

# THE HARBOR ADVISOR

## A Worthwhile New Year's Resolution

Many choose this time of year to make resolutions, usually aimed at cultivating a new behavior, endeavoring to make the world a better place, perhaps doing more of what we enjoy. I would like to share more of what I know. For many, the investment process seems daunting. I am often asked, "How do I break the code?" There are characteristics one can cultivate that can make one a better investor. There have been numerous studies on the subject; we know a lot more than we used to about what it takes to make good investment, and indeed, life planning decisions.

Much is based on individual behavioral biases, behavior and emotion. Recent studies have shown that factors such as education, proper analysis, luck, market timing and advice from so called experts account for a very small portion of your overall success. The largest factor is you - your reactions and, unfortunately for the individual investor, often irrational behavior in response to external stimuli. My experience is that it is all about you, in fact, and requires a whole person view in order to overcome the roadblocks in the way of your success. The good news is that you have control over the factors that inhibit success and advantages that professional investors do not have.

The first factor, perspective, ties in nicely to a resolution. Consider your perspective, including your world, your community, social circle, family and, most importantly, yourself. Part of perspective is tied to your expectations surrounding the investment process. Is your timeframe reasonable for the investments you are making? Do you have the resources required for participation? Do you understand factors that will affect the returns you can expect over the period of time that you have set forth? Education and research will help you properly frame your expectations and therefore greatly enhance your probability for success. Sufficient and continued education will help remove emotion, market misreads and false conclusions that plague individual investors.

This leads to another factor, education. There are books, publications and groups who meet to learn about investing and life planning. Resolve to join one, improve your knowledge.

Persistence also ties in. This is not an optional trait for those who desire success. The road to successful investing is littered with individuals who lack staying power and the conviction in their decisions to play out the trend even when the idea is not popular or immediately profitable. Consistency is a close cousin; a consistent approach is helpful and, from my observation, lacking in many investors but not the successful ones.

I will outline additional qualities in newsletters to come. In the meantime, check out the fund focus and market recap in this newsletter for information aimed at educating the individual investor and our blog. Last but not least, we author white papers on investment and life planning subjects that we would be happy to share with you. **Happy 2020!**



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**This Month in  
History**

**230 years ago George  
Washington delivered the first  
State of the Union address.**



## Q4 2019 Market Recap

By Jennifer Baham

Markets rallied in the fourth quarter of 2019 and ended the year with the Dow Jones up 22%. The S&P 500 surged nearly 29% and the NASDAQ surpassed them both at 35%. Overall, investor sentiment improved due to reduced U.S. recession fears, de-escalating trade tensions and strong consumer spending.

Weak manufacturing and construction data were reported in November, indicating that we are still in a contraction phase. However, markets responded positively to the strong jobs report in November. 266,000 jobs were

added – the biggest gain since January. Unemployment fell to 3.5%, the lowest in 50 years.

Despite continued trade tensions between the U.S. and China, markets also responded positively to a Phase 1 trade deal in December.

Returns for major indexes were up for the quarter. The S&P 500 was up 8.53% and the Bloomberg Barclays Aggregate Bond index was up .18%. The Russell 2000 was up 9.52% and the MSCI EAFE was up 7.81%.

*“Your success & happiness lies in you. Resolve to keep happy, and your joy and you shall form an invincible host against difficulties.” Helen Keller*

### Fund Focus: SPDR S&P Midcap 400 ETF (MDY)

This fund holds about 400 stocks that are mostly mid-cap blend and growth. Generally mid-caps are stocks which have a market capitalization between \$2 and \$10 billion. Market capitalization is calculated by multiplying the total number of outstanding shares by the current market price of a share. Mid-cap companies are typically established companies with room to grow. This fund tracks the S&P Midcap 400 Index which defines mid-cap as stocks with a market cap between \$1 and \$8 billion. Often overlooked, mid-cap funds have enjoyed strong performance over the past 25 years outperforming many small and large cap strategies. MDY has a higher percent of small cap stocks compared to other mid-cap blend funds which gives it higher potential for growth. This fund offers exposure to a broad range of U.S. mid-cap stocks based on the actual market capitalization of the stocks. The higher the market capitalization of a stock within the mid-cap range, the higher the allocation within MDY to the stock. The top ten holdings of MDY are only 6.53% of total portfolio assets which indicates the assets are spread more evenly among all holdings than other mid-cap funds. By Emily Troeltzsch

