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Truth, Knowledge, Experience *2nd Quarter 2020*

Hi Everyone,

As Q2 wraps up we are still stuck in the middle of unprecedented times. With all the unrest and uncertainty my hope is to brainstorm some ways for everyone to stay positive during the summer months. When was the last time you went to see a drive-in movie? When was the last time you went mini golfing? Are there any local parks you've never been to, or hikes you may have wanted to always try? What local farms are around you that may have fruit picking opportunities? Staying positive and finding enjoyment during these summer months is important for everyone. I hope you are all staying safe and if you need anything don't hesitate to reach out,

Matt

In This Issue:

Investing vs Speculating

Written by Matthew Geremia

The options for anyone with a little bit of cash to invest these days is enormous. With sites like E trade, Charles Schwab, Fidelity among others cutting their trading fees, investors are using electronic brokers more than ever before. However, like everything in life, this all comes at a price. More and more new investors are entering into the markets without a fundamental understanding of how to invest and the different types of investments that are available within the stock market.

Without a solid understanding of the markets and how to evaluate companies you are as Benjamin Graham stated in his book, "*The Intelligent Investor*", speculating not investing. Graham states the major differences between investors and speculators is that investors figure out what a stock is worth, based on the value of the business, where as a speculator gambles that a stock will go up in price because someone else will pay even more for it.[i] We live in a world where information and news is at our fingertips. That comes as a blessing and a curse. Today anyone can voice an opinion or pass along incorrect information that is quickly taken in as fact and then broadcasted across the world. This same thing happens within the stock market. As news comes across investors screens at lightspeed, people are inclined to make decisions based on opinion or speculation from others rather than truly understanding why a company is trading a certain way.

Speculating is unfortunately, what most new investors fall trap to. It can be very rewarding and exciting if you speculate correctly, but as Graham says "it's the worst imaginable way to build your wealth."[ii] He goes on to say that ultimately like a casino, Wall Street has made the odds in their favor and they will always win when an investor tries to beat them at their own speculative game.[iii] Essentially, a speculator is usually making money for their broker instead of for themselves.

True investing, however, is a more fundamental and intricate (yet straightforward) way of evaluating companies and making buy/sell decisions. Graham recommends three elements of investing:

- You must thoroughly analyze a company, and the soundness of its underlying businesses before you buy its stock
- You must deliberately protect yourself against serious losses
- You must aspire to "adequate," not extraordinary, performance

The Intelligent Investor: the Definitive Book on Value Investing by Benjamin Graham and Jason Zweig. Revised Edition ed., HarperCollins, 2006. Pg. 35

"Do what you can, with what you have, where you are." ~ Theodore Roosevelt

In Warren Buffets words, “you are buying a business when you buy stocks”. A concept that all new investors would be wise to understand. Would you buy a farm or an apartment that you knew hardly anything about just because someone else told you it would “probably be a good investment”? Would you sell that same farm or apartment if one season of crops didn’t work out or the value on the apartment in one year decreased and someone said, “definitely sell it, the business stinks”? The answer to those questions as a sound business owner would be NO. Understanding the fundamentals of a business is crucial before purchase. This shouldn’t be different for buying stocks. As Graham states “invest only if you would be comfortable owning a stock even if you had no way of knowing its daily share price”.[iv] In order to be successful in choosing the right companies new investors need to understand each company at a fundamental level before they decide to invest in the company or not. Some things to think about when reviewing companies are:

- What does the company do?
- How does it make money?
- Who is their competition?
- What risks are involved within their industry?

The above questions are just a few that are helpful when identifying potential investments. Other things to become familiar with would be a company’s balance sheet, income statements and other financial documents that a company makes available to the public (these can be easily found on company’s websites). By looking at the different financial documents you can get an idea of how the company has leveraged themselves with debt, their revenue, profits, liabilities etc. which is helpful to identify the financial health of a company and can also help you decide whether to invest or not. Choosing sound investments based on in-depth research, gives the confidence to withstand market ups and downs. The realization that patience and sticking true to your beliefs that the stock (Business) you own is a good investment and that long term the business should succeed.

Talking with a financial advisor can help to answer many questions, concerns and provide more information on investing, whether it is as simple as getting advice. on specific securities or working with them to build a suitable portfolio of investments. Investing should not be scary or overwhelming. However, there is a right and wrong way to do it and without the help of financial professionals many new investors can find themselves in situations where they make financial mistakes.

Hopefully, this article has helped to explain some of the common misconceptions within the investment world. If you have any further questions do not hesitate to reach out to us at Ashwood Advisors, LLC.

i. *The Intelligent Investor: the Definitive Book on Value Investing by Benjamin Graham and Jason Zweig.* Revised Edition ed., HarperCollins, 2006. Pg. 36

ii. *The Intelligent Investor: the Definitive Book on Value Investing by Benjamin Graham and Jason Zweig.* Revised Edition ed., HarperCollins, 2006. Pg.36

iii. *The Intelligent Investor: the Definitive Book on Value Investing by Benjamin Graham and Jason Zweig.* Revised Edition ed., HarperCollins, 2006. Pg. 36

iv. *The Intelligent Investor: the Definitive Book on Value Investing by Benjamin Graham and Jason Zweig.* Revised Edition ed., HarperCollins, 2006. Pg.36

“Life shrinks or expands in proportion to one’s courage” ~ Anais Nin

Should You Save for Retirement or for a Child's College Education?

