GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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How Much Life Insurance Do You Need?

Rules of thumb exist that say you should be insured for between six and 10 times your annual earnings. But these ranges are very wide and don't take into account your unique situation.

The best approach to determine how much life insurance you need is to engage in some financial planning:

How much per year will your survivors need to live on, and for how many years? Expenses may be greater if you have young children who require day care; expenses may be smaller if there are no children.

How will that number be affected by inflation? At an inflation rate of 3% a year, a dollar loses 15% of its value in just six years, and about 25% after a little more than 10 years. Imagine the impact of a 25% pay cut, and you'll begin to appreciate the vital importance of factoring inflation into the equation.

Will your surviving spouse be able to work, and if so, how much will he/she earn? The amount your surviving spouse earns should reduce the life insurance coverage you need.

Should you think of retiring large family debts? You can reduce the amount of money your surviving spouse has to earn by providing enough in life insurance to retire large debts.

How will college expenses be paid for your children? In addition to providing for daily living expenses, consider how higher education bills will be paid.

How will your surviving spouse's retirement be funded? When considering how much life insurance coverage to buy, however, you should evaluate whether your policy benefits need to make up for contributions you were planning to make until you retired.

What rate of return can your surviving spouse expect to receive? The rate of return they earn will make a big difference in how long they last — which can make a big difference in how much coverage you buy.

When buying a life insurance policy, naming a coverage amount can be easy — as long as you don't think the details will make any difference to your survivors. But if you do, you owe it to yourself and your loved ones to take a close look at what amount will properly secure their future if you're suddenly not around. Please call if you'd like to discuss your life insurance needs in more detail. OOO

A Personal Note from Global Wealth Advisors

2024 finished with the Fed lowering interest rates by another 25 basis points in December. This brings the total reduction to 100 basis points, or 1%, for 2024. The US equity markets had a stellar year with double digit returns and technology stocks lead the pack with artificial intelligence (AI) helping fuel the growth. Lastly, the election cycle is over and the political party in charge of the White House has changed hands again.

So, what's in store for 2025? Economists see continued good things for our economy and equity markets with two or three more interest rate reductions anticipated this year. These reductions would help businesses expand with lower loan rates and help drive the need for new hires to fill open positions. It also helps individuals with lower financing costs of large purchases as well.

Of course, this is all subject to policy changes in Washington DC as well as events happening the world over. As always, when it comes to investing, think long-term and you will be glad you did.

On a personal note, my longtime friend and business partner Jim Knaus has fully retired after over four plus decades in the business. His knowledge, experience and professionalism were reflected in each and every client relationship that he had the pleasure to work with over that very long career. OOO

How to Avoid Black Swans

By: David Booth
Founder and Chairman
Dimensional Fund Advisors LP

When it comes to investing, a big obstacle many people face is the fear of catastrophe. If you invest in a stock, there's always the possibility that the value may drop to zero. In fact, we used to have a wall in the office lunchroom that was covered with stock certificates from liquidated companies. Most of those businesses likely had good ideas and solid plans. After all, they had reached a level of success that allowed them to go public. And yet, eventually, each stock certificate was worth only the paper it was printed on.

People have different ways of thinking about financial risk. Some refer to black swan events. The term, which was popularized by Nassim Nicholas Taleb's 2007 book, refers to unforeseen events that have a big impact on things like stocks or the market. In 2023, to take one recent example, the stock of Silicon Valley Bank went from $284 to $0.90 in less than a month. If someone held only that stock, they might have called what they experienced a black swan.

I have a different definition for black swans that's rooted in my 50 years of experience as an investor and my optimism for investing in public markets. In fact, I don't think I've seen a true black swan event during my lifetime. Back in the early 1970s, markets were down more than 40%, but they have never gone to near zero. And when they have gone down, they have eventually recovered.

