# Nine-Steps To STRONG 2021 Fiscal Fitness

January is the time to make your fiscal fitness resolutions for 2021. Most promises we make to ourselves will be a memory by February. Want a fiscal fitness head start and get 2021 going STRONG on the right foot? Here are 9-steps:

## #1: A thorough portfolio review with an objective financial partner is timely.

Have you ignored your long-term asset allocation or the mix of stocks, bonds, and cash? With the major stock indices close to new highs, your allocation specifically to stocks may have grown disconnected from your risk tolerance. Complacency is the emotional foible du jour. After all, every market dip appears to be a buying opportunity. With volatility subdued, investors head blindly overconfident into equity markets. A financial professional, preferably a fiduciary, can help make sense of how your portfolio's risk has changed and provide input on rebalancing or selling back to targets for what could shape up to be a very different 2021.

## #2: Sell your weak links (losers), trim winners.

Consider tax harvesting where stock losses are realized *(you may always purchase the position back in 31 days)* and shed profits from winners. ***Going against the grain when the herd is chasing performance*** takes intestinal fortitude and investment acumen counterintuitive to the masses. Candidly, tax-harvesting isn?t such a benefit to overall portfolio performance. However, the action of disposing of dead weight is emotionally empowering, and if gains from trimming winners can offset them, then even better. Per financial planning thought-leader Michael Kitces, the economic benefit of tax-loss harvesting is best through tax-bracket arbitrage. The most favorable harvesting scenario is a short-term loss offset by a short-term gain (usually taxed at ordinary income rates).



## #3: Fire your stodgy brick & mortar bank.

Let?s face it: Brick & mortar banks are financial fossils. How many times did you enter a bank branch over the last five years? Banks won't be in a hurry to increase rates on conservative vehicles like certificates of deposit, savings accounts, and money market funds even when (if) the Fed raises rates again. Virtual banks like www.synchronybank.com provide FDIC insurance, don?t charge service fees, and *still* offer savings rates above the national average. Accounts are easy to establish online and electronically link to your existing saving or checking accounts to transfer funds.

## #4: Get an insurance checkup.

Unwelcome consequences for financial health can arise due to holes in your insurance coverage. Risk mitigation through insurance is crucial to reduce ?financial fragility,? when a life-changing event not adequately prepared for creates an overall collapse of a household's fiscal state. Risk mitigation, analysis, and insurance consideration are more crucial than ever before, especially in light of the pandemic.

### How are insurance pitfalls revealed?

Common insurance pitfalls surface through comprehensive financial planning. Insufficient life insurance coverage, especially for stay-at-home parents who provide invaluable service, underinsurance of income in the event of long-term disability, overpaying for home and auto coverage are recurring pitfalls. Common is how high-net-worth individuals lack inexpensive umbrella liability coverage to help protect against major claims and lawsuits. Renter?s insurance appears to be a second thought if it all. Look to download an insurance checkup document from www.consumer-action.org. It?s a valuable overview and comprehensive education of types of insurance coverage. Set a meeting with your insurance professional or a Certified Financial Planner who has extensive knowledge of how insurance fits your holistic financial situation.



### #5: Maximize your Health Savings Account.

The number of employers moving to high-deductible health care plans for their employees increases every year. Overall, individuals and families are shouldering a more significant portion of health care costs, including premiums every year. According to a survey of 600 U.S. companies by Willis Towers Watsons, a major benefits consultant, nearly half of employers will implement high-deductible health plans coupled with Health Savings Accounts.

### HSA Limits for 2020.

Health Savings Accounts allow individuals and families to make (and employers to match) tax-deductible contributions up to $3,550 and $7,100, respectively, for 2020. Those 55 and older are allowed an additional $1,000 in ?catch-up? contributions. Money invested in an HSA appreciates tax-free and is free of taxation if withdrawn and used for qualified medical expenses. Like a company retirement account, an HSA should have several investment options in the form of mutual funds. Although Health Savings Accounts provide tax advantages, as an employee, you?re now responsible for a larger portion of out-of-pocket costs, including meeting much higher insurance deductibles. Comprehensive healthcare benefit has morphed into catastrophic coverage. Employees can no longer afford to visit the doctor for any ailment because the hefty deductible will take a bite out of a household?s cash flow. At RIA, we recommend participants to refrain from tapping the funds in these accounts. After all, they are "retirement **savings** accounts," not "retirement **spending** accounts." Try to refrain from treating an HSA as a current healthcare expense account and look to pay for healthcare co-pays, deductibles, and other costs, if possible, from sources such as brokerage, savings, and checking accounts. Health Savings Accounts are more versatile than you think. Distributions can pay for Medicare Part A, B, C, and D premiums in addition to the Part B deductible. For laid-off workers who must consider COBRA health insurance coverage, HSA funds can be used to pay the hefty premiums. What a welcomed relief for cash-strapped families that don't want to tap retirement accounts drain emergency cash reserves!

