THRIVE

Financial Insights to Enrich Your Life

1Q | 2Q | 3Q | 2020 | 4Q

planning alternatives®

WEALTH ADVISORS FOR LIFE

WELCOME

Nathan Mersereau, CFP®

As we head into the final stretch of a truly remarkable 2020, I wanted to take a step back, pause and reflect. The storm of issues we've collectively faced in the last 9+ months has been fierce and unrelenting. The macro and micro effects of COVID-19 have turned many aspects of our world upside down. The pandemic has impacted the global economy – as well as our jobs, our daily routines, our sense of normalcy.

Yet, through all of the uncertainty and impossible decisions we've experienced during these "unprecedented" (anyone else tired of that term?) times, we've all figured out ways to adapt and march forward.

That's no small thing.

And despite some prognosticators' springtime worries about a pending, all-out stock market collapse, the major indices have actually recovered from early-year lows. Throughout every up, down, market gyration and news cycle of 2020, Planning Alternatives has remained resolute in our belief that we are well-equipped to skillfully navigate through this volatile period. That's because the pillars of our investment strategy are risk management, diversification and discipline. In my last Thrive opening letter I noted our firm's long-standing focus on building and maintaining all-weather financial portfolios tied to your financial plan would prove beneficial. And it has.

Beyond a cascade of coronavirus concerns, there are myriad other factors that could play a role in what the economic recovery ultimately looks like. We're in the homestretch of an incredibly heated election season. Layer in hurricanes, wildfires, civil unrest, Brexit and U.S.-China relations and there's no shortage of issues and events that could make headlines in the next few months.

The good news is that you can rest assured that our dedicated team of financial professionals will continue to look at the big picture to provide you with timely, rational, objective, clear-eyed advice. No matter what unforeseen events may surface this year or beyond, you can count on us to keep our objectivity – and your long-terms financial goals – at the forefront.

I thank you for your business and your trust. I, and many members of our team, have had some deep and critically important client conversations this year. Our desire to help you achieve your objectives is why we do what we do. And for me, one of the upsides of traversing tough terrain together is that it can deepen relationships. I've been heartened by the closer connections that have been made this year.

You can expect more ongoing communication. We will continue to share weekly market updates as well as webinars for our ongoing *Leading Through Crisis* series. In the meantime, as the end of the calendar year approaches, please reach out to us with any and all questions. We are happy to conduct a year-end review, revisit your risk tolerance or discuss how newly enacted tax laws might benefit you. As always, we are here for you.

Nathan Mersereau

Nathan Mersereau, CFP®
President

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Beware of Cyber Scams

If It Doesn't Sound Like Us, It Probably Isn't.

Add "credential stuffing" to the list of fraudulent activities surfacing today. Criminals are using bots to steal the names and information of all kinds of professionals, including financial representatives, and create impostor websites and domain names to trick customers into sharing personal information, leading to financial fraud.

The criminals have also placed phone calls impersonating registered representatives and firms. Whether it's online or on the phone, both are the first steps in this form of financial fraud.

How Does It Work?

Cyber attackers obtain lists of usernames, email addresses, and passwords from the dark web after a data breach. With that information, they then attempt to gain unauthorized access to customer accounts on financial sites.

Unfortunately, the ploy is working. Worldwide, some of these attacks have resulted in the loss of customer assets and unauthorized access to customer information.

Successful attacks occur more often when individuals use the same password or minor variations of the same password for various online accounts, and/or individuals use login usernames that are easily guessed, such as email addresses or full names.

How Do You Spot It?

One of the simplest ways to tell if you're being targeted is to check the spelling, grammar, and design of the email. If any of that looks off or out of place, then you are likely dealing with a fraudulent message. (Quick tip - read through the disclaimer of a suspected fraudulent email because the misspellings are often found there).

If you receive an unusual electronic communication (or a suspect phone call) from someone claiming to be from Planning Alternatives, please don't respond and contact us immediately. A simple call to your Wealth Advisor or Client Service Administrator is the best way to clear up any confusion and verify that it was indeed us contacting you. At the very least, we advise everyone to change their passwords regularly and, when doing so, to choose a password that isn't obvious ("password 123") or one that you've used previously.

How We Can Help

Please contact us at any time if you have questions or concerns regarding the protection of your information. Protecting your information is of the utmost importance and we welcome any conversation.