Of course, some people might think the stock market going down 20% would be catastrophic. Perhaps they are close to retirement and counting on every cent they've saved. That's why people often hold less in stocks relative to bonds as they approach and enter retirement. Remember, investors can control the amount of risk they take by adjusting the percentage of stocks in their portfolios. If half of your portfolio is in stocks and the other half is in less-volatile bonds, a 20% decline in the stock market might reduce the overall value of your portfolio by only 10%. That's one way of protecting yourself against a potential black swan. Indeed, this strategy has helped cushion the blow of many market downturns, making it easier for investors to stay the course and avoid the temptation to sell at the worst possible time.

The fact that winners can gain more than losers can lose is one of the many reasons I'm so optimistic about investing in public markets.

Staying disciplined is one of the keys to capturing the market's long-term returns. Over the past century, the stock market has returned on average about 10% a year, which makes sense when you consider the asymmetric nature of stock returns.[1] Remember that while a stock can only fall to zero, losing 100% of its value, successful companies have the potential for gains far exceeding 100%. Take Nvidia, for example, whose stock price has increased by many multiples in recent years. This asymmetry—the fact that winners can gain more than losers can lose—is one of the many reasons I'm so optimistic about investing in public markets.

Because the protection against catastrophe that a diverse portfolio provides is quite different from other forms of risk we experience in life. When you buy the market of stocks, you are buying a little bit of thousands of companies. So, it would be like spreading the risk of buying a house among thousands of homes all over the world. Imagine if instead of one job, you had a little bit of thousands of jobs in every sector of the economy. You'd never worry about losing your job.

Holding a market portfolio isn't just about reducing your risk from black swans, however you define them. When you start to feel that you have an investment plan that protects you against catastrophe, you can start to feel better. That's why it's important to have a process you trust, which means a process you understand. Of course, there are no guarantees when it comes to investing. But you can put yourself in a better position to pursue your goals and "win"—in investing and in life. OOO

1. *In US dollars. Based on S&P 500 Index annual returns, 1926–2023. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.*

Estate Planning for Blended Families

In a blended family, it can be difficult to determine what's "yours, mine, and ours," but it's an issue that needs to be addressed. While this may be an emotional and uncomfortable conversation at times, do your best to keep the emotion out of the mix as you work through the myriad of issues that need to be reviewed.

Discovery

The first step in developing an estate plan in a blended family is for you and your spouse to have a very open conversation to discover:

✔ **Plans you may have from previous marriages** — To understand how previous arrangements might impact your new plan, you will need to review any plans you have in place from previous marriages, including wills, trusts, beneficiary designations, guardianship, etc. For example, your current spouse may not be entitled to a retirement account if it was part of a divorce settlement specifying that it goes to your previous spouse.

✔ **Goals and wishes** — Each of you needs to clearly define your goals for upholding previous obligations, how guardianship will be handled for both biological and stepchildren, and how you want your separate or combined assets distributed. This is extremely important, because how assets are owned is how they will be distributed in the future. For example, imagine if your spouse passes away, and unbeknownst to you, all assets were left to the children from a first marriage, while you don't have enough money to pay the monthly bills. Straightforward communication is the key to developing a blended estate plan.

✔ **Together or separate** — Commingling or keeping assets separate can depend on several factors that a couple needs to decide. If one party brought in significant assets, you may decide to keep those separate, while commingling assets that you build together. Children also play a major role in this decision. Maybe you already have college accounts or trusts established for your children from a previous marriage and those assets should remain separate. Many parents feel strongly about setting aside assets specifically for their children from a previous marriage. Again, forthright communication is key.

✔ **Review the marital property laws in your state** — Make sure you understand how your state laws govern the way you hold assets. For example, if you live in a community property state, any assets that aren't identified as separate will be considered equally owned as community property of the couple, even if they were assets you intended to keep separate because they were acquired prior to the marriage.

Documentation

While you may feel it's overkill, you need to document every detail of your estate plan to avoid potential issues down the line, especially if you have children and former spouses. Also, this legal documentation will help avoid the expensive, and potentially emotional, issues involved with probate court.

✔ **Wills** — You should create a will that provides clear instructions on how all your assets are to be distributed, guardianship for minor biological and stepchildren, health care directives, and any other wishes to be carried out should either of you become incapacitated or die.

