GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

Michael J. Krencicki, MSF, CFP® | Winter 2024 | James M. Knaus, MSM, ChFC

You Know More about Investing than You Think You Do

By: Dimensional Fund Advisors, LLP
October 2023

No matter how familiar we are with investing, we've all navigated uncertainty, weighed risks and rewards, and made carefully considered tradeoffs to make decisions. Just by being human, we've been compelled to tackle the central challenges of life—which also happen to be the central challenges of investing.

At Dimensional, we believe that having a good investment experience is about more than returns. What matters just as much is how someone feels along their financial journey. And that's really what the investment business should be about: helping people live better, more fulfilling lives.

Investing better means living better. Not just because it can lead to having more money, but because many of the habits that serve us well as investors serve us well in life, too. By integrating our life and investment philosophies, we can see money as a tool that empowers our plans rather than a goal in and of itself. Here are six principles that can help you in life and in investing.

Uncertainty Creates Opportunity

Uncertainty can be uncomfortable, but we often forget that, without it, there would be no opportunity. When we decide to move to a new city or change career paths, we don't know exactly what will happen. There's always a risk that things won't work out the way we had hoped, yet these experiences help us grow and can change our lives in amazing ways.

When you invest, returns are compensation for taking on uncertainty. Without risk, there would be no reward. But there's also risk in choosing not to invest, because if your money doesn't grow over time, it won't go as far in the future. Cash hidden under a mattress can't keep up with inflation.

As investors, it's easy to get caught up in worrying when financial markets drop. But when we realize that investing means getting paid for accepting risk, we can start to see uncertainty as a source of opportunity, even during times of market volatility.

Embracing uncertainty rather than trying to avoid it can help us live better. This approach to life and investing guides us through uncertain times and helps refocus our attention on the opportunities ahead.

Plan, Don't Predict

We've all tried to predict what will happen in life, only to be disappointed when it didn't turn out the way we anticipated. But human beings develop strategies to deal with the fact that none of us has a crystal ball. We apply to a list of possible colleges, not just our first choice. We interview a series of job candidates even when there's a clear frontrunner. We take a life jacket on a boat even though we know how to swim.

Investing is just like life: For maxi-

Continued on page 2

A Personal Note from Global Wealth Advisors

As anticipated, the Federal Reserve governors voted unanimously to keep the benchmark federal funds rate at 5.25% to 5.50% at its December meeting. This is the highest it has been since March 2021. This rate hold suggests the Fed may very well be done with interest rate hikes in this cycle and may lower rates in 2024. The US equity markets responded positively to the news and finished up nicely for 2023.

The updated inflation forecasts for 2024 also showed continued lower numbers, with estimates for Core Inflation to be 2.4% by year-end. The Fed also estimated slightly lower economic growth, but unemployment numbers remained the same. Some had hoped for the possibility of a rate cut in the first quarter of 2024. Chairman Powell said, "It would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease".

However, others have suggested the possibility of interest rates being lowered by a total of three-quarters of a percent by year-end if inflation data keeps trending towards the Fed's goal of 2.0%. Could achieving this targeted inflation rate help provide a "soft landing" and keep the US economy from a recession? With everything that is happening in this ever-changing world, there are no guarantees. But as we like to say, stay invested and you will be glad you did.

OOO

You Know More

Continued from page 1

mum peace of mind, we make plans that account for a broad range of possible outcomes. This way, you can feel empowered by the unknown instead of paralyzed by it.

Research has shown that stock pickers consistently underperform their benchmarks.[1] But you don't need to be able to predict winners to have a good investment experience. Over the past century, markets have returned, on average, about 10% a year.[2]

So don't try to predict or outguess markets—go with them, even when that means tolerating and being prepared to live through some short-term disappointments. Odds are you'll have a better investment experience in the long run.

Flexibility Adds Value

When you're in the market for a new car, you probably know exactly what you want, down to the color of the interior trim. But it can be hard to locate the precise model and features you're after, and once you do find the car you want, you may have to pay a premium for it.

If you're willing to be flexible about your choices—maybe going with black instead of gray or sacrificing a sunroof— you can get that new car faster, and at a better price. Life rewards flexibility over rigidity.

Flexibility adds value in investing, too. Staying flexible around what stocks to hold and when to trade can give you an advantage. While index funds can be a solid, low-cost solution for many investors, they can be forced to trade on certain days to track their index. The funds may not get the best prices on the securities they hold, resulting in investors leaving returns on the table.

In life, as in investing, decisions are often grounded in research and implemented with flexibility.

Harness the Power of Compounding

Even the small, seemingly inconsequential decisions we make every day can have a big impact over time. Whether we're trying to run a faster mile or master a foreign language, the best way to stay motivated is to keep reminding ourselves of the rewards that come from patience and commitment.

Just a little bit of time every day can add up to a lot of progress. The same is true of investing. A 10% return on your investment each year—similar to the stock market's historical annualized average—would double your money every seven years. Having a lot of time can help an investor make up for not having a lot of money.