Image Source: iStock

2020 CLIENT PHOTO CONTEST

Our photo contest has, through the years, gone a long way towards building a community with our clients through the shared experience of photography. 2020 has been unlike any year and having a sense of community is more important than ever. That's why we've chosen "Moments of Inspiration" as this year's photo contest theme. Send us your favorite shots that inspire you or others and we will be honored to enter them into our virtual photo contest.

OUR THEME: **Moments of Inspiration**

SUBMIT UP TO 3 PHOTOS ONLINE!
Visit www.planningalt.com for rules, guideline and submission details.

UPDATED SUBMISSION DEADLINE - DECEMBER 1, 2020

OFFICE STATUS UPDATE

We are committed to providing the safest working environment possible for our associates and our clients. As a result, our offices will remain closed to the public due to COVID-19 for the foreseeable future. The plan is always evolving, pending guidance from the state and local government. We will plan to continue working in a virtual environment using Zoom video conferencing, phone calls, and emails.

If you need any assistance in using video conferencing tools to connect with us, please contact your Wealth Advisor or Client Service Administrator today.

PLANNING FOR THE NEXT TAX SEASON STARTS NOW

This historic year has not yet come to a close, but that doesn't mean you should put off planning your taxes for this coming tax season. From a tax perspective, a great deal has changed as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Planning Alternatives can help you navigate the coming months to ensure a plan is set forth to help you capture all the benefits due to you, your family, and/or your business.

There's no time like the present. Download our 2020 tax planning checklist from www.planningalt.com and schedule time with your Wealth Advisor to discuss potential changes before year-end.

Richard Duntley,
MBA, CFA,
Wealth Advisor

Image Source: iStock

Could An *HSA* Be Your New *IRA*?

Health savings accounts are becoming a more common vehicle to save for retirement. Traditionally they have been used as a savings account to pay for expenses associated with a high-deductible health insurance plan. But in anticipation of increasing healthcare costs, these accounts are now being considered as a retirement savings vehicle. Here are questions to explore as you consider using a health savings account (HSA).

What is a health savings account?

A health savings account is an account that is established to use pre-tax contributions to pay for qualified medical and dental expenses. There are two primary requirements for contributing to an HSA: You must be a participant in a high-deductible health plan (HDHP) and you cannot be a participant in Medicare.

Are there other requirements besides having to be a participant in an HDHP and not participating in Medicare?

Yes. You cannot participate in any other healthcare reimbursement accounts such as a flexible spending account or healthcare reimbursement account. Also, you cannot participate in any other health insurance plans alongside the HDHP (supplemental plans relating to dental and vision are permitted).

What tax benefits are available to individuals and families that contribute to an HSA?

Tax benefits associated with an HSA are plentiful. It's one of the few tax strategies that remain in which income is tax-free.

Payroll contributions to an HSA avoid federal and state income tax in addition to payroll tax (FICA and FUTA). Moreover, as long as money spent from the HSA goes toward qualified medical and dental expenses, it avoids income tax on the way out as well.

What's the maximum amount I can contribute to a health savings account?

In 2020, the maximum amount an individual can contribute and deduct is $3,550; for families it's $7,100. If you are age 55 or older, an additional $1,000 catch-up contribution is permitted. Depending on your age and tax filing status, the tax savings associated with contributing to an HSA can total thousands of dollars.

We recommend scheduling time with your tax advisor to review these tax benefits and how they apply to you.

I already have a flexible spending account for my healthcare expenses. What's the difference?

Unlike flexible spending accounts, the balance in your HSA is allowed to accumulate and grow tax-deferred just like a retirement account. Any unused dollars contributed to the account carry forward to future years. This helps you stash money away for later years when healthcare expenses typically rise. With a flexible spending account, however, any unused dollars at the end of the year are forfeited and lost.

How do I balance the higher cost of participating in a HDHP with the tax benefits of contributing to an HSA?

The answer to this question will differ for each individual. We recommend scheduling time with your employer's benefits department and your Planning Alternatives Wealth Advisor to evaluate your options.

How do I open an HSA if my employer doesn't offer one or I'm self-employed?

There are a number of banks and financial institutions that offer an account called a "stand-alone" HSA. These are HSA accounts you can open and make a tax-deductible contribution outside of your payroll. These same institutions often offer convenient debit card privileges that make paying healthcare expenses easy.

What happens if I pass away before spending the balance in my HSA?

