NEWSLETTER
SPRING 2024

TOWNSEND

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Timing Matters for Retirement Planning

When you're younger, time is on your side when it comes to investing for retirement, however many people put it off thinking that they have plenty of time. Many don't realize how much capital is required to replace income. Waiting to start investing means you'll have to play catch-up later which we all know is difficult to do, even with today's $7,500 401(k) catch-up provision.

Here at Townsend, we believe planning pays big dividends and the earlier one starts the better. However, the last five years before you retire is an excellent time to see if your preparation and planning is on track and make adjustments if needed. At this point there's one big question you need to answer: Can I afford it?

Many people may be putting their retirement dreams at risk because they haven't saved enough to support their lifestyle. It takes a lot of capital to replace income. Simply put, it takes about 25 times the income you'll need to supplement your Social Security and pension, if you are lucky enough to have one. If you're more than a year from retirement, you'll need to increase that amount by 3% for each year until retirement.

IN THIS ISSUE......

We have found that a lot of people underestimate how much income they'll need by over 20%. I think that it's safe to say that most of us want to maintain our pre-retirement lifestyle. When planning a retirement budget there are lot of overlooked expenses such as healthcare costs, this includes insurance premiums and out-of-pocket expenses. If you are retiring prior to 65 (Medicare age) you could be looking at spending more than $20,000 per year as a couple between health insurance premiums and deductibles. According to a 2023 Fidelity Investments study they estimate a 65-year-old couple will spend $315,000 in out-of-pocket costs (not including long-term care costs) during their retirement. That means that you either need to have that amount earmarked from your retirement savings or add about $1,000 per month into your budget.

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Other often overlooked expenses are home repairs, unexpected medical issues, car repairs and/or replacements, travel, hobbies, gifts, contingencies, etc...., and let's not forget inflation. Figuring a 3% inflation rate means that the cost of retirement may double over your retirement years.

It's always a good idea to keep track of your expenses but even more so as you near retirement. Will your retirement income support your expenses for 25 years or more? There are a lot of tools available to track expenses, but I prefer to use a simple excel spreadsheet. If you would like to use the spreadsheet that I use email me at **Jeff@TownsendRetirement.com**.

There's a lot more to retirement planning than budgeting such as:

- Managing your investments through good and bad markets by yourself if you can honestly say that you possess the skill set or have professionals do it.
- Developing a withdrawal strategy to help ensure that your money lasts as long as you do.
- Tax reduction strategies.
- Having a non-financial retirement plan – having a purposeful retirement, and
- Estate planning which represents your wealth and values.

The last five years before you retire can pass in the blink of an eye and there's no time to waste when it comes to finalizing your plans and goals. Taking time to review where you are and where you hope to be can help to ensure that you don't come up short once it's time to leave the workplace behind for good.

If you've planned well and remained consistent with your plan you may not need to do much tweaking in the last five years before you retire. On the other hand, if your plan has some holes or you've yet to start planning or your plan needs to be updated, we're here to help.

Jeff

Jeff Townsend, CEO, CRPC

SAVE THE DATE!

TOWNSEND'S GOLF TOURNAMENT
FRIDAY, JUNE 21, 2024
LEGACY RIDGE GOLF COURSE

AN OFFICIAL INVITATION TO FOLLOW

NEWSWORTHY ITEMS

- Our Educational Webinars – Most of our educational presentations will be conducted through Zoom this year. While we have always enjoyed seeing clients at our live presentations, we want to make it easier for everyone to attend, including our out-of-state clients. No more fighting traffic!

- Volunteering – We are very fortunate to have so many clients who volunteer their time when asked. Unfortunately, non-profits typically limit us to no more than 50 volunteers at these events. We are trying our best to find additional volunteer opportunities. Check out our new feature Near and Dear to Our Hearts. We will be highlighting charities you support. If you have any ideas, please share with Savanna.

- We've all heard that money can't buy happiness, but it appears that it can. According to Empower 59% of Americans surveyed said that money can buy happiness, and the price tag to be happy is an average of $1.2 million. The average Gen Z American says that it would take only $488 k to make them happy. The average Millennial says that $1.7 million would make them happy.

- The odds for a positive year seem to be pretty good – 2024 will be year four of the four-year presidential election cycle for the stock market. Since 1928, year four has been the second-best year of the four-year cycle for the S&P 500 almost 74% of the time, with a median gain of 9.5%. Year three ranks as the best with gains 83% of the time. Year two ranks as the worst with gains just 54% of the time (source: Bespoke).

- Ever hear of coffee badging? According to a recent survey conducted by Owl Labs only 22% of workers want to be in the office full-time, 37% want hybrid work, and 41% prefer to work fully remote. 58% of hybrid workers who show up to work to the office stay long enough to have a cup of coffee, swipe their badge and leave to work from home. Can you imagine if retailers, doctors and first responders did that?

- What's mine is yours – A study of engaged and newlywed couples found that those who merge their money into joint bank accounts had stronger relationships in the first two years of marriage. Those who kept their money in separate accounts experienced significant declines in their relationships (source: Journal of Consumer Research).

- The end of an era – New England Patriots coach Bill Belichick and Alabama Crimson Tide coach Nick Saban stepped down from their teams shortly after their season. During their tenures, each coach took their team to championship games nine times, and each won the championship title six times. A tough act to follow! (source: NFL.com)

WHY YOU SHOULDN'T ADD YOUR CHILD'S NAME TO YOUR ASSETS

Many people believe that an easy way to avoid probate or to enable their children to assist them as they get older is to add their child's name to their bank accounts, investment accounts and the deed to their home.

Here are several reasons this approach is not recommended:

1. The bank account or home will be at risk if your child gets sued. If your child causes a severe car accident or has someone get injured on their property, you may find that your account is getting pulled into your child's lawsuit.

2. The account or home will be at risk for your child's debts, creditors, and potential bankruptcy. If your child gets into debt, has creditor issues or has to file for bankruptcy, your home may be in jeopardy.

3. If your child goes through a divorce, your former son or daughter-in-law may try to pull your account into the divorce proceeding if your child is listed as an owner on the account.

4. If you die, the account or home will only pass to the child whose name is listed on the title. If you add your child's name to your accounts for convenience purposes, then the entire bank account will pass to that child and he or she is not obligated to share it with your other children. If they do share, they might be required to file a gift tax return.

5. Adding a child to an investment account or your real estate can result in unfavorable income tax consequences upon your death. If the investments or real estate grew in value between the time you purchased it and the date of your death, your child will not receive a step-up in the tax basis of the asset which could cause them to miss out on a huge tax savings opportunity.

6. If your child is in an accident or has a sudden health event and is left disabled or incapacitated, they may be required to spend your money paying for their care before they qualify for Medicaid, SSI, or other government assistance and disability benefits.

7. Your son-in-law or daughter-in-law could end up in control of your account. If your child sets up a durable power of attorney and names their spouse as their agent, the spouse then has the authority to manage all bank accounts that your child owns. This could include your account if you list your child as a joint owner.

8. If your child is listed on the deed to your home, you won't be able to sell or refinance your house without their consent and signature. When you sell the home, he or she is entitled to half of the sales proceeds. If the child returns the sales proceeds to you, then your child may be required to file a gift tax return.

9. Adding your child to an account or deed may constitute a gift requiring the filing of a gift tax return with the IRS.

There are more effective estate planning tools that can help you avoid probate and allow a child to assist you as you get older. Contact me and let's discuss your options.

Sallie Diamond, JD
Legacy Planner
Sallie@TownsendRetirement.com

"Mimicking the herd invites regression to the mean." -Charles T. Munger

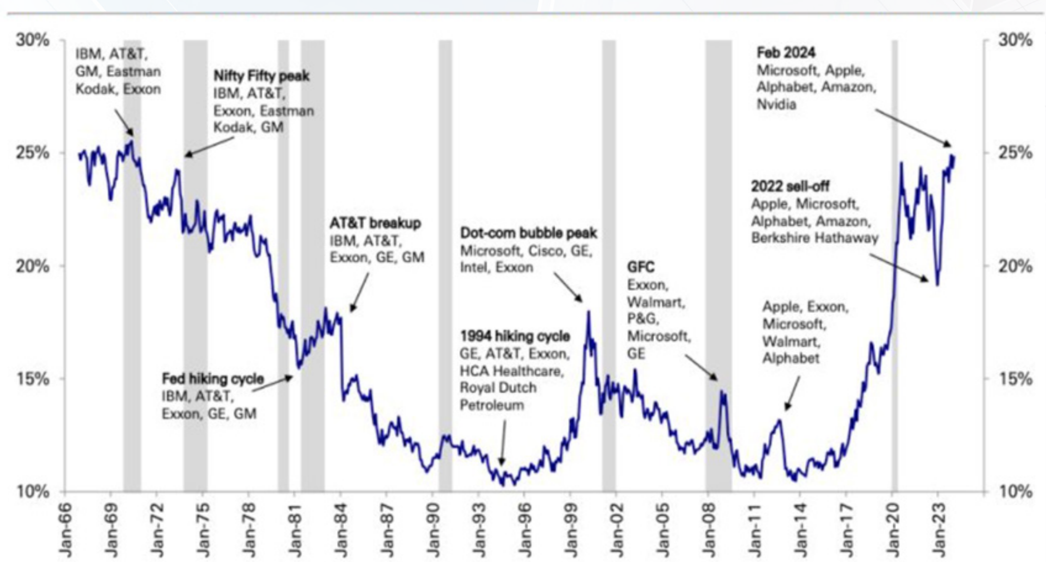
Muscle Memory

In the 1st quarter of 2024 the same dynamics were at play as during the 4th quarter of 2023. Financial conditions were easy amidst rising home prices, stock prices stayed buoyant, and the official rate of inflation eased. Stocks trended upward due to the 'muscle memory' of passive, quant and algorithmic investors that mechanically dump money into index funds and programs. It is 'muscle memory' because this large cohort of investors all do mostly the same thing, react the same way to the same data and buy the same stocks. For now.

The economy also has remained resilient -- defying many of the doomsayers' predictions of a recession. The majority of gains in stock prices, however, were largely concentrated in a handful of mega-cap tech stocks. Narrow leadership like this, where just a very few positions carry the market higher, argues for continued conservatism in an investment approach.

Why?

Markets with very narrow leadership have often been seen to precede strong bear markets. This is not a prediction or a warning, but rather a case for us to continue paying attention to risk. The following chart shows the level of concentration of the top 5 companies (as a percent) of the S&P 500 through time. It illustrates that the current combined weighting of the top 5 stocks in the S&P 500 has approached that of the famed "Nifty-Fifty" era of the late 60s-early 70s. The Nifty Fifty refers to the large companies that dominated the indexes at that time that investors believed could be bought regardless of price. That belief was false and those stocks dramatically underperformed for a long time because they simply became significantly overpriced. Price does matter.



Source: DB Asset Allocation, Deutsche Bank

A Look to the Past

The narrow leadership of the post-2008 crisis, currently called 'the Magnificent 7', has been extraordinary. But the history of rallies led by a handful of companies suggests that special attention should be paid to changes in trend because the ensuing bear markets have been harsh. I am not trying to make a case that today's level of concentration is unprecedented, or that things are about to fall apart. Markets have indeed been concentrated before, if not more concentrated. And conditions can remain stable for a while.

But it is important to remember that the "Nifty-Fifty" era I mentioned before was followed by the punishing stock markets of the 70s. The Internet Bubble at the turn of the century, also led by a handful of stocks of technology companies, resulted in an over 80% decline in the NASDAQ index (composed of mostly technology stocks) and a tough broad-based bear market in the early 2000s. The rally that preceded the 1929 market crash was heavily concentrated in radio and a relative handful of other companies. In the 19th century, narrowly led bull markets concentrated in canal and railroad shares were also followed by sharp market downturns.

(Cont. on Page 6)

Things Have Changed

Many things, of course, are different now. The Federal Reserve intervenes regularly with a heavy hand to create liquidity. It even buys securities outright to prop up prices. Market structures too have changed: Huge amounts of capital are allocated to so-called 'passive investments', which track indexes – the S&P 500 being by far the most popular. Passive investments now represent 53% of total invested assets, up from 10% in the year 2000[1]. And when passive investments are wildly popular, by definition, the most money automatically goes into the largest stocks. Passive investors care little about price.

David Einhorn, the CEO of hedge fund Greenlight Capital says that because of the dominance of passive and 'quant' investors the market's pricing mechanism is "fundamentally broken."

A Deeper Look at Passive Investments

The popularity of passive investments is understandable. They offer low fees, an ability to gain diversified exposures and are tax efficient. They are easy to implement, super-liquid and intellectually undemanding. Also, 80% of actively managed mutual funds have historically underperformed broad market indices – further contributing to their appeal, (there is a reason that explains this but it is beyond the scope of this article).

But great results in anything are rarely achieved by being "passive." Of course, that is true in any aspect of life whether it is relationships, careers, health or our investments. The ease of use of passive vehicles has reduced the desire by many people, including many investment professionals, to acquire investment knowledge obtained by study and experience. Passive investments, therefore, have created a large pool of investors with limited skills in coping with adversity or adapting to a changing opportunity sets.

The experience of most passive investors has been a march higher since 2000 as the Federal Reserve has squelched market volatility through suppressed interest rates, quantitative easing and money printing. And passive investments have grabbed an increasing share of stock investments. Thus, confirmation bias, recency bias and complacency have set in.

What is confirmation bias? It's a human tendency to pay attention to data and opinions that only support existing views. What is recency bias? It is the tendency to put excessive emphasis on experiences that are most recent in your memory. These are psychological traps that lead people astray, but are difficult for many to overcome. As such, they are extremely important to understand and be aware of. Superior returns in indexes in the recent past have created both confirmation and recency biases that indexes must be superior. Increasing adoption of this belief has created herd behavior. And herd behavior has created risk. That is where we are.

The Impact

How will passive investors respond to large declines associated with bear markets when they inevitably arrive? Instead of looking at price declines as a source of long-term opportunity, investors with modest experience and negative returns may be more prone to emotion-driven decisions. And this could easily create greater downside risk for both the passive investor and capital markets in general – making investing with a 'margin of safety' hugely important.

Since investors do not deal in certainties they are better served by spending time understanding pricing and risk. Making predictions is futile. It is important to see today's era as an array of prospective catalysts that could produce adversity and market volatility. Stock market valuations and investor optimism are at very high levels. The global economy is burdened by an unprecedented level of debt, geopolitical turmoil is rising, and the risk of recession has increased.
Recessions often begin - seemingly - out of the blue when