✔ **Trusts** — Blended families should consider developing a trust, which holds the assets on behalf of the beneficiaries and defines how and when the assets pass to the beneficiaries. A trust can also last for years, through the lifetimes of the surviving spouse, children, and even future generations. For blended families, certain types of properly established trusts can provide financial support for your spouse and still make sure something is left for your children.

✔ **Account titles** — Even if you have a will or a trust, you will also want to make sure that accounts, such as a retirement account, have defined beneficiaries. Additionally, other accounts can be owned as joint tenants with right of survivorship or transfer on death, making the owner's intentions clear that in both cases the assets go directly to the party named on the account.

Please call if you'd like to discuss this in more detail. OOO

How to Improve Your Credit Rating

Credit scores are important because they determine your ability to get a loan, which most people need to buy a house or a car and maybe even to send a child to college. Credit scores also impact the interest rate and fees you will pay on that loan. Additionally, it can affect whether a landlord will rent to you, an employer will hire you, an insurance company will cover you, and if utility companies will turn on services. Having healthy credit is a balancing act.

What Is a Good Credit Score?

While creditors use different credit scoring models, the following provides a good example of score ranges:

750 and above	Excellent
700–749	Good
650–699	Fair
550–649	Poor
550 and below	Bad

The scoring models use five key factors in determining your credit score, including:

✔ **Payment history** determines how much of a risk you are to creditors in your ability to make timely payments.

✔ **Amount of debt** shows how much credit you have available and how much you are using. If you are holding a lot of debt, creditors worry about your ability to take on more and where they will fall on your payment priority list.

✔ **Age of accounts** provides creditors with an understanding of how you manage debt.

✔ **Account mix** shows lenders how you handle different types of credit; so if you only have credit cards, this may keep your score from rising.

✔ **History of credit applications** shows how often you are applying for credit and if you are overextending yourself.

If your credit score falls into the fair, poor, or bad range, it's probably time to work on improving that score.

Look at Your Credit Report

The first step to improve your credit score is to review your credit reports from all three of the major credit bureaus. If you find inaccuracies on any of your reports, contact the bureau to find out their process for disputes and resolution.

If your credit reports are accurate and your score is suffering, the following steps can help bring your score into the healthy range:

Pay on Time, Every Time

If you are late or missing payments, you need to set up a plan to make sure your payments are made on time. If your bill comes in at a time during the month when you are low on cash, most lenders and creditors will allow you to change the due date.

Ask for Forgiveness

If you are late with a payment, call your credit card issuer or lender to see if they will forgive the late payment. If you have a consistent track record of on-time payments, they will most likely work with you.

If you have an ongoing debt on your report, contact the lender or creditor to see if they will stop reporting the debt to the credit bureaus if you pay the debt in full.

Consider Your Credit Mix

If you only have one type of credit, it will impact your score. If you've never had a credit card, it may be time to get one. Just make sure you pay your balance off on a monthly basis or make on-time payments.

If your poor credit score is preventing you from getting a credit card, see if you can get a secured credit card from your financial institution. With this type of card, you can secure a line of credit based on deposits into a checking account. For example, if you open a checking account with a $500 deposit, they will extend a line of credit for $500. Adding a new account with a positive payment history goes a long way in improving your score.

Not Too Many Cards

Don't go overboard, because the more credit you apply for in a short period of time, the greater damage it will do to your credit report. Also, it can be very attractive to get a discount for signing up for a store credit card, but realize your credit score will take a hit. When you apply for credit, it is considered a hard inquiry, which will impact your score regardless of if you get approved or not; and it will remain on your report for 12 months. So if your score is in between tiers, too much credit can put you in a lower tier.

Watch How Much You Use

Your score will suffer if every month your credit card balances are more than 30% of your limit. Even if you pay off your balance each month, a higher utilization rate will negatively impact you. If you know your balance is going to be above 30% in a given month, prepay some or all of the balance so you will be in the safe zone. OOO

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