When opening an HSA account, you will be required to name a beneficiary. If a surviving spouse is the beneficiary, he or she can roll the balance into their own HSA. If a non-spouse is the beneficiary, the HSA becomes taxable to the beneficiary in the year in which you pass. As long as you name a beneficiary other than your estate, the balance of an HSA will avoid probate.

What does the IRS consider a "qualified medical and dental expense"?

The list of expenses considered a qualified medical and dental expense is broad, and can be found in IRS publication 502. Certain health insurance premiums like Medicare Part B and Part D are considered a qualified expense along with premiums for long-term care insurance.

What's the deadline for making a 2020 HSA contribution?

Individuals have until April 15, 2021 to open and contribute to a stand-alone HSA account. If you're considering contributing through your employer, make the HSA option an item to review during your next open enrollment period.

Where can I get more information on health savings accounts?

IRS publication 969 is a great resource. Could an HSA be your new IRA? If you think the answer is yes, please schedule a time with your Wealth Advisor to begin a discussion. If you're not sure, give us a call and let's find out together.

INVESTMENT COMMENTARY

Jim Long,
CFA , CFP®, CMFC®,
Director of Investments

PERFORMANCE

Stocks continued their remarkable rise during the third quarter, fueled by an economic recovery taking shape and continued easing monetary policy from the Federal Reserve. Even though short term interest rates are projected to remain low through 2023 bonds rose slightly for the quarter as some investors trimmed stock positions after the run-up and purchased lower-risk investments. As we predicted last quarter, higher volatility returned to stocks as doubts about the sustainability of the recovery began to creep in by the end of September.

STOCKS

U.S. stocks continued to climb higher as most segments of the U.S. economy reopened. On a relative basis, large-sized companies (S&P 500) outperformed mid-sized (S&P MidCap 400) and small-sized (S&P SmallCap 600) companies. Markets appear to be balancing expectations for 2021 – continued falling unemployment, increasing consumer product demand, accomodative worldwide monetary policy, sustained strength in the housing market – against uncertainty around both the election and a coronavirus vaccine. Although significant risks remain present, stocks appear to be positioned for better relative performance over bonds for the next few years. Overall, U.S. stocks (Russell 3000) were up 9.2% for the quarter.

International stocks outperformed their U.S. counterparts during the quarter. Emerging markets (MSCI EM) again posted better returns than developed markets (MSCI EAFE) on a relative basis, although both had strong absolute performance. Overall, international stocks (MSCI All Country World Index ex-U.S.) gained 6.3% over the three months.

BONDS

Bonds (Barclays US Aggregate index) rose 0.6% during the quarter. The Federal Reserve continued to signal that short-term interest rates will continue at near-zero levels through 2023. Additionally, the Fed amended their guidelines to allow periods of inflation greater than 2%, especially when following prolonged periods of low inflation. Both of these developments could prove to be headwinds to future bond performance. However, bonds continue to play an important role in a diversified portfolio by reducing overall risk and by serving as a potential ballast against falling stock prices.

ALTERNATIVES

Commodities (Bloomberg Commodity) rose sharply during the quarter, even with the price of oil facing an uncertain future due to reduced demand during the pandemic. Global real estate and natural resources (FTSE EPRA/NAREIT Developed, S&P Global Natural Resources) rose to a lesser extent. Overall, alternative assets rose 4.3% for the quarter.

Asset Class Returns Quarter 3

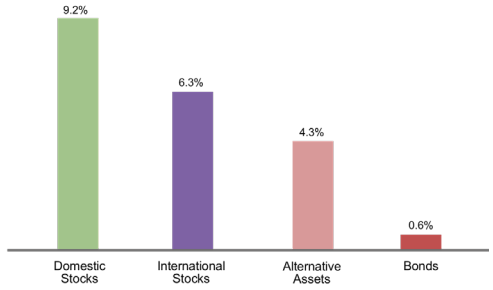

Chart Source: Planning Alternatives

Sub-Asset Class Returns Quarter 3

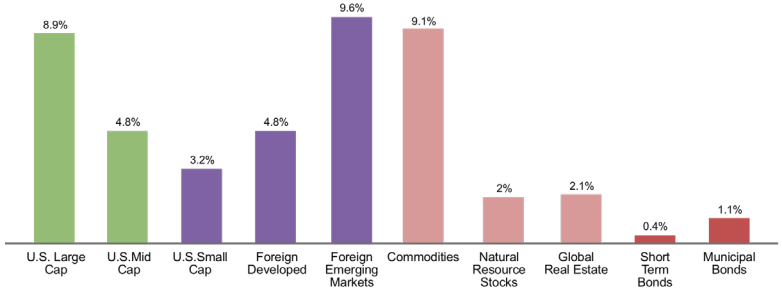

Chart Source: Planning Alternatives

PERSPECTIVE

"During an election campaign the air is full of speeches and vice versa."
– Henry Adams

