Nicholson Financial Services

Did You Know...?

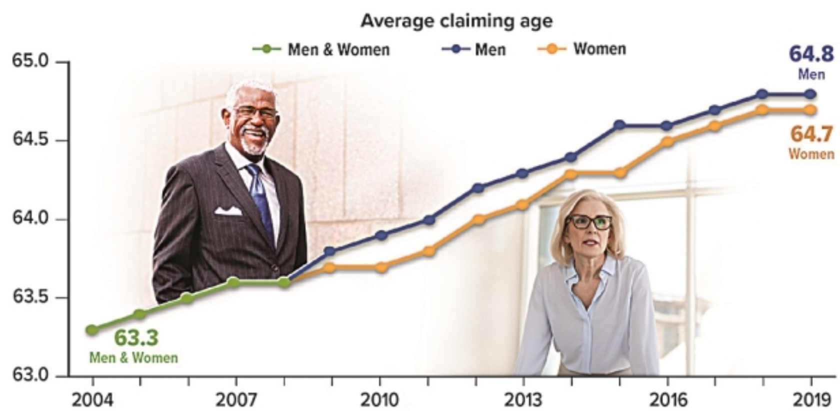
David S. Nicholson
Financial Advisor
Nicholson Financial Services, Inc.
89 Access Road
Ste. C
Norwood, MA 02062
781-255-1101
866-668-1101
david@nicholsonfs.com
www.nicholsonfs.com

RAYMOND JAMES®

Warren Buffett recently said "asset appreciation attracts those who know nothing of the asset." He makes a great point. People tend to flock towards perceived opportunities to make quick profits. However, I feel as if we are seeing a lot more of it than usual lately. Whether we look at the incredible appreciation of some stocks in the past year, the recent run of cryptocurrencies, or how insanely hot the residential real estate market is (Here in Boston, bidding wars have become commonplace. Buyers are waiving all contingencies including the inspection to win the house.), they all appear to have something in common. They are driven by FOMO (Fear Of Missing Out). Of course, not entirely and not everyone, but you can see how FOMO can impact these assets. Personally, I have always preferred the advice of Sir John Templeton: "Buy when others are desperately selling & sell when others are euphorically buying." That advice has served me well over the years. Happy Spring everyone!

More People Delay Claiming Social Security

The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.



Source: Social Security Administration, 2020

Growing Interest in Socially Responsible Investing

U.S. assets invested in socially responsible strategies topped $17.1 trillion at the start of 2020, up 42% from two years earlier. Sustainable, responsible, and impact (SRI) investments now account for nearly one-third of all professionally managed U.S. assets.[1] This upward trend suggests that many people want their investment dollars to pursue a financial return and make a positive impact on the world.

There is also wider recognition that good corporate citizenship can benefit the bottom line. A favorable public image might increase sales and brand value, and conservation efforts can help reduce costs, improving profit margins. Some harmful business practices are now viewed as reputational or financial risks that could damage a company's longer-term prospects.

ESG Explained

SRI strategies incorporate environmental, social, and governance (ESG) considerations into investment decisions in a variety of ways. ESG data for publicly traded companies is often provided alongside traditional financial data by investment research and rating services. Some examples of prominent ESG issues include climate change, sustainable natural resources, labor and equal employment opportunity, human rights, executive pay, and board diversity.

A simple exclusionary approach (also called negative screening) allows investors to steer clear of companies and industries that profit from products or activities they don't wish to finance. These choices can vary widely depending on the individual investor's ethics, philosophies, and religious beliefs, but alcohol, tobacco, gambling, and weapons are some typical exclusions.

