THE
COOK REPORT

Volume 32 | Number 4 | October 2022

PLANNING FOR THE LONG-TERM

As we enter the final quarter of 2022, the scenes unfolding on the world stage are quite different from a year ago. Continued war in Ukraine, a now clear focus from the Federal Reserve to raise interest rates until inflation is tamed, and signs of economic uncertainty dominate the headlines. With markets serving as leading economic indicators, the Dow Jones Industrial Average joined the S&P 500 in bear territory at the end of September, having dropped more than 20% from its peak in January 2022.

We addressed the importance of a long-term mindset in the last edition of *The Cook Report*. Accepting a long-term approach doesn't mean idly waiting for the turnaround. But it does require broadening your outlook to focus on your complete financial situation rather than just the assets you have that are exposed to equity and fixed income markets.

In this edition, we focus on the big picture of your overall financial plan and highlight areas of your financial life that we look forward to reviewing and addressing with you over the coming months.

YOUR FINANCIAL PLAN

Just as everyone should have a budget, everyone should have a financial plan. Especially in times of economic and market uncertainty, a financial plan can reassure you that you are on the right track to reach your goals or demonstrate weaknesses in your assumptions and help fix them. Having a plan will answer the all-important question of "am I going to run out of money?"

Financial planning replaces the focus on what your investment portfolios are doing today with an emphasis on where you are and how to achieve your goals. Do you want to retire? If yes, when? What does retirement look like for you? What goals do you have along the way? College for your kids? A trip around the world?

In our experience, people are often pleasantly surprised to see that even in varying market environments they are likely to achieve their goals. Similar to the studies we shared in the last edition demonstrating the importance of staying invested for the long-term, a financial plan can show how market returns smooth out over time, helping to relieve any short-term anxiety spurred by market downturns.

The end of the year is a great time for us to work with you to hone your existing plan or create one if you don't have one. As we work through your plan, we will emphasize the following issues:

- **Tax Planning:** Many people assess their tax situation in the near-term, which makes sense because tax liabilities must be paid with existing assets. Over the years, however, we have seen instances when focusing too much on current tax bills creates bigger bills later on. We pay particular attention to the following:
  - *Asset location:* assessing which types of accounts you invest in based on their tax treatment is an important part of the planning process, particularly to avoid penalties.
  - *Retirement accounts:* consider carefully how much you contribute to tax-deferred retirement accounts. Once Required Minimum Distributions begin (currently at age 72, but subject to change), you might find that tax rates may be higher when you retire, which also raises expenses such as Medicare Part B premiums (which are based on income). A Roth conversion strategy might be appropriate.

INSIDE THIS ISSUE:

attcook.com

The Cook Report is published for our clients and friends.

The Albert T. T. Cook Company is an independent registered investment adviser committed to meeting client objectives with comprehensive, unbiased financial advisory services.

Clients accepted by referral or self-referral.

The Albert T. T. Cook Company
Impartial. Independent. Since 1984.

Albert T. T. Cook, Jr.
alcook@attcook.com

Timothy M. M. Cook
timcook@attcook.com

PLANNING FOR THE LONG TERM (cont.)

While your situation is unique and you should consult your accountant, any plan we do for you will account for current and future tax liabilities and strategies for handling them.

- **Risk and allocation:** A whole subset of the financial industry has sprouted based on finding your "risk tolerance." We find many of these assessments to be lacking in the following ways:
  - *Psychology:* risk scores pay more attention to how you feel when markets are down rather than your ability to navigate short-term volatility.
  - *Measures are too narrow:* they mostly assess your investment assets in a vacuum and ignore your whole financial picture. This leads to portfolio recommendations that are frequently underexposed to equities and long-term gains.

Our process can help reduce psychological aversions to down markets and help you reach your goals by looking at the long-term.

- **Protection:** Any plan we do focuses on properly protecting your loved ones and assets with insurance. Three important types of insurance to consider are life insurance, disability income insurance, and long term care insurance.
  - *Life insurance:* protects your family from the unexpected loss of a provider, living too long, or becoming ill. Many policies include riders that cover expenses associated with chronic, critical, or terminal illnesses while the insured is still alive. Cash value life insurance allows you to borrow from your policy in down markets to avoid investment losses.
  - *Disability income:* allows you to continue receiving a monthly income for a certain period should you become unable to work due to disability.
  - *Long Term Care:* helps pay for costs associated with your care when you can't perform daily activities on your own. According to LongTermCare.gov (part of the Department of Health and Human Services), almost 70% of adults over the age of 65 will need some type of care support in their remaining years.

Protecting your family and your assets by planning for care needs now is a critical component of the work we do with you.

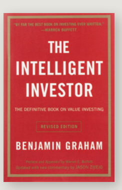
These are just some of the areas in which having a financial plan will help you reach your goals and keep your focus on the long-term.

With the end of the year and the approach of the holidays, we wish you and yours a happy, healthy finish to 2022!

> ***THE END OF THE YEAR IS A GREAT TIME FOR US TO WORK WITH YOU TO HONE YOUR EXISTING PLAN OR CREATE ONE IF YOU DON'T HAVE ONE.***

READER'S CORNER

Killing Commendatore, by Haruki Murakami/ tr: Philip Gabriel & Ted Goossen (Alfred A. Knopf, New York, 2018) is a wonderful story of imagination and mystery by an acclaimed Japanese writer. A portrait painter, abandoned by his wife, encounters a painting, Killing Commendatore, that opens up a series of encounters. An excellent read!



The Intelligent Investor – Revised Edition, by Benjamin Graham, updated with commentary by Jason Zweig (HarperCollins, New York, 2003) originally published in 1949, is considered by many to be the definitive book on value investing. Commentaries at the end of each chapter by Jason Zweig, author of the WSJ's "Intelligent Investor" column update Graham's analysis to current trends as of 2003, most of which are still relevant.

IN THE NEWS

- "The Two Things to Do When the Stock Market Gets Crazy," by Jason Zweig (*The Wall Street Journal*, January 28, 2022) is an earlier article cautioning investors in turbulent times to avoid making decisions that they will later regret. Long-term investing rewards the patient!
- "Get a Tax Break Like a Billionaire on Your Political Donations," by Laura Saunders (*The Wall Street Journal*, September 16, 2022) reviews opportunities to make political donations that offer the same tax breaks benefiting the wealthy.
- "Why Bosses Should Ask Employees To Do Less – Not More," by Robert I. Sutton (*The Wall Street Journal*, September 25, 2022) claims that too much clutter—excessive meetings, training, rules—is counterproductive. Less clutter leaves more time for thinking and creativity.
- "Is It a Good Time to Convert a Traditional IRA to a Roth IRA?," by Bailey McCann (*The Wall Street Journal*, August 6, 2022) discusses the benefits in making the conversion when markets are weak, making the tax consequences less onerous.