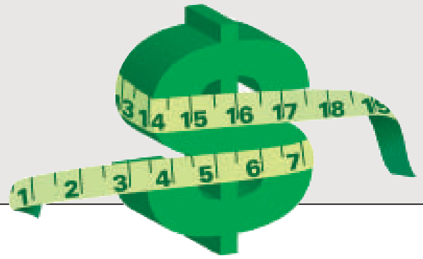

7 Financial Planning Lessons for Life Following COVID-19

By Tim Hermann, vice president and senior wealth adviser, Roosevelt Investments

COVID-19 disrupted many aspects of our everyday financial lives, whether in business, personal finance or estate planning. Many of us would prefer to forget the challenges and losses of the last year and just move on. I get that – but before you wipe the slate clean to start the new year, I think it's useful to consider what lessons we can walk away with. For savers, spenders and investors, I've got seven lessons to share.

Lesson No. 1: Murphy's Law Means You Need an Emergency Fund

At the end of 2019, no one expected a once-in-a-generation pandemic would shut down the global economy and lead to millions of job losses and over 500,000 American deaths.

But Murphy's Law reminds us that "Anything that can go wrong will go wrong."

An emergency fund is a person's best defense against Murphy's Law, in my view. I generally recommend my clients keep six months' worth of income/spending needs in cash. This way, when emergencies happen, you won't need to adjust your spending or tap your investment accounts to maintain your standard of living. Six months should provide enough time to process the scope of the crisis/emergency and to figure out some next steps.

Lesson No. 2: Make Managing Risk a Top Priority

Recent data from the TIAA Institute-GFLEC Personal Finance Index, an annual financial literacy assessment, finds that "managing risk" is the


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least understood concept in personal finance. This is a problem, because the least understood personal finance concept is also the most important.

Managing risk comes in many forms. It can mean ensuring your insurance coverage is adequate, affordable and comprehensive. It can also mean ensuring unexpected life changes – like those potentially brought on by the pandemic – can be navigated because you have a plan.

From an investment standpoint, it usually means owning negatively correlated assets (diversifying) so you can control volatility and generate returns in different ways. From a business ownership standpoint, it can mean having cash reserves to weather a downturn or a succession/exit plan to make sure you leave the business optimally. Finally, in the estate planning realm, it can mean ensuring your family is taken care of in a tax efficient manner determined by you, not a probate court.

Lesson No. 3: No Time Like Now to Update Your Estate Plan

Continuing on the estate planning theme, there is no time like now to revisit your estate plan and make sure everything is up-to-date and accounted for. It doesn't matter if your net worth is $100,000 or $10 million – I think it is critically important to make sure the wealth you accumulated is passed along to family, a charity or a foundation according to your wishes. An estate plan is the way to do it.

You can start with easy steps – checking the beneficiary designations on your IRAs/401(k)s and insurance policies and making sure your will is detailed and clear. For more complex steps in the estate plan, it is usually a good idea to get help from a certified financial planner professional and an estate planning attorney.

Lesson No. 4: Don't Let the Recent Past Drive Your Long-Term Future Plans

There's a term in behavioral finance known as "recency bias," where investors often think too critically about the recent past, and in doing so, make decisions too far into the future. Within the context of COVID-19, recency bias may cause an investor to turn pessimistic about the future, thus shifting an investment portfolio into defensive mode. In 2020, that would have been a mistake, and I think the same applies to future years.

Lesson No. 5: Stay Calm in a Crisis

When the seriousness of the pandemic became apparent in March 2020, the equity markets plummeted in record time – adding hysteria to the already swirling uncertainty.

Today, with the benefit of hindsight, we know U.S. equities rebounded nearly as swiftly as they fell. Despite millions of job losses, an economic recession, massive deficits, civil unrest, and political and public health uncertainty, the S&P 500 still climbed +18.4% in 2020.

We've seen this lesson reappear often throughout history – staying calm in a crisis almost always pays off.

Lesson No. 6: Remember to Rebalance

For equity investors in particular, there was significant performance dispersion in 2020. The technology sector soared +43.9% for the year, while the energy sector plummeted -33.7%. Other sectors fell somewhere in between. As a result, diversified equity portfolios may have deviated from target asset allocations. Rebalancing can not only put your portfolio back in-line with your goals and risk tolerance, it can also give you the opportunity to trim some outperformers and allocate to underperformers (buy low, sell high).

Lesson No. 7: Be Nimble, and Pay Attention

My final lesson from 2020 is more of a takeaway than a lesson. The election cycle was messy, but the table is now set: Democrats control the White House, Senate (50/50 with the vice president casting the tiebreaker vote) and a narrow margin in the House. Investors should pay attention to possible changes to taxes and economic policy, and be nimble to make adjustments if need be.

As long as the filibuster remains in place, 60 votes are required for major legislation to pass. But major legislation is not needed to raise some taxes and spending, which can be made through a "budget reconciliation"' process. In 2001, Republicans had President Bush, a 50-50 Senate, and a similarly thin majority in the House. They were able to pass a $1.3 trillion tax cut, No Child Left Behind, and a big boost to the defense budget. The takeaway here: Democrats should have similar opportunities to make changes.

From the looks of it, the Biden administration is determined to focus on COVID-19 and economic/jobs recovery in 2021. Raising taxes while trying to revive the economy do not really go hand-in-hand, and doing so would be very challenging – changes to the tax code are labor intensive and take quite a bit of time.

Investors should pay attention to tax policy in 2021, however. On the table for possible tax changes: pushing the highest top income rate to 39.6%; raising the corporate tax rate from 21% to 28%; lowering the estate tax exemption amount to $6-$7 million from $11.6 million; treating capital gains as ordinary income for those earning over $1 million (which would mean a 39.6% capital gains rate); and applying the Social Security tax to earned income above $400,000. Anything can happen.

2021 is a new year, with many people ready to work for better outcomes. My hope is that these seven lessons give you a good place to start. •