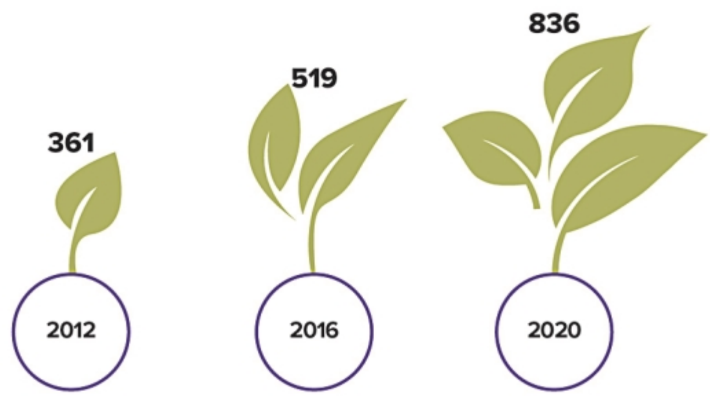
Similarly, positive screening can help investors identify companies with stronger ESG track records and/or policies and practices that they support. Impact investing is a less common strategy that directly targets specific environmental or social problems in order to achieve measurable outcomes.

There are also a variety of integrative approaches that combine robust ESG data with traditional financial analysis. These tend to be proactive and comprehensive, so they are less likely to avoid entire industries. Instead, analysts and portfolio managers may compare industry peers to determine which companies have taken bigger steps to meet environmental and social challenges, potentially gaining a competitive advantage.

Investment Opportunities

The range of investment vehicles used in SRI strategies includes stocks, mutual funds, exchange-traded funds (ETFs), and, to a lesser extent, fixed-income assets. Altogether, there are more than 800 different investment funds that incorporate ESG factors, and the field is expanding rapidly.[2]

Number of ESG Investment Funds



Source: US SIF Foundation, 2020

Many SRI funds are broad based and diversified, some are actively managed, and others track a particular index with its own collection of SRI stocks. ESG criteria can vary greatly from one SRI fund to another. Specialty funds, however, may focus on a narrower theme such as clean energy; they can be more volatile and carry additional risks that may not be suitable for all investors.

Socially responsible investing may allow you to further both your own economic interests and a cause that matters to you. Moreover, recent research suggests you shouldn't have to accept subpar returns in order to support your beliefs.[3]

As with any portfolio, it's important to pay attention to the composition and level of risk and to monitor investment performance. Be prepared to make adjustments if any of your holdings don't continue to meet your financial needs and reflect your values.

The return and principal value of SRI stocks and funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. There is no guarantee that an SRI fund will achieve its objectives. Diversification does not guarantee a profit or protect against investment loss.

Investment funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1-2) US SIF Foundation, 2020

3) *The Wall Street Journal,* March 16, 2020

Home-Sweet-Home Equity

Buying a home is a long-term commitment, so it's not surprising that older Americans are much more likely than younger people to own their homes "free and clear" *(see chart).* If you have paid off your mortgage or anticipate doing so by the time you retire, congratulations! Owning your home outright can help provide financial flexibility and stability during your retirement years.

Even if you still make mortgage payments, the equity in your home is a valuable asset. And current low interest rates might give you an opportunity to pay off your home more quickly. Here are some ideas to consider.

Enjoy Lower Expenses

If you are happy with your home and don't need to tap the equity, living free of a monthly mortgage could make a big difference in stretching your retirement dollars. It's almost as if you had saved enough extra to provide a monthly income equal to your mortgage. You still have to pay property taxes and homeowners insurance, but these expenses are typically smaller than a mortgage payment.

Consider Downsizing

If you sell your home and purchase another one outright with cash to spare, the additional funds could boost your savings and provide additional income. On the other hand, if you take out a new mortgage, you may set yourself back financially. Keep in mind that condominiums, retirement communities, and other planned communities typically have monthly homeowners association dues. On the plus side, these dues generally pay for maintenance services and amenities that could make retirement more enjoyable.

Borrow on Equity

If you stay in your home and want money for a specific purpose, such as remodeling the kitchen or fixing the roof, you might take out a home-equity loan. If instead you'll need to access funds over several years, such as to pay for college or medical expenses, you may prefer a home-equity line of credit (HELOC).