Americans will go to the polls on November 3rd to decide who controls the White House and both houses of Congress. Control of the federal government means controlling the agenda, which in turn will greatly influence issues relevant to investors. Results from a relatively small number of swing states are poised to decide the race. In this hotly contested election cycle, aside from coordinating the coronavirus response, we feel the issues most relevant to investors are:

- Corporate and personal taxes and the effect on the economy and investments
- Government spending and debt
- Our country's relationship with China regarding national security and trade issues

From April through August, we were conditioned to believe that volatility in stock prices had disappeared. However, recent fluctuations in September are much more normal and we expect that these levels will persist in the future. Regardless of the election outcome, the top priority of federal and local governments must be bringing the coronavirus under control and reopening the economy to a much fuller extent. Until those objectives are accomplished, we believe the choppiness will continue. Over the summer, the market priced in a substantial economic recovery; as we move further along without an approved vaccine or additional government relief, the prospects for achieving those expectations becomes more uncertain.

Although the election outcome also remains uncertain, the key issues (other than the virus) affecting the economy have come into focus. Potential changes to corporate and personal tax policy could certainly affect corporate earnings and consumer income in 2021 and beyond – subsequently affecting asset prices. However, it bears noting that tax policy adjusts often (even without a corresponding turnover in administration), and that these updates may not move markets on their own. Other considerations – the current ultra-low interest rates, unprecedented worldwide monetary stimulus, and the relative attractiveness of all asset classes against each other – should also inform investment decisions.

The issue of government spending and the ballooning national debt will continue to cast a shadow on future economic growth, regardless of the election results. The policy response to the coronavirus (adding over three trillion dollars to the national debt in a matter of months) has only compounded the problem. As more and more debt is issued, investment in Treasuries reduces the capital available for private investments, acting as a drag on productivity and growth. Additionally, interest rates likely will have to rise to entice buyers to purchase larger issuances of Treasuries, which in turn raises the cost of debt service and takes resources away from other priorities that promote growth.

The relationship between the U.S. and China is beginning to resemble the Cold War struggle between the U.S. and the Soviet Union. Direct political and military interactions between the two nations means that the tug-of-war between the U.S. and China will demand the careful attention of any future administration. Although the trade agreement signed in January promised some level of economic détente, the cooperation seems to be tenuous at best. Both President Donald Trump and Vice President Joe Biden have alternated between talking tough about China with more nuanced comments about the importance of the relationship between the two nations. Avoiding a shooting war while still protecting American business interests in the world's largest market will be a tightrope for whomever wins the presidency.

The pandemic has also affected election norms. While early voting has been a trend for several years, "late" voting could prove pivotal this cycle. Several states are amending their rules regarding accepting mail-in ballots after Election Day – in some instances, up to two weeks after Election Day. This could mean that results for many hotly contested races will not be immediately known once the polls close, increasing the possibility for higher volatility through the end of the year.

POSITIONING

We've had several clients ask us what to do with their investment portfolio in the midst of all this election uncertainty. While it may be tempting to make financial decisions driven by emotion, making "all-in" or "all-out" decisions – based on an upcoming election or for any other reason – can lead to adverse results.

To be clear, while we strongly recommend that clients continue to follow their financial plan, that does not mean sitting idly by. This is a great time to review with your advisory team both your ability and willingness to accept risk, and to make any necessary adjustments to your financial plan. Remember that your plan is not a static document. Refreshing objectives and making adjustments in the pursuit of optimizing your results is necessary over time. Additionally, this is an excellent time to set aside some cash for larger planned 2021 expenses. Because stocks have significantly recovered from March lows, ensuring that you have proper cash levels now helps to avoid selling in downmarkets later.

Our investment team at Planning Alternatives is busy positioning client portfolios with an eye toward the future. We've adjusted our U.S. stock exposure slightly, seeking to benefit from the recovery we see continuing in 2021. We're interviewing actively managed international stock fund managers, and plan to add one to complement our suite of index investments in the fourth quarter. Additionally, at this time when stock and bond valuations are both elevated, we continue to vet investments with risk and return profiles different from traditional asset classes that have the potential to reduce overall volatility and enhance return.