In both life and investing, compounding is a powerful force. You might say that the life equivalent of compound interest is wisdom. Learning from the past can help us make better decisions in the future, and those lessons build on one another over time.

Control What You Can Control

So much in life—good and bad—is out of our control. Sudden storms can pummel us in the middle of summertime. A sports team that seemed destined for a disappointing season can come out of nowhere to win a championship. While we can't control everything that happens, we can take charge of how we prepare for and react to life's curveballs.

As human beings and investors, all we can do is try to make the best possible decisions with the information available, plan for a range of outcomes, and relax knowing we've taken a sensible approach.

In investing, you can't control the ups and downs of the market. What you can control is how much you save, the risk you take on, and the guidance you seek in putting together an investment plan that's right for you.

The future is uncertain, but the quality of your decisions doesn't have to be. When you make informed choices, you have the satisfaction of knowing you did everything within your control, even if things didn't work out exactly the way you'd hoped.

Tune Out the Noise

When you focus on an important goal, other people's opinions can be distracting, even derailing. Who cares if a friend doesn't agree with your new exercise plan, as long as it's working for you? Once you've done the research and come up with a road map for success, rally your supporters and turn down the volume on your detractors.

This mindset can also be key to being a successful longterm investor. Many of us are exposed to a barrage of investment commentary—for example, TV pundits handing out stock tips and friends touting the "next big investment." As tempting as the ideas may sound, they're potentially harmful distractions. Things that seem too good to be true usually are—and yielding to your "fear of missing out" can exact a deep price in the form of lower returns over a lifetime.

We know that markets rise and fall—so we can be disappointed by downturns, but we shouldn't be surprised by them. Reacting emotionally to recent market volatility may be more detrimental to your portfolio performance than the drawdown itself.

How do you tune out the noise? Working with a financial advisor, like working with a trainer or coach, can help you see past the headlines to cultivate discipline and the sense of security that comes from knowing you have a well-thought-out plan. ○○○

1. *In US dollars. Based on S&P 500 index annual returns, 1926–2022. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.*
2. *Eugene F. Fama and Kenneth R. French, "Luck versus Skill in the Cross-Section of Mutual Fund Returns," Journal of Finance 65, no. 5 (2010): 1915–1947. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.*

Your 401(k) Plan When Changing Jobs

If you are considering changing jobs, make sure you fully understand the impact it may have on your retirement plan. If you are not aware of your employer's retirement plan rules, you could lose thousands of dollars in matching funds, taxes, and potentially a large penalty.

Here is what you need to know about your 401(k) plan if you are thinking of changing jobs.

Your Vesting Schedule and Status

Assuming your company offers an employer match to your 401(k), it can significantly increase the size of your retirement account. The money you contribute to the account is always yours, even if you leave the company. The money your employer contributes to the account, however, will have a vesting schedule that defines when those contributions legally become yours.

Companies can have an immediate vesting schedule, a cliff schedule, or a gradual vesting schedule. Sometimes, staying an extra month or a year can make a big difference in what you get to take with you when you leave the company. If you leave the company before you are completely vested, you are aware that you will lose a portion of the matching funds, but the timing could make a big difference.

Your Retirement Account Options

Once you have decided to change jobs, you will need to decide what to do with your 401(k). When you leave your employer, you have four options for your 401(k), which are cashing it out, leaving the money in the plan, rolling the money over to your new employer's qualified retirement plan, or rolling it over to an IRA.

Cashing Out Your 401(k)

If you plan on rolling over the funds into another retirement account, but you have the money directly paid to you, you have 60 days to put the money into a qualified retirement account or you will have to pay income taxes and a penalty. If you intend on putting the money into a retirement account, it is better to set up a direct rollover to the new plan administrator to avoid this.

If your intention is to cash out the account and keep the money, you need to understand the financial impact. For example, let's say you have $50,000 in your 401(k) account. The plan administrator is required by law to take out 20% for taxes; now your account is valued at $40,000. If you are under the age of 59½, you'll also have to pay a 10% penalty on the original amount in the account, which is another $5,000. Now you have $35,000.

It doesn't end there. The $50,000 distribution will most likely put you in a higher tax bracket than the 20% that your administrator withheld. Let's say you are in a 31% tax bracket; you will have to come up with the difference, which is an additional 11% or $5,500. Your original $50,000 in retirement savings is now down to $29,500. Now you have to deduct any state and local taxes, which could take another $5,000 or so depending on where you live. You could be giving up almost half of your retirement savings in income taxes and penalties.

Leave the Money in the Plan

If you have at least $5,000 in your 401(k) plan, most employers will allow you to leave the funds in their plan. This can be a good option if your new employer doesn't offer a 401(k) plan.

Rollover to the New Employer's Plan

Most employers will allow rollovers from other qualified retirement plans. You will want to understand when you will be eligible to participate in your new employer's plan, because there is typically a waiting period for participation. You should consider leaving the money in your old employer's plan until you are eligible to participate in the new plan.

