BROKERAGESELECT NEWSLETTER

Taxes

It might make sense to begin tax loss harvesting before the end of the year rush.

Forgotten 401Ks

There are over 24 million 401k accounts worth $1.35 trillion that have been forgotten by investors. People lose track, heirs do not know that accounts of deceased family members exist, and plan accounts with small balances get neglected. It's worth taking a moment to see if you have a 401k account out there somewhere. There are also billions in unclaimed pension payments earned by former employees.

Coaching

COVID has disrupted the employment scene. There are opportunities. Working with a career coach can help. Often you can find one affiliated with your alumni career office. It's important to find one that is familiar with your industry or the path you want to take.

Perspectives

There is an important disconnect between the "advice", "predictions" and "risks" people hear from market commentators and actual tactical moves an investor should make. Most market voices have no accountability, publish no track record and are not responsible to clients with real-life portfolios to manage. There was a very popular observation made in August that September tends to be a poor month for stocks. While I heard this mentioned often, I did not hear actual recommendations on what to do. Let's look at the month of September. According to Birinyi Associates, since 1945, on average, the S&P500 has declined 0.56% and yes, September is the worst month. So what does an investor do with this information? Does it pay to sell all of one's holdings to avoid a possible -0.56%? Selling doesn't seem to make sense, especially when considering taxes and transaction costs. Now, -0.56% is an average. Looking back 10 years, the S&P500 was down in 5 years and up in 5 years. The most the index was down in a year over the past 10 was 7% and the most it was up was 3%. Again, it is hard to make the case to bail out. Pundits also make it seem that investors should be all in or all out. They come with dire predictions and no probabilities associated with the possible outcomes. At any given time there could be a 50% decline in the markets but what is the probability of that happening? In the markets there is a lot of noise. Investors need to focus on what is important and actionable and ignore what seems to be shaky correlations or axioms. Investors should follow their financial plans, make sure they have a robust decision-making process and rebalance accordingly. Now that September is behind us, it's earning season and investors will get a look at actual consumer demand and the impact of higher input costs. It will be important to note which companies are able to pass on cost increases. This can provide insight to companies that have durable business models. Analysts have been increasing earnings estimates heading into the end of the 3rd quarter. This makes it more difficult for firms to beat their estimates. Disappointments are sure to happen. There are always

"Yeah, everyone agrees on the numbers, but nobody knows what they mean."

Something Else

Beaujolais Nouveau is released on the third Thursday in November. It is not great wine and the fanfare that was associated with the early wine is long gone. Nevertheless, I still think it is fun to pick up a couple of bottles and try them with the Thanksgiving meal. After the tasting, I recommend opening a bottle of "real" Beaujolais. The region makes some serious wine. Appellations like Morgon, Moulin-a-Vent and Fleurie produce delicious wines with structure and full expressions of the Gamay grape.

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some corporations that fail to make or beat estimates. Much will be made of these companies in the financial media but be careful not to draw conclusions about the broader market. This earnings season will likely be very company specific.

Out Of The Box

Preferred stock is an asset class that is often over-looked by investors. Preferreds have characteristics of both stocks and bonds and do not fit easily into either category. Utilities, banks and REITs are the main issuers of preferred stock. Preferred stock is a form of equity that typically carries a fixed dividend and no voting rights. They are senior to common stock but junior to bonds so in a bankruptcy, bonds get paid first. Preferreds often have a call feature. This means that one has to be careful not to pay a premium above the call price if the issue is likely to be called. Calling a preferred could result in the investor receiving a negative yield. Another notable feature of preferred stock is that the security usually has no maturity date. Perpetual securities are highly sensitive to changes in interest rates. It is important to understand the features and risks involved with any investment. Preferred stock is no exception. In the current investment environment, there could be solid reasons to include preferreds in a portfolio. It is important to consult your investment professional to make sure they are suitable for you. With interest rates low and likely to rise, call risk is reduced. Today, many preferred stock issues pay significantly higher yields when compared to bonds. Even when factoring potential declines in value due to rising rates, the total return on certain preferreds may be better than bonds. The economy is on a post-COVID upswing which lowers the risk of default as corporate cash flows should be sufficient to maintain preferred dividends. Depending on the issue, preferred dividends are considered "qualified" and taxed at a lower rate than interest income on bonds. Preferred are not bond substitutes but they may be an attractive addition to income portfolios. When adding to a portfolio, often it is advisable to buy in slowly or leave enough room in the allocation to add later if prices become more favorable. If rates rise and preferreds have a move lower, they could be even better buys as long as the economy remains strong.