### Impeachment: Citizen’s Response vs. Investor’s Response

By Emily Lucero

Impeachment proceedings against a sitting president, for the two most recent times it has happened, have been a major political event but fortunately, not a major market driver. This is often something citizens forget, especially when another impeachment proceeding is on the horizon and the news cycle is saturated with it. It is always important to recall a strong investor’s mindset when thinking about the markets, leaving the citizen’s mindset out of it, however difficult it may be. As investors we are always trying to explain what the next catalyst might be for the markets to rally or fall on. When it comes to impeachment, we luckily have two past examples that can help construct what an investor’s response should be in similar conditions.

In looking at the two most recent examples, the S&P 500 lost 13% during Richard Nixon’s impeachment proceedings in 1974 and in the year following Nixon’s impeachment process, the S&P dropped 33%. During Bill Clinton’s impeachment inquiry in 1998, the S&P 500 rallied 39%. These are two very different market reactions to the impeachment which leads us to the conclusion that it really isn’t about the impeachment, it’s about the underlying economy. The economy under Nixon was in tatters, with high inflation and spiking oil prices, while under Clinton, the market relied on the strong economic fundamentals. In observing the potential impeachment of Donald Trump, we know two things. The first is, economically speaking, we are in more of a Clinton situation. Economic fundamentals, such as GDP growth, company earnings, labor costs and so forth, are solid. So if an impeachment did come to fruition, the market reaction would likely be dramatic for a moment and then correct back to the course the strong economy has laid forth. The second thing we know is that the markets have had plenty of time to digest what these impeachment proceedings could mean and still the S&P 500 is up over 9% compared to when the impeachment inquiry was first announced in September. And the even better news is all signs point towards stocks continuing to head higher.

Whatever happens this year in the impeachment proceedings, it is important to have a strong investor’s mindset, keeping perspective and focus and attempting to not let a citizen’s mindset control reactions when it comes to your investment decisions.

## Another Good Reason To Give Away Your Required Distribution From Your IRA

By Carolyn Ellis Rice

At age 72 (recently raised from 70.5 by the passing of the SECURE act in late 2019) you are required to begin taking annual distributions from your IRA which count toward your adjusted gross income on your tax return. For high income individuals, that income is then used to calculate the income related surcharge on your monthly premiums for your Medicare Part B. Beginning at a modified adjusted gross income (MAGI) of \$87,000 for individuals and \$174,000 for those filing joint, those Part B premiums begin to go up from \$144.60 per month topping out at \$491.60 per month at incomes of \$500,000 for individuals and \$750,000 for those filing joint. Part B premiums increase by 40% or more at each income threshold increasing total payments by thousands of dollars each year. Being even one dollar over the income level causes the full corresponding surcharge to apply for all Part B premiums paid for the entire year.

One strategy for charitably minded individuals to help mitigate this income surcharge is to use all or part of your required distribution from your IRA to gift directly to qualified charities that you support. By gifting to a charity directly from your IRA the distribution is not counted toward your MAGI and therefore not included in the calculation for your Part B premiums. While gifting directly from your IRA does not allow you to deduct the charitable contribution on your tax return, with the new tax laws enacted in 2017 many individuals no longer itemize on their tax returns and so don't use the charitable deduction anyway.

This can be a good 'three birds with one stone' strategy; saving on your taxes, saving on your Medicare premiums and supporting a cause you care about. We suggest consulting with your accountant to see if this strategy would benefit you.



## Don't Be a Victim of a SIM Swap

By Emily Troeltzsch

Two factor authentication (2FA) is a way to keep your accounts more secure than with just a password. In general, 2FA includes attaching your phone number to an account, which then receives a text message with an authentication code each time you log in to your account. This added level of security can block most attacks on accounts. However, there is a downside to using your phone number for 2FA. Hackers can call your cellular service provider and convince them to change your phone number from the SIM card in your phone to a different SIM on their phone. This redirects all your texts, calls, and cellular service to the SIM card belonging to the hacker. Using this, they can gain access to the authentication code sent by SMS to change your passwords. While this sounds scary and serious, which it is, there are things you can do to minimize the chances of a SIM swap happening to you.

