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Hi friends and clients!
We hope everyone is enjoying the summer. Take it all in before September arrives!
We realized our paper newsletter mentioned that we have tickets for the Field of Dreams game, but neglected to mention it is the Portland Sea Dogs. We have a handful of general admission tickets available on a first-come, first served basis. The game is August 27th at 6:00 pm.
Lastly, we are taking applications for a receptionist/administrative assistant position. The ad is posted on www.centralmainehelpwanted.com . Anyone interested can also e-mail a resume to ken@dnretire.com.
Enjoy this month's articles.

Jim, Ken, Megan, & Sharon

August 2016 Financial Fitness

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Financial Fitness

Duncklee & Nott Monthly Newsletter

Investors Are Human, Too

In 1981, the Nobel Prize-winning economist Robert Shiller published a groundbreaking study that contradicted a prevailing theory that markets are always efficient. If they were, stock prices would generally mirror the growth in earnings and dividends. Shiller's research showed that stock prices fluctuate more often than changes in companies' intrinsic valuations (such as dividend yield) would suggest.[1]

Shiller concluded that asset prices sometimes move erratically in the short term simply because investor behavior can be influenced by emotions such as greed and fear. Many investors would agree that it's sometimes difficult to stay calm and act rationally, especially when unexpected events upset the financial markets.

Researchers in the field of behavioral finance have studied how cognitive biases in human thinking can affect investor behavior. Understanding the influence of human nature might help you overcome these common psychological traps.

Herd mentality

Individuals may be convinced by their peers to follow trends, even if it's not in their own best interests. Shiller proposed that human psychology is the reason that "bubbles" form in asset markets. Investor enthusiasm ("irrational exuberance") and a herd mentality can create excessive demand for "hot" investments. Investors often chase returns and drive up prices until they become very expensive relative to long-term values.

Past performance, however, does not guarantee future results, and bubbles eventually burst. Investors who follow the crowd can harm long-term portfolio returns by fleeing the stock market after it falls and/or waiting too long (until prices have already risen) to reinvest.

Availability bias

This mental shortcut leads people to base judgments on examples that immediately come to mind, rather than examining alternatives. It may cause you to misperceive the likelihood or frequency of events, in the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean.

Confirmation bias

People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be likely to ignore critical facts and focus on data that supports your opinion.

Overconfidence

Individuals often overestimate their skills, knowledge, and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

Loss aversion

Research shows that investors tend to dislike losses much more than they enjoy gains, so it can actually be painful to deal with financial losses.[2] Consequently, you might avoid selling an investment that would realize a loss even though the sale may be an appropriate course of action. The intense fear of losing money may even be paralyzing.

It's important to slow down the process and try to consider all relevant factors and possible outcomes when making financial decisions. Having a long-term perspective and sticking with a thoughtfully crafted investing strategy may also help you avoid expensive, emotion-driven mistakes.

Note: *All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.*

1 *The Economist,* "What's Wrong with Finance?" May 1, 2015

2 *The Wall Street Journal,* "Why an Economist Plays Powerball," January 12, 2016

Finding and Claiming Forgotten Funds

Do you have a tax refund waiting for you?

Each year, millions of dollars in tax refunds go unclaimed. In March 2016, the IRS announced that it was holding $950 million in unclaimed refunds as a result of taxpayers failing to file a federal income tax return for 2012. (Source: IR-2016-38, March 10, 2016)

You may have missed out on a potential tax refund because you earned income and had taxes withheld but weren't required to file a tax return, or if you were eligible for refundable tax credits (where the amount of the credit you qualify for exceeds the amount of tax you owe). Even if you did file a tax return, your refund may have been undeliverable if your address was incorrect.

For more information on finding and claiming missing federal income tax refunds, visit irs.gov.

As a child, you may have dreamed about finding buried treasure, but you probably realized at an early age that it was unlikely you would discover a chest full of pirate booty. However, the possibility that you have unclaimed funds or other assets waiting for you is not a fantasy.

According to the National Association of Unclaimed Property Administrators (NAUPA), $41.7 billion is waiting to be returned by state unclaimed property programs. So how do you find what is owed to you, even if it's not a fortune?

State unclaimed property programs

Every state has an unclaimed property program that requires companies and financial institutions to turn account assets over to the state if they have lost contact with the rightful owner for one year or longer (such as when the account has been inactive). It then becomes the state's responsibility to locate the owner. State-held property generally can be claimed in perpetuity by original owners and heirs.