To ensure you will not have to pay any taxes or a penalty, the rollover should be a trustee-to-trustee transfer, so make sure the rollover check is made out to the new plan administrator and not to you. If it is not a direct rollover, you could be in jeopardy of having to pay the taxes as well as the penalty.

Rollover the 401(k) to an IRA

You can open a rollover individual retirement account (IRA) at most financial institutions. Rolling your 401(k) into an IRA is a great option because you will have more investment options. Most employer retirement plans offer limited investment options to keep down costs; however, they often have higher administrative fees that impact the value of your account. ○○○

Review Life Insurance at Retirement

As retirement age approaches, it's usually a good time to reassess your life insurance policies to see if your needs have changed. Before making changes, however, make sure there aren't other uses for your life insurance policy, such as:

✔ **To leave a legacy to heirs** — Even if the money isn't needed for your children's support after your death, many people like the thought of leaving a large inheritance to their children or grandchildren.

✔ **To pay your grandchildren's college expenses** — With the rapidly increasing costs of college making it more and more difficult for parents to cover this cost, you might want to use an insurance policy as a college fund for your grandchildren.

✔ **To support adult children** — There are a variety of reasons why you might want to provide financial help to an adult child. Perhaps your child is a doctor, but has significant debt from college. Or your child might work at a job that doesn't pay a significant amount of money.

✔ **To provide a large charitable contribution** — A life insurance policy can serve a couple of purposes when making a large charitable contribution. You can name the charity as the beneficiary of the policy. Or you can leave other assets to the charity that would have been included in your estate and possibly subject to estate taxes. The proceeds of the life insurance policy, if properly structured, can then be paid to your heirs estate- and income- tax free.

✔ **To help deal with long-term-care costs** — Many individuals don't purchase long-term-care insurance, believing their spouse will take care of them. However, when one spouse dies, there may not be anyone to take care of the surviving spouse. The proceeds of a life insurance policy can be used to provide long-term care for the surviving spouse.

✔ **To optimize pension benefits** — When retiring, irrevocable decisions about pension plan benefit payments must typically be made. An individual life income option will pay higher benefits than a joint and survivor benefit, but then your spouse will not have pension benefits if you predecease him/her. You could use the proceeds from a life insurance policy as a source of income to help support your spouse after your death.

Please call to discuss your own situation. OOO

Encourage Estate Planning

Even when your children are grown, there will probably be lessons you'll want to teach them, such as the need for estate planning. Some items to include in that lesson are:

✔ **Explain why estate planning is important.** Your role is not to dictate what they should do with their estate, just to emphasize the need for estate planning. When your children encounter major life events, such as marriage, divorce, or a child's birth, remind them to review their estate plans.

✔ **Make sure all important estate-planning documents are in place.** At a minimum, every adult should have a will, a durable power of attorney, and a health care proxy. A durable power of attorney designates an individual to control financial affairs if one becomes incapacitated, while a health care proxy delegates health care decisions to a third person when one is unable to make those decisions.

✔ **Coordinate estate planning across generations.** If you have a substantial estate, you may want to coordinate your estate planning efforts with those of your children. A coordinated effort can help minimize estate taxes. OOO

Benefits of Low-Correlated Assets

Correlation is a statistical measure of how one asset class performs in relation to another asset class. Correlations can range from +1 to –1. A correlation of +1 means the two assets move very closely together in the same direction. Combining assets with a high positive correlation will not provide much risk reduction. A correlation of –1 indicates the assets move in opposite directions, a rare event in the investment world. A correlation close to 0 means no relationship exists in the price movements of the two assets.

Combining assets with consistently high correlations to each other does little to reduce risk. The greatest combination benefit to a portfolio seems to be achieved by combining assets with consistently low correlations, which results in consistently reduced risk.

When selecting investments for your portfolio, don't just look at their risk and return characteristics. Also consider the diversification aspects for your overall portfolio. While correlations change over time, general observations include:

✔ Stocks tend to have a low positive correlation with corporate and government bonds.

✔ Short-term bonds tend to have a low correlation with long-term bonds.

✔ Stock markets around the world are all positively correlated to some degree. In general, European stock markets are more closely correlated to each other and the U.S. than to markets in Japan or Asia. Correlations between developed countries tend to be higher than correlations between developing and emerging countries.

✔ Real estate tends to have a low correlation with stocks and bonds. OOO

Global Wealth Advisors LLC
200 East Big Beaver Road • Troy, MI 48083 • Phone: 248-457-4555 • www.gwallc.com

This newsletter is for general information only and not intended as specific advice.
Please contact your advisor to discuss any questions you may have.
© 2024 GWALLC

Some articles in this newsletter were prepared by Integrated Concepts, a separate, nonaffiliated business entity. This newsletter intends to offer factual and up-to-date information on the subjects discussed, but should not be regarded as a complete analysis of these subjects. The appropriate professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.