HORIZON WEALTH STRATEGIES, LLC

FINANCIAL NEWS DIGEST

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Avoid Biases When Investing

Courtesy of Horizon Wealth Strategies, LLC

Many investors have biases when they structure or make changes to their portfolios. Here are some to avoid:

Recency bias: This is the tendency to invest based on the most recent favorable performance. What happens in the short run does not necessarily reflect long-term trends, and it may not be consistent with long-term portfolio objectives.

Loss aversion bias: This is the tendency to avoid short-term losses anticipating a fall. It is impossible to predict tops and bottoms in the stock market. Investors who establish a stable "variable" to "fixed" ratio that is consistent with long-term objectives, and who periodically rebalance to maintain it, will likely do better than those who try to guess market tops and bottoms.

Confirmation bias: This is the tendency to seek information that reinforces beliefs rather than to look for objective information that might contradict their bias. Unless you have true expertise in a specific market segment, look for viewpoints and associated investments that may contradict preconceived notions regarding a narrow investment focus.

Home bias: This is the tendency to invest only in a market segment you understand. Investors need to consider sectors in which they don't have expertise. You don't need expertise in every market segment to be a successful investor.

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How to get your credit card's annual fee waived: *Start by calling and asking*—that is all it takes for some cards at some issuers. *If a polite request does not work,* explain why you are asking for a fee waiver—emphasize what a good customer you are, how long you have held the card, how much you use it and so on. *If that still does not work, inquire about a specific-use arrangement:* Some issuers will waive the fee if you spend a designated amount on the card within a specified time. *Helpful:* If you are unsure whether to keep your card because of its annual fee, explain this to the representative—you might get a fee waiver under customer-retention plans.
Source: USNews.com 2019

Did you know that to be wealthy in the US requires $2.27 million? That is the average based on what 1,000 adults said when they were surveyed as to what their net worth would have to be for them to consider themselves wealthy.
Source: Charles Schwab's 2019 Modern Wealth Survey

Safest new vehicles for less than $30,000: Small SUVS.: Mazda CX-5, Subaru Forester, Honda CR-V, Hyundai Tucson. *Sedans:* Toyota Camry, Subaru Legacy, Hyundai Sonata, Kia Optima. *Pickups:* Ford F-150, Honda Ridgeline.
Source: Kiplinger.com 2019

"In charity there is no excess."
—Sir Francis Bacon
(1561 - 1626)

Families Take On College Debt They Can't Handle

By Jill Schlesinger, Tribune Content Agency

When I talk about paying for college, I proffer the usual advice: Build your family's financial foundation (pay down debt, establish an emergency reserve fund and maximize retirement plan contributions) BEFORE trying to tackle college funding; talk to your kid as early as freshman year in high school about what the family can afford; and don't shortchange your own or your child's financial future by amassing mounds of debt.

But after countless conversations on the topic, I am often left with the feeling that people are unlikely to heed my advice. After I interviewed economic anthropologist Caitlin Zaloom, I better understood why college funding is so confounding.

In her book "Indebted: How Families Make College Work at Any Cost," Zaloom argues that "the problem of paying for college today involves such profound moral, emotional and economic commitments that it has, in fact, redefined the experience of being middle class." Zaloom defines middle class as those who make too much money to qualify for major grants, but not enough to save or pay for college out of cash flow.

Zaloom underscores that a college degree has become an important credential in the U.S. labor force and can be a pathway to financial success. As a result, providing the opportunity to attend college has become almost a moral obligation for parents (and grandparents).

But this obligation has become more and more difficult to fulfill over the past few decades, as incomes have stagnated and college costs soar. To bridge the gap, "middle class families must now make their way through a thicket of financial policies and programs" that Zaloom calls "the student finance complex."

That complex includes the Department of Education, but there are also banks, universities and financial institutions that provide the funding necessary to claim that golden ticket: the college diploma. After conducting 160 in-depth interviews across the country with college students and their families, Zaloom found that most of those involved in the process knew full well that educational loans were expensive, but they believed that college was the best way to cultivate "open futures" for their children. "Ultimately, middle-class families value their children's potential above all else."

According to a survey from student loan originator Sallie Mae, 84 percent of families believe college will help their student get a better paying job and 90 percent view college as an investment. Of course like all investments, this one has risk. Zaloom says the steep cost of a college degree has pushed middle-class families to assume risk or "social speculation," where parents must bet that money saved or borrowed today will translate into a pay off in the future. "Unfortunately, there is no guarantee that this bet will pay off — for the parents or the children."

This child-first mentality can thwart the parental goal of creating emotionally and financially independent children. That's because the student finance complex "links students to their families for well into their adult lives, drawing down parents' resources at the very same time that they nudge their children toward autonomy."

Ask Kip: Does Rental Income Count For IRA Contributions?