Presented by Stephen Geremia

For parents, deciding how much to save for retirement versus what to set aside for a child's education can be a difficult balancing act. Saving for your future should be a priority, particularly through maximizing the benefits of retirement plans. But, although paying yourself first is essential, that doesn't mean you can't set funds aside to further a child's education. A college savings plan is a tax-advantaged way to achieve this goal. The following information is intended to help you understand how these savings vehicles can help you meet the present and future needs of your family.

Why Prioritize Retirement Savings?

To answer this question, two financial planning components should be compared: funding sources and cost variability.

Funding sources. Where will you get the money to pay for your retirement? For most retirees, social security and personal savings represent the main sources of income. The limited number of funding options highlights the importance of personal savings. Without placing a focus on saving throughout your adult life, you may jeopardize the security of your retirement.

Students, on the other hand, can obtain college funding from a number of widely available sources. If family resources (such as a college savings account) aren't available, students can seek financial aid, federally guaranteed student loans, grants, and scholarships. These vehicles have unique benefits and tradeoffs, but they can be expected to provide accessible options for paying for college.

Cost variability. Educational expenses are much more variable than retirement costs. Although inflation drives up both types of expenses over the years, students have a wide range of pricing options. They can take advantage of the large cost differences between public versus private universities and in-state versus out-of-state institutions. Online degrees can also be considered.

Retirees won't have the same flexibility without making sacrifices to their desired lifestyle, especially regarding housing and leisure activities. Health care costs, which typically rise in the retirement years, are difficult to control. All in all, given the unpredictability of retirement expenses, you may face some challenging choices in the future if you don't have sufficient savings.

The reality. Once you leave the workforce, your financial options may be limited. In contrast, your family should be able to combine a variety of funding sources to pay for college. So, while you may relish the idea of fully funding a child's education, doing so might not be the wise choice.

Balancing Savings Needs

Fortunately, the advantages of retirement plans and college savings plans make it possible to balance your financial priorities. Let's look at some of the unique features of these plans.

Retirement plans. Putting the maximum possible into your retirement accounts is ideal, especially if your employer offers a matching contribution. That can add up to a substantial amount of extra income. In addition to the tax-deferral benefits, an IRA or 401(k) account can work well to complement your college savings goals in the following ways:

- As related to the Free Application for Federal Student Aid (FAFSA), retirement accounts are considered noncountable assets, so they don't affect a student's aid eligibility.
- With an IRA, early withdrawals can be made for qualified educational expenses. The standard 10 percent penalty does not apply, although these distributions will be taxed. (This feature does not apply to 401(k)s.)

College savings plans. A college savings plan is a great way to save and pay for college. What type is best? That depends on your situation, but 529 plans are popular for many reasons, including the following:

Earnings grow on a tax-deferred basis. Many 529 plans have large contribution limits compared with other college savings plans, so the tax advantages could be significant.

Distributions are not subject to federal taxes when used for qualified education expenses.

Many states offer state income tax deductions for contributions.

Qualified higher education expenses include (but are not limited to) tuition and room and board, books, computers, and supplies.

Since 2018, federal guidelines include up to $10,000 annually in K–12 tuition as a qualified education expense. But the tax rules for K–12 withdrawals vary by state, so be sure to check your state's rules regarding this benefit.

Since 2019, qualified expenses include certain student loan repayments up to a lifetime limit of $10,000 for the 529 account beneficiary and for each of the beneficiary's siblings.

A "front-loaded" contribution of up to five years' worth of the annual exclusion gift of $15,000 (for a total of up to $75,000) can be made. This feature is unique to 529 plans.

You'll also want to consider the impact of 529 plans on student financial aid. Often, it's minimal. Here are some details to keep in mind:

Plans owned by parents or dependent students, as well as custodial-owned plans, are considered parental assets. On the FAFSA, they are assessed at a rate of 5.64 percent when determining a family's expected contribution to tuition costs. Plans owned by independent students are considered student assets, which are assessed at the rate of 20 percent.

A grandparent-owned 529 account does not count as an asset on the FAFSA. But distributions are reported as untaxed income to the student. That means a student's financial aid eligibility could be reduced by up to 50 percent of the distribution amount. This downside can be avoided, however, by waiting to use these funds until the last two school years.

Finally, you should be aware that if you withdraw 529 funds for anything other than qualified expenses, the distributions could be subject to tax on the account's gains, as well as a 10 percent penalty.

Achieving the Right Balance

By putting money aside wisely, it's possible for parents to help provide for their children's education without compromising a comfortable retirement lifestyle for themselves. For further guidance on this complex topic, I am at your service.

The fees, expenses, and features of 529 plans can vary from state to state. 529 plans involve investment risk, including the possible loss of funds. There is no guarantee that a college-funding goal will be met. In order to be federally tax-free, earnings must be used to pay for qualified higher education expenses. The earnings portion of a nonqualified withdrawal will be subject to ordinary income tax at the recipient's marginal rate and subject to a 10-percent penalty. By investing in a plan outside your state of residence, you may lose any state tax benefits. 529 plans are subject to enrollment, maintenance, and administration/management fees and expenses.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.