Whatever the election results, we at Planning Alternatives are committed to helping you reach your financial goals and stand ready with insights and advice to guide you along the way.

Please contact us with questions, or just to chat!

Jim Long, CFA, CFP®, CMFC®
Director of Investments

DISCLOSURES & FOOTNOTES

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1. **Asset Classes:** Domestic Stocks are represented by the Russell 3000 Index, which measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. stock market. International Stocks are represented by the MSCI ACWI ex U.S. Index, a market capitalization weighted index that is designed to measure the global stock market performance of developed and emerging non-U.S. markets. Alternative Strategies are represented by the Morningstar Multialternative Fund Category, which consists of mutual funds that provide exposure to different alternative investment strategies that may take short positions, invest in currencies, derivatives or other alternative asset classes. Alternative Assets are represented by a blend of three indices: 33% *(Commodities)* Bloomberg Commodity TR Index, which is a broadly diversified index composed of 19 commodity futures contracts on physical commodities in seven sectors; 33% *(Natural Resource Stocks)* S&P Global Natural Resources Index, which is comprised of 90 of the largest publicly traded companies in natural resources and commodities businesses that meet investability requirements; 34% *(Global Real Estate)* FTSE EPRA/NAREIT Developed Index, which is designed to track the performance of listed real estate companies and REITs worldwide. Bonds are represented by the Barclays Capital Aggregate Bond Index, which represents most intermediate, investment grade bonds traded in the U.S., including Treasury securities; government agency bonds; mortgage-backed bonds; corporate bonds and a small amount of foreign bonds traded in the U.S. Short-term Bonds are represented by the Barclays U.S. Govt/Credit 1-5 Yr. TR index, which measures the performance of U.S. dollar-denominated U.S. Treasury bonds, government related bonds and investment grade U.S. corporate bonds that have a remaining maturity of greater than or equal to one year and less than five years. Municipal Bonds are represented by the Barclays 1-10 Year Municipal Blend Index, which is an unmanaged, total return, market value-weighted index that tracks the short and intermediate components of U.S. investment-grade tax-exempt bond market, including General Obligation, Revenue, Insured and Prerefunded bonds with a remaining maturity from 1 up to 12 years. Large Cap Stocks are represented by the S&P 500 Index, a group of 500 large companies selected by S&P and weighted by market capitalization. Mid Cap Stocks are represented by the S&P 400 Index, which is a group of 400 mid-size companies selected by S&P and weighted by market capitalization. Small Cap Stocks are represented by the S&P 600, which is a group of 600 small-size companies selected by S&P and weighted by market cap. Foreign Developed Stocks are represented by the MSCI EAFE Index, a market capitalization weighted index designed to track the performance of stocks in developed markets (excluding the U.S. and Canada). Emerging Market Stocks are represented by the MSCI Emerging Markets Index, which is a market capitalization weighted index designed to capture the stock market performance of emerging markets. Long/Short Stocks are represented by the Morningstar Long/Short Equity category, which captures the performance of mutual funds that hold sizable stakes in both long and short stock positions. Long/Short Bonds are represented by the Morningstar Nontraditional Bond category, which captures the performance of mutual funds that pursue strategies divergent in one or more ways from conventional practice in the broader bond-fund universe, such as tactical management of bond exposures, active management of duration, currency trading and/or shorting. Managed Futures are represented by the Morningstar Managed Futures category, which captures the performance of mutual funds that trade liquid global futures, the majority of which follow a trend-following strategy. Performance data is from Morningstar Office, Bloomberg and Tamarac Advisor View.

2. **Benchmark Performance:** The components of the benchmarks are listed below. Data from Tamarac AdvisorView/Schwab PortfolioCenter.

Benchmark	Domestic Stocks (Russell 3000)	International Stocks (MSCI ACWI x US)	Bonds (Barclays US Agg. Bond)	Cash (BOA/ML US T-Bill 0-3 Mo.)
Conservative 20-80	15%	5%	78%	2%
Moderate Conservative 40-60	30%	10%	58%	2%
Moderate Conservative Plus 50-50	37.5%	12.5%	48%	2%
Moderate 60-40	45%	15%	38%	2%
Moderate Plus 70-30	52.5%	17.5%	28%	2%
Moderate Aggressive 80-20	60%	20%	18%	2%
Aggressive 100-0	74%	24%	0%	2%