### #6: Check beneficiary designations on all retirement accounts and insurance policies.

It?s a common mishap to forget to add or change primary and contingent beneficiaries. It?s an easily avoidable mistake. Several states like Texas have formal Family Codes that prevent former spouses from receiving life insurance policies post-divorce with few exceptions. Proper beneficiary designations allow non-probate assets to transfer to intended parties quickly. Not naming a beneficiary or lack of updating may derail an estate plan as wishes outlined in wills and trusts may be superseded by designations.

### #7: Shop for a credit card that better suits your needs.

Listen, it?s perfectly acceptable to utilize credit cards to gain travel points or cash back as long as balances are paid in full every month, so why not find the card that best suits your spending habits and lifestyle? For example, at www.nerdwallet.com, you can check out the best cash-back credit cards. For those who carry credit card balances, and unfortunately, it?s all too common, consider contacting your credit card issuer to negotiate a lower rate or threaten to take your business (and your balance) elsewhere. Keep in mind, on average, an American family maintains more than $5,700 in credit card debt, and the national average annual percentage rate is a whopping 17.98%, according to WalletHub.

### 8#: Prepare to increase your contribution rate to retirement accounts and emergency cash reserves.

Start 2021 on the right financial foot by increasing payroll deferrals to your company retirement accounts (PREFERABLY ROTH) and bolstering emergency cash reserves. Consider an overall 5% boost and prepare your 2021 household budget now to handle the increase.

### #9 Prepare to do a better job and handle your 'fiscal emotional state' in 2021.

The chase for return with little regard for risk must come to a halt in 2021. Novice investors feverishly trade on platforms such as Robinhood and consider themselves geniuses when the real hero is easy-money Federal Reserve policies.



### It Begs a Question: Are Investors Rational? Yes. *And No.*

A human?s rationality is bounded. Cognitive abilities are limited and emotional biases, plentiful. As a result, few recognize their deficiencies and depend on mental shortcuts to rise above information overload. In a market that only goes higher, investment decisions have become full-on ?*System 1.?* As illustrated in Eugene Higgins Professor of Psychology Emeritus at Princeton, Daniel Kahneman?s bestseller ? Thinking Fast, And Slow, human brains operate on two systems. Consider *System 1* the brain on auto-pilot. Fast, emotional, incredibly efficient, but fraught with error. *System 2* is the slow, logical, deliberate operator. The one that seeks homework disdains immediate gratification and relishes the long term. The Federal Reserve's easy cash? machine has short-circuited our *System 2.* RIA's advisors work diligently to temper investors' euphoric, irrational states every day. Sometimes it feels like a losing battle. I'm increasingly worried about how the Federal Government, armed with fiscal stimulus (which I believe continue as an extension and bolster of current social safety nets like unemployment benefits), ignites further blind greed and blistering overconfidence. Do not be one of these investors, especially if you're five years or closer to retirement.

## Immediate gratification bias is real!

Increasingly, we seek a quick reward; we are blind to future outcomes. We focus on today's satisfaction instead of rewarding discipline, which leads to wealthier tomorrows. Heck, we witness this behavior daily in Congress as 'debt be damned!' And while I'm supportive of stimulus, I also understand the ramifications of what we've done to long-term GDP growth.

## Where should self-fulfillment come from in 2021 and beyond?

In our households, we don't have money machines. We can't print our own. We all must find ways to temper spending, live smaller, spend less, and seek fulfillment in things we cannot buy. Based on recent polls, many Americans are finally getting the message: *"We must gain control over household spending and exhibit financial discipline in 2021!"* As the years roll by and change, so can habits. When it comes to money, we can all learn from the power, beauty, and resiliency of accepting what is. Use 2021 to gain a fresh perspective and improve your financial health.