For state programs, unclaimed property might include the following:

- Financial accounts
- Stocks
- Uncashed dividend or payroll checks
- Utility deposits
- Insurance payments and policies
- Trust distributions
- Mineral royalty payments
- Contents of safe-deposit boxes

To see whether you have unclaimed assets, you may have to search your state's database and the databases of states where you formerly lived or worked. It's possible that funds or assets are still waiting for you even if you moved away years ago. Fortunately, most states participate in a national database that you can search for free at MissingMoney.com.

Finding "lost" life insurance policies might take some legwork. Life insurance companies that can't locate a beneficiary must generally turn over benefits from an individual policy to state unclaimed property programs, but might not do so if the company does not know that the policy owner has passed away. If you believe that a family member owned life insurance but can't find the physical policy, you may need to look for evidence of it by searching personal records and files (assuming you have the authority to do so) or by contacting the policy owner's insurance agent, attorney, or other financial professionals.

Federal unclaimed property programs

The federal government also tracks unclaimed property, including:

- Tax refunds
- Pension funds
- Funds from failed banks and credit unions
- Funds owed investors from U.S. SEC enforcement cases
- Refunds from FHA-insured mortgages
- Unredeemed savings bonds that are no longer earning interest

Unlike states, the federal government does not have a central website for finding unclaimed money or assets, so you'll need to check a number of sources, including one of the biggest sources of unclaimed funds--the IRS--at irs.gov. To find out more about other federal programs that may hold unclaimed property, visit the NAUPA website, unclaimed.org.

Submitting a claim

To claim property, follow the instructions given, which will vary by the type of asset and where the property is held. You'll need to verify ownership, typically by providing information about yourself (such as your Social Security number and proof of address), and submit a claim form either online or by mail.

What if the listed property owner is deceased? A claim may be made by a survivor and will be payable according to state or federal law. For life insurance, you may need the full name and Social Security number of the deceased individual, a copy of the death certificate, and in some cases proof that you were the named beneficiary.

Be careful

Private companies may be paid to locate rightful owners and/or offer to help rightful owners obtain property for a fee, but legitimate companies will ask you to pay only after you receive your property. State laws limit fees companies charge, so check with your state before you sign any agreement. However, in most cases you should be able to find the same property for free by checking state or federal databases. Carefully check out anyone who contacts you, because some scammers will claim to have property or represent that they are from a government agency in order to obtain other information about you or your finances. For more information about protecting yourself, visit the Federal Trade Commission's consumer information site, consumer.ftc.gov.

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Be Prepared to Retire in a Volatile Market

Market losses on the front end of your retirement could have an outsized effect on the income you might receive from your portfolio.

In an ideal world, your retirement would be timed perfectly. You would be ready to leave the workforce, your debt would be paid off, and your nest egg would be large enough to provide a comfortable retirement--with some left over to leave a legacy for your heirs.

Unfortunately, this is not a perfect world, and events can take you by surprise. In a survey conducted by the Employee Benefit Research Institute, only 44% of current retirees said they retired when they had planned; 46% retired earlier, many for reasons beyond their control.[1] But even if you retire on schedule and have other pieces of the retirement puzzle in place, you cannot predict the stock market. What if you retire during a market downturn?

Sequencing risk

The risk of experiencing poor investment performance at the wrong time is called sequencing risk or sequence of returns risk. All investments are subject to market fluctuation, risk, and loss of principal--and you can expect the market to rise and fall throughout your retirement. However, market losses on the front end of your retirement could have an outsized effect on the income you might receive from your portfolio.

If the market drops sharply before your planned retirement date, you may have to decide between retiring with a smaller portfolio or working longer to rebuild your assets. If a big drop comes early in retirement, you may have to sell investments during the downswing, depleting assets more quickly than if you had waited and reducing your portfolio's potential to benefit when the market turns upward.

Dividing your portfolio

One strategy that may help address sequencing risk is to allocate your portfolio into three different buckets that reflect the needs, risk level, and growth potential of three retirement phases.

Short-term (first 2 to 3 years): Assets such as cash and cash alternatives that you could draw on regardless of market conditions.

Mid-term (3 to 10 years in the future): Mostly fixed-income securities that may have moderate growth potential with low or moderate volatility. You might also have some equities in this bucket.

Long-term (more than 10 years in the future): Primarily growth-oriented investments such as stocks that might be more volatile but have higher growth potential over the long term.

Throughout your retirement, you can periodically move assets from the long-term bucket to the other two buckets so you continue to have short-term and mid-term funds available. This enables you to take a more strategic approach in choosing appropriate times to buy or sell assets. Although you will always need assets in the short-term bucket, you can monitor performance in your mid-term and long-term buckets and shift assets based on changing circumstances and longer-term market cycles.

If this strategy appeals to you, consider restructuring your portfolio before you retire so you can choose appropriate times to adjust your investments.

