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FINANCIAL OUTLOOK

JUNE 2022

6 Myths about Stock Investing

When it comes to investing in stocks, there's a lot of misinformation. Those myths can lead to confusion about whether investing in stocks is really safe, how much money you can make with stock investments, and even whether it is something the average investor should participate in.

The truth is that investing in stocks can be one way to put yourself on the path to a secure financial future. Before you get started, it's important to review six of the biggest myths about investing in equities.

Myth #1: Investing in Stocks Is Like Gambling

People often liken stock investing to gambling, but that's not really a fair comparison. Yes, there's risk involved with buying stocks — and you should be highly skeptical of anyone who tries to sell you on risk-free investment opportunities of any kind. But the risk that comes with buying stocks isn't the same as that which comes with gambling.

When you buy stock, you are buying something: a share of a publicly traded company. You make money if you make a wise, informed purchase (i.e., you do your research and purchase stock in a company that does well). In gambling, the odds are always stacked against you; eventually, the house will win. And you usually have just one chance to make money when gambling. If you buy a stock whose value later dips, you can sit tight and wait for it to rise in price again.

Myth #2: You Have to Trade a Lot to Make Money in Stocks

Not necessarily. In fact, some top investors, like Warren Buffett, advocate trading very little if you hope to make money in the stock market. Trading frequently can cost a lot of money, since you'll incur trading fees and have to pay capital gains taxes on any profits. You can make money in stocks by carefully selecting solid stocks and trading only when necessary (for example, to rebalance your portfolio). This set it and forget it approach to investing works well for many people — and has the added benefit of involving less stress and less work for you.

Myth #3: Stock Investing Is Just for Rich People

Think your typical stock

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Tips for Your 401(k) Plan

While 401(k) plan information may seem confusing, it is not as complex as it seems and may be vital to your retirement plans. Simply put: It pays to understand your 401(k) plan. Here are a few tips to help:

- **Maximize contributions** — As soon as you possibly can, begin making contributions to your 401(k) plan, contributing as much as your budget will allow. In 2022, you can contribute a maximum of \$20,500 to your 401(k) plan, plus an additional \$6,500 catch-up contribution for those over age 50, provided this is offered by your plan. Employers may set lower limits to ensure the plan complies with nondiscrimination rules.
- **Take advantage of employer matching contributions** — Many people don't take the time to learn how to take advantage of

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6 Myths

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investor looks like a Wall Street banker? That's a popular stereotype, but it's not a realistic one. People from all walks of life invest in stocks. Millions of Americans are invested in stocks through the mutual funds they own in a 401(k) plan or other investment accounts. And with the increasing availability of low-cost, online investing tools, you don't need to have millions to invest in stocks.

Myth #4: You Can Time the Market

Novice investors may think it's possible to time the market. In other words, they believe they can watch for signs and always buy when the market is at its lowest point and sell when it's at its peak. In reality, few of us have a crystal ball. You might get lucky sometimes, but pure market timers usually end up losing more money than they make. Few individuals are able to consistently and accurately predict what the market is going to do over the long term. Plus, emotions tend to get in the way when most of us invest, causing us to make rash decisions driven more by fear or greed than logic. Instead, many professionals recommend developing a long-term, consistent strategy and investing with that in mind, rather than attempting to get out in front of the market's swings.

Myth #5: A Stock That's Done Well in the Past Will Do Well in the Future

There's a reason that investing materials come with a disclosure: Past performance is no guarantee of future results. Even once-hot stocks can eventually tank. Remember companies like Kodak and Bethlehem Steel? Stock in these businesses once seemed like an ultra-safe investment to many, but the world changed and these companies flailed. Or, investors may suddenly sour on a stock that's enjoyed a nice run-up in value and then its share price plummets. That's not a reason to avoid stocks entirely, but it is a reason to pay attention to overall trends in the market and not get too caught up in the excitement over a particular company or industry.

Myth #6: I Watch a Lot of Financial News. I Can Pick Stocks with the Best of Them.

Everyone else is watching those same financial shows, so you're not getting any special knowledge or information that way. Financial markets are actually quite complex. That's why many people choose to work with financial professionals when investing, relying on their knowledge and expertise to help them make investment decisions. Please call if you'd like to discuss stock investing myths in more detail. ❍❍❍

Protect Your Family's Security

One of your first financial goals should be to protect your family's financial security from major catastrophes. To do so, consider these four items:

- ❍ **A cash reserve for short-term emergencies, such as a temporary job loss, major home repair, or large medical bill.** A common rule of thumb states that your cash reserve should equal two to six months of living expenses. However, how much you'll need depends on your age, health, job outlook, and borrowing capacity. You may need a larger reserve if you expect to be laid off or lose your job, you are the sole wage earner in the family, or your income fluctuates. A smaller reserve may be needed if you have more than one source of family income or you can borrow quickly, such as through a home-equity line of credit.
- ❍ **Adequate insurance in all major areas.** Your insurance needs will change over the years, so you may find yourself with too much or too little coverage. Thus, periodically review your life, disability, medical, and homeowner's insurance. Don't overlook disability income insurance, which can be very important if you can't work due to an illness or injury. Make sure your coverage replaces 60% to 80% of your income, cannot be canceled, and pays partial benefits when you can't return to work full time.
- ❍ **Umbrella liability insurance to protect against major lawsuits.** Umbrella policies are purchased in $1 million increments and kick in once limits of your homeowner's and automobile policies are exceeded. In addition to the items covered by those policies, an umbrella policy typically covers damages from use of non-owned property in your possession and from lawsuits for libel, slander, defamation of character, and invasion of privacy. While you might think you'll never need this coverage, most umbrella policy claims relate to automobile accidents.
- ❍ **A power of attorney.** A power of attorney gives an individual you designate the power to act on your behalf when you are incapacitated, allowing him/her to take over your finances and make investment decisions. ❍❍❍

Your 401(k) Plan

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employer matching. If your company offers a matching contribution, strongly consider contributing enough to take advantage of the maximum amount provided. Research your plan to determine the matching contribution, and then calculate how much you need to contribute to get the full match.

- **Diversify investments** — 401(k) plans typically offer numerous investment options, so review your plan's investments carefully to make sure you select ones that fit your particular goals, including an allocation plan that fits the long-term nature of the plan.
- **Limit company stock** — Since you know your company so well, you may feel you should make the company's stock a significant portion of your 401(k) plan. However, since your livelihood is already tied to that company, you don't want too much of your retirement funds to also be tied to the same company. Make sure you don't hold any more than 10% of total assets in your company stock.
- **Review your plan annually** — Review all these other factors annually to make sure your 401(k) plan is on track. Use the annual review as a time to go over the performance of your investments, making necessary adjustments if needed.
- **Don't touch your plan for other purposes** — If you leave or lose your job prior to retirement, make sure to protect your 401(k) plan. Any loans you have taken will likely have to be repaid within a month or two of leaving your job. Otherwise, the loan will be considered a distribution and taxes and penalties may be assessed. Don't be tempted to cash out your 401(k) plan. Not only will you be reducing your retirement savings, but you may have to pay steep taxes and penalties. Instead, either leave the funds in your former employer's 401(k) plan, or roll your balance over to an individual retirement account (IRA) or to another employer's 401(k) plan.

Following these tips will help you make the most of your 401(k) plan. Please call if you'd like to discuss this topic in more detail. ❍❍❍

How You Can Use P/E Ratios

The price/earnings (P/E) ratio is the price you pay for $1 of a company's earnings. For example, if a company reports basic or diluted earnings of $2 per share and the stock is selling for $20 per share, the P/E ratio is 10 ($20 per share divided by $2 of earnings per share).

To understand what a P/E ratio represents, consider what it means in terms of how much you would pay for a business you want to purchase. The value of that business would be largely determined by how much income it generates and how long it would take to recover the purchase price with that income. You might be willing to pay four or five times earnings (for a P/E ratio of 4 or 5), realizing it would take that many years to recover the purchase price.

This ratio helps you determine if a stock is over or undervalued, helps compare companies in the same industry, and helps to compare the return you are actually earning from the company compared to other investments, such as bonds or real estate.

Here's how it works. Both Company A and B are selling for $50 per share. Company A has reported earnings of $10 per share and Company B has reported earnings of $20 per share. Company A's P/E ratio is 5, while Company B's is 2.5. Company B is cheaper and is providing twice the earning power because for the same share price, an investor is getting $20 of earning as opposed to $10 of earnings.

There are also variances in P/E ratios by industry, because there are different expectations for different types of business.

The bottom line is you have to do your homework. If you want to buy a stock because it has an attractive P/E ratio, make sure you know why. It may be a great stock to purchase and is just undervalued, but be aware if the company is losing business or is poorly managed. It may also be that the entire industry is weak. Don't buy a stock just because it's cheap. Many investors also use the price/earnings growth ratio, also known as the PEG ratio, because it also factors in the growth rate of a company.

Please call if you'd like to discuss P/E ratios. ❍❍❍

Financial Data

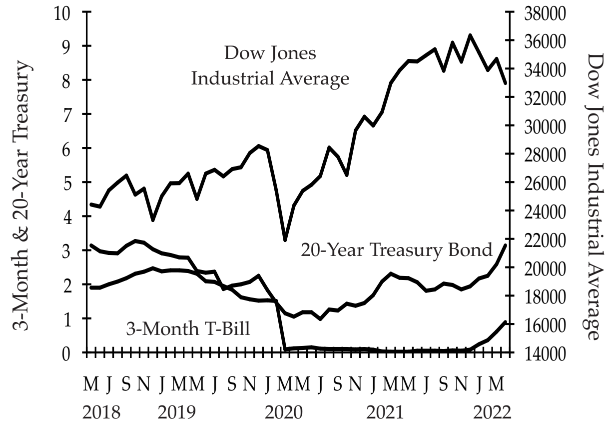
Indicator	Feb-22	Mar-22	Apr-22	Dec-21	Apr-21
	Month-end				
Prime rate	3.25	3.50	3.50	3.25	3.25
Money market rate	0.07	0.07	0.08	0.07	0.08
3-month T-bill yield	0.36	0.61	0.89	0.08	0.02
10-year T-bond yield	1.83	2.32	2.89	1.52	1.65
20-year T-bond yield	2.25	2.59	3.14	1.94	2.19
Dow Jones Corp.	3.31	3.72	4.33	2.48	2.37
30-year fixed mortgage	3.51	4.06	4.67	2.63	2.41
GDP (adj. annual rate)#	+2.30	+6.90	-1.40	+6.90	+6.30

Indicator	Month-end Feb-22	Month-end Mar-22	Month-end Apr-22	% Change YTD	% Change 12 Mon
Dow Jones Industrials	33892.60	34678.35	32977.21	-9.2%	-2.6%
Standard & Poor's 500	4373.94	4530.41	4131.93	-13.3%	-1.2%
Nasdaq Composite	13751.40	14220.52	12334.64	-21.2%	-11.7%
Gold	1909.85	1942.15	1911.30	5.9%	8.1%
Consumer price index@	281.15	283.72	287.50	3.4%	8.5%
Unemployment rate@	4.00	3.80	3.60	-14.3%	-40.0%

— 3rd, 4th, 1st quarter @ — Jan, Feb, Mar Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

May 2018 to April 2022



Past performance is not a guarantee of future results.

News and Announcements

How Much of Your Portfolio Should Be Invested in Stocks?

One of the most often asked questions is how much of a person's portfolio should be made up of stocks. It's a good question, and one that doesn't always have a clear-cut answer. The amount of stocks you should have in your portfolio will vary depending upon a number of different factors, including your age, current net worth, and penchant for taking risks. Still, there are a few basic rules of thumb that are worth adhering to, which should make fleshing out your portfolio less stressful.

If you're saving for retirement, most financial planners will recommend that the younger you are, the more of your portfolio should be allocated to stocks. As stocks are a relatively risky and volatile form of investment, this makes perfect sense. When we're young, taking risks tends to come along with less catastrophic consequences than when we're nearing retirement age. If formulas work for you, the general idea is to subtract your age from the number 100 to wind up with a safe percentage of stocks versus other investments. For example, 30-year-olds will often do well by allotting 70% of their portfolios to stocks, while 60-year-olds may want to reduce this percentage to 40%.

Of course, age is just one factor that influences portfolio allocations, and there are more aspects that need to be taken into consideration to make the right decisions. The best way to ensure that your portfolio is properly divided is to work with a financial planner who is fully aware of your situation and can make educated suggestions about how to move forward with your investments. After all, a formula can only get you so far, and personal recommendations will always be more valuable than guesswork. ❍❍❍

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