Institute, 2018 (2016 data)



\$1,000 catch-up contribution can be made for each spouse who is 50 or older. Contributions for 2019 can be made up to the April 15, 2020, tax filing deadline.

All other IRA eligibility rules must be met. If a spousal contribution to a traditional IRA for 2019 is made for a nonworking spouse, she or he must be under age 70½; the age of the working spouse does not matter for purposes of the spousal IRA. For contributions made in 2020 and later years, the age 70½ restriction has been eliminated by the SECURE Act.

Traditional IRA Deductibility

If neither spouse actively participates in an employer-sponsored retirement plan such as a 401(k), contributions to a traditional IRA are fully tax deductible. However, if one or both spouses are active participants, federal income limits may affect the deductibility of contributions.

For 2019, the ability to deduct contributions to the IRA of an active participant is phased out at a joint modified adjusted gross income (MAGI) between \$103,000 and \$123,000, but contributions to the IRA of a nonparticipating spouse are phased out at a MAGI between \$193,000 and \$203,000. (For 2020, phaseout ranges increase to \$104,000–\$124,000 and \$196,000–\$206,000, respectively.)

Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution for a nonparticipating spouse.

Withdrawals from traditional IRAs are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.

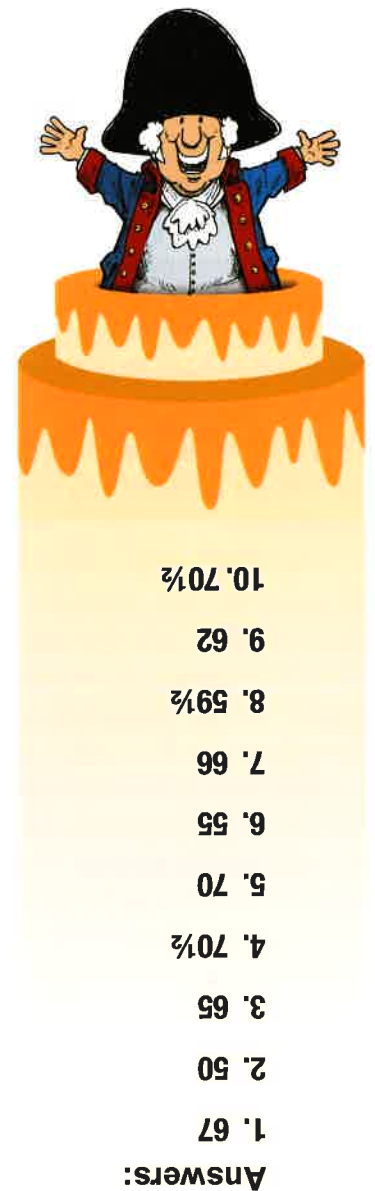
1–2) Pew Research Center, 2019

Birthday Benefits

George Washington's birthday is celebrated as a federal holiday on the third Monday in February (popularly known as Presidents Day). Your birthday may never be a federal holiday, but it might bring you valuable federal benefits. See whether you can match the following ages with the benefits (or loss of benefits) related to that age. One age is used twice.

50 55 59½ 62 65 66 67 70 70½

- ___ 1. Eligible for full Social Security benefits for those born in 1960 or later
- ___ 2. Earliest age to make catch-up contributions to an IRA and an employer-sponsored retirement plan
- ___ 3. Eligible to enroll in Medicare
- ___ 4. Must begin taking required minimum distributions from most tax-deferred retirement plans
- ___ 5. Eligible for maximum Social Security worker benefit
- ___ 6. Earliest age to make catch-up contributions to a health savings account
- ___ 7. Eligible for full Social Security benefits for those born between 1943 and 1954
- ___ 8. May be able to withdraw money from a tax-deferred retirement account without incurring a 10% federal income tax penalty
- ___ 9. Earliest eligibility age to begin collecting reduced Social Security worker benefits
- ___ 10. No longer eligible to contribute to a traditional IRA



ANSWERS:
 10, 70½
 9, 62
 8, 59½
 7, 66
 6, 55
 5, 70
 4, 70½
 3, 65
 2, 50
 1, 67

For further information, visit irs.gov, ssa.gov, and medicare.gov.

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Would you like to discuss your asset allocation and diversification strategy? Make an appointment today for a portfolio review.

Working toward a better financial future,