ByPatricia Mertz Esswein, Kiplinger's Personal Finance

Q: *I'm a retired real estate agent, and I manage rental properties. Does my rental income count as having a job for the purpose of contributing to an IRA?*

A: No, earnings and profits from property don't count. Contributions to traditional and Roth IRAs must come from "active" income — that is, compensation from working. It can include wages, salaries, tips, professional fees, bonuses and other

amounts you receive for providing personal services, as well as commissions and self-employment income.

If you work for wages or a salary, you'll receive an IRS Form W-2 for qualifying income, or if you're an independent contractor or are self-employed, you'll receive a Form 1099 MISC. Another way to know that your income qualifies is if you pay FICA or self-employment tax on it.

Earnings and profits from property, such as rental income, don't count as compensation. Rental income is considered passive income — That is, "money made on money," says Ed Slott, a CPA and IRA expert. Interest and dividends are also forms of passive income.

Slott suggests a couple of workarounds: You could form your own property-management company as a corporation or limited-liability company and become its employee. Then you could have a solo 401(k).

Or, if you file a joint return with your spouse and your spouse has earned income, you could each contribute to your own IRAs — as long as your spouse earns enough income to cover each of your contributions. In that case, you can use your rental income to fund your spousal IRA.

For 2020, your total annual contributions to your traditional and Roth IRAs can't exceed \$6,000 (\$7,000 if you're age 50 or older) or your taxable compensation for the year, if your compensation was less than that dollar limit.

If you and your spouse are funding a regular and spousal IRA, the combined contributions can't exceed the taxable compensation that you report on your joint return.

Note that your Roth IRA contribution might be limited based on your filing status and income. Singles can make a full or partial contribution to a Roth if their income is up to \$139,000 in 2020. Married joint filers are eligible to make a full or partial contribution to a Roth if their income is up to \$206,000 in 2020. You can make a contribution for 2019 up until April 15, 2020.

"My short-term financial goal is to survive until Tuesday. My long-term financial goal is to survive until Friday."

To stop harassment for debts you do not owe, start by disputing a debt—you must do this within 30 days of being informed of it, and should do so in writing via certified mail. The debt collector must then send what it considers to be documentation of the debt. You can then gather proof that you do not owe the money. If the debt collector persists, notify the company—again, in writing by certified mail—not to contact you again. By law, the debt collector must comply, but it still can take you to court. If you are sued for a debt, respond immediately and get an attorney—the courthouse may be able to help if you cannot afford one. Never ignore a summons, or the debt collector will win by default. If you are being harassed or a firm is not following the law, file a complaint with the Consumer Financial Protection Bureau (ConsumerFinance.gov). You also have the right to sue debt-collection firms.

Source: Consumer Reports - CR.org 2019

"I have enough money to last me the rest of my life, unless I buy something."

—Jackie Mason

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Making The Most Of Cash-back Rewards Cards

By Eleanor Laise, Kiplinger's Personal Finance

The easiest method to rev up your cash-reward rate is to rely on a single card that earns more than 1% per dollar spent. Citi Double Cash Mastercard pays a flat 2% on all purchases, as does the Fidelity Rewards Visa Signature (but you must deposit your rewards from the card into a Fidelity account). Other cards, such as the Capital One Quicksilver visa, return 1.5% on everything. (Unless noted otherwise, the cards do not carry annual fees.)

Next, layer on one or two more cards with higher payback in categories in which you spend the most, such as dining, groceries or gas. Dining is a hot category right now, with several cards, including the Uber Visa and Capital One Savor Rewards Mastercard ($95 annual fee, waived the first year), earning 4% or more at restaurants.

Sticking with cash-back cards that offer fixed bonus categories is easiest. If you choose cards such as the Chase Freedom VISA or Discover It, which hike earnings on new categories to 5% each quarter, you will need to activate the categories each quarter to earn the higher rate. (Recent 5% categories on those cards included home improvement stores, grocery stores, gas stations and ride sharing. Fourth-quarter categories usually focus on shopping.)

A couple of other cards, including the U.S. Bank CASH+ visa signature, let you choose the categories that earn additional cash back, including such options as TV, internet and streaming services, home utilities, and cellphone bills.

Stay away from retail cards unless you're loyal to that store and shop there frequently, says Ted Rossman, industry analyst at CreditCards.com. "The sign-up bonuses are lacking compared with general-purpose cards, and even the ongoing rewards are not as attractive," he says.

Some cash-back cards have a catch: They cap your bonus earnings each year or quarter and drop the rate to 1% once you hit your limit. You may not worry about blowing through a $1,500 quarterly cap on, say, gas and drugstores, but a family could easily surpass the $6,000 annual limit for 6% cash back on groceries with the American express blue cash preferred ($95).

Track your spending so you can revert to a card that earns more than 1% back until the clock resets. At the same time, familiarize yourself with how your credit card issuer defines its categories. For example, it's common for credit cards to exclude gas or groceries from the top-earning gas or grocery category when you buy those items at superstores, such as Walmart and Target, or wholesale clubs, such as Costco Wholesale and Sam's Club.