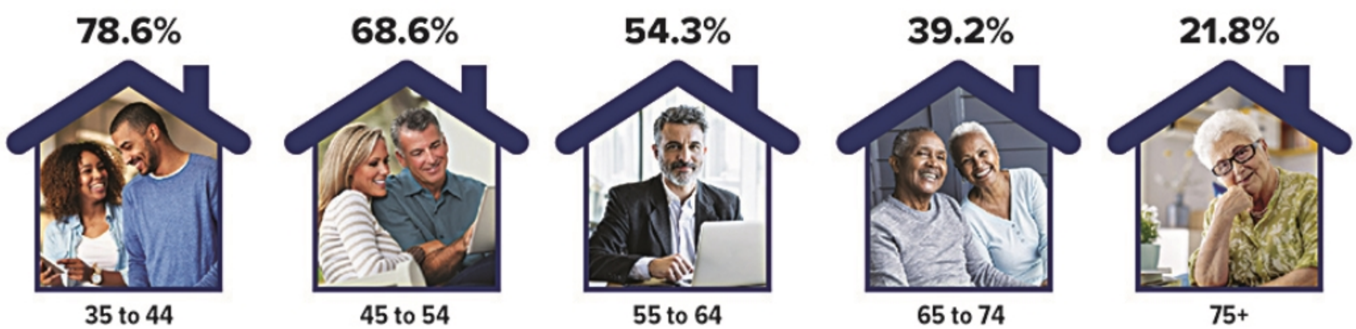
Home-equity financing typically has favorable interest rates because your home secures the loan. However, you are taking on another monthly payment, and the lender can foreclose on your home if you fail to repay the loan. In addition, you may have to pay closing costs and other fees to obtain the loan. Interest on home-equity loans and HELOCs is typically tax deductible if the proceeds are used to buy, build, or substantially improve your main home, but is not tax deductible if the proceeds are used for other expenses.

Refinance

With mortgage rates near historic lows, you might consider refinancing your home at a lower interest rate. Refinancing may allow you to take some of the equity out as part of the loan, but of course that increases the amount you borrow. While a refi loan may have a lower interest rate than a home-equity loan or HELOC, it might have higher costs that could take some time to recoup. And a new loan comes with a new amortization schedule, so even with lower rates, a larger portion of your payment may be applied to interest in the early years of the loan. Refinancing might be a wise move if the lower rate enables you to pay off a new mortgage faster than your current mortgage.

Paying Off the Mortgage

The percentage of homeowners with a primary regular mortgage declines steadily with age.



Primary regular mortgage statistics include home-equity lump-sum mortgages but not HELOCs or reverse mortgages.

Source: 2019 American Housing Survey, U.S. Census Bureau, 2020

A Steady Strategy

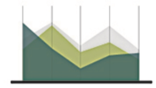
One of the most fundamental truths of investing is that you can't time the market. As legendary investor and economist Bernard Baruch put it, "Don't try to buy at the bottom and sell at the top. It can't be done except by liars."[1]

Even so, it's natural to wince a little when you buy an investment only to see the price drop, or sell only to see the price rise. And no matter how much you try to make objective decisions, you may be tempted to guess at market movements. One approach that might help alleviate some of your concerns is *dollar-cost averaging.*

Regular Investments

Dollar-cost averaging involves investing a fixed amount on a regular basis, regardless of share prices and market conditions. Theoretically, when the share price falls, you would purchase more shares for the same fixed investment. This may provide a greater opportunity to benefit when share prices rise and could result in a lower average cost per share over time.

If you are investing in a workplace retirement plan through regular payroll deductions, you are already practicing dollar-cost averaging. If you want to follow this strategy outside of the workplace, you may be able to set up automatic contributions to an IRA or another investment account. Or you could make manual investments on a regular basis, perhaps choosing a specific day of the month.



No matter how much you try to make objective decisions, you may be tempted to guess at market movements.

You might also use a similar approach when shifting funds between investments. For example, let's say you want to shift a certain percentage of your stock investments to more conservative fixed-income investments as you approach retirement. You could execute this in a series of regular transactions over a period of months or years, regardless of market movements.

Dollar-cost averaging does not ensure a profit or prevent a loss, and it involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, this can be an effective way to accumulate shares to help meet long-term goals.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost.

1) BrainyQuote, 2021