Determining withdrawals

The three-part allocation strategy may help mitigate the effects of a down market by spreading risk over a longer period of time, but it does not help determine how much to withdraw from your savings each year. The amount you withdraw will directly affect how long your savings might last under any market conditions, but it is especially critical in volatile markets.

One common rule of thumb is the so-called 4% rule. According to this strategy, you initially withdraw 4% of your portfolio, increasing the amount annually to account for inflation. Some experts consider this approach to be too aggressive--you might withdraw less depending on your personal situation and market performance, or more if you receive large market gains.

Another strategy, sometimes called the endowment method, automatically adjusts for market performance. Like the 4% rule, the endowment method begins with an initial withdrawal of a fixed percentage, typically 3% to 5%. In subsequent years, the same fixed percentage is applied to the remaining assets, so the actual withdrawal amount may go up or down depending on previous withdrawals and market performance.

A modified endowment method applies a ceiling and/or a floor to the change in your withdrawal amount. You still base your withdrawals on a fixed percentage of the remaining assets, but you limit any increase or decrease from the prior year's withdrawal amount. This could help prevent you from withdrawing too much after a good market year, while maintaining a relatively steady income after a down market year.

Note: *Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.*

[1] Employee Benefit Research Institute, "2016 Retirement Confidence Survey"

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Have you heard about the newest employee perk?

What's one of the most cutting-edge employee benefits right now? Company-provided student loan assistance for employees who are paying back student loans.

With a record amount of student loan debt attached to the incoming workforce (visit finaid.org to see a student debt clock that now tops $1.3 trillion), companies that rely on a college-educated workforce--and want to attract and retain the best workers--are starting to offer student loan assistance to meet this immediate financial concern of many employees.

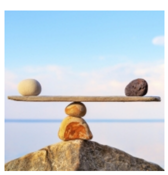
How do these programs work? Generally, an employer will contribute a certain amount each month toward an employee's student loans, typically from $100 to $250 per month, up to a lifetime cap (for example, $10,000). Programs may restrict participation to employees who have been with the company for a minimum period of time, and may require employees to remain at the company for a certain period of time after they receive loan repayment benefits.

But participants beware: Unlike matching 401(k) contributions that companies may give to employees, money given to help repay student loans is considered taxable income. Yet for college graduates facing thousands of dollars of debt and years of loan repayment, this employee benefit can be an attractive perk. Along with the actual financial help, borrowers may get a psychological boost from knowing that they have a plan in place to successfully pay off their loans and that their employer is invested in the outcome.

Even with the early hype, company student loan repayment programs are still a relatively uncommon employee benefit. According to a 2015 employee benefit survey by the Society for Human Resource Management, these plans were offered by only 3% of the more than 450 companies surveyed. Essentially, a handful of large employers that hire a large number of college grads are at the forefront of this trend.

Industry observers expect a lot of pent-up demand for this employee benefit as millennials' student debt burdens continue to garner widespread attention and employee retention efforts intensify as the economy improves. A company's contribution probably won't cover 100% of a young employee's student debt, but it might make a meaningful and welcome dent.

Should I pay off my student loans early or contribute to my workplace 401(k)?



For young adults with college debt, deciding whether to pay off student loans early or contribute to a 401(k) can be tough. It's a financial tug-of-war between digging out from debt today and saving for the future, both of which are very important goals. Unfortunately, this dilemma affects many people in the workplace today. According to a student debt report by The Institute for College Access and Success, nearly 70% of college grads in the class of 2014 had student debt, and their average debt was nearly $29,000. This equates to a monthly payment of $294, assuming a 4% interest rate and a standard 10-year repayment term.

Let's assume you have a $300 monthly student loan payment. You have to pay it each month--that's non-negotiable. But should you pay more toward your loans each month to pay them off faster? Or should you contribute any extra funds to your 401(k)? The answer boils down to how your money can best be put to work for you.

The first question you should ask is whether your employer offers a 401(k) match. If yes, you shouldn't leave this free money on the table. For example, let's assume your employer matches $1 for every dollar you save in your 401(k), up to 6% of your pay. If you make $50,000 a year, 6% of your pay is $3,000. So at a minimum, you should consider contributing $3,000 per year to your 401(k)--or $250 per month--to get the full $3,000 match. That's potentially a 100% return on your investment.

Even if your employer doesn't offer a 401(k) match, it can still be a good idea to contribute to your 401(k). When you make extra payments on a specific debt, you are essentially earning a return equal to the interest rate on that debt. If the interest rate on your student loans is relatively low, the potential long-term returns earned on your 401(k) may outweigh the benefits of shaving a year or two off your student loans. In addition, young adults have time on their side when saving for retirement, so the long-term growth potential of even small investment amounts can make contributing to your 401(k) a smart financial move.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.

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