One of the best things to do is remove your phone number from 2FA and instead use an authenticator app. These apps provide the authentication codes needed for access to accounts without going through SMS. Three of the most popular authenticator apps are Google Authenticator, LastPass Authenticator, and Authy. These apps connect the second step of authentication to your device instead of your cell phone number.

Another thing you can do to protect accounts that do not allow you to use an authenticator app is have your cellular provider place a PIN on your account. This is different than a SIM pin that locks the physical SIM from being used without the PIN. Your cellular provider can enable a PIN that would need to be given before any change of phone number between SIM cards is made. **Continued on page 4**

### Living Well & Smart

#### On the Road Again: Renting a Car Overseas

If you are traveling internationally and want to rent a car to drive yourself, most of the larger car rental companies have locations in the major airports around the world. However, it can be a bit more complicated in a foreign country. Some pointers:

Verify that you don't need an International Driver's Permit in the country you are visiting. The rental company can generally tell you this.

Locate a car rental company in the country you will be visiting and book the car. When you book the car confirm what documentation (i.e. driver's license, international permit, proof of insurance, etc.) will be needed to pick it up.

Make sure you book exactly what you need. Most cars in Europe have a manual transmission and there are sometimes very few automatics available. If you need an automatic, make sure you request one and that it is guaranteed on your booking.

Call or email your car insurance company to confirm you are covered for overseas car rentals. Even if covered, some countries may be excluded so check the details. You can also check with your credit card company to see if they offer any coverage.

Check with the car rental companies about any border crossings planned, asking about any surcharges that might be added to your bill and extra documentation that might be needed.

When you pick up the car, check over the outside for any scratches, dents, or other damage and bring this to the rental agent's attention before you drive off the rental lot. Consider taking a photograph to document any damage. Even small scratches should be noted. Many car rental agencies will thoroughly check a car over upon return for any damage and try to bill you if you can't prove it was there when you picked it up.

**Have a great trip!**

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## Harbor Happenings

### **Schwab 1099s**

1099s tax documents for Schwab are generally out in early February. However, mutual fund companies often file corrections causing corrected 1099s to be issued later in the tax filing season. You might wish to consider filing your returns a bit later to compensate for this.

### **Harbor on Facebook**

Visit us on Facebook! See the latest happenings at Harbor and get tips and financial information! <https://www.facebook.com/harborfin/>

### **2020 Office Closures**

Our office is closed on the following New York Stock Exchange holidays in 2020: February 17, President's Day; May 25, Memorial Day; July 3, Independence Day; September 7, Labor Day; November 26, Thanksgiving Day; November 27, half day; December 24 half day, Christmas Eve; December 25, Christmas.

**Continued from page 3:** A good first line of defense is also to limit the private information you put online. Hackers still must convince your cellular provider that they are you and to do that they typically need to know answers to security questions, addresses, and other information that can be found on social media if you aren't careful. As always, be aware of phishing attempts and don't click on links sent to you in whatever form, including text messages and messages on social media.

If you believe you are a victim of this type of attack, contact local authorities and change the email addresses, phone numbers, and passwords connected to any of your accounts.

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### **Get the year off to an organized start!**

- Review your 401k deferral and W2 exemptions with your HR department.
- Begin gathering documents for your 2019 tax return and get them to your accountant but consider not filing too early in case there are corrected 1099s from your brokerage accounts.
- Take a few minutes to update (or begin working on) your Personal Financial Organizer. Contact Harbor if you'd like us to provide one.
- Begin budgeting and tracking expenses. Sign on to Mint.com or download a copy of Quicken for your personal finances.
- Begin saving by setting up an automatic deposit to a savings or brokerage account.
- Check your credit reports at [www.annualcreditreport.com](http://www.annualcreditreport.com) and consider putting a credit freeze at each of the credit bureaus.
- Develop and write out some annual personal goals (you don't have to call them resolutions if you don't want to).
- Clean out your personal files and shred any sensitive information.

Please contact our office today if we can help with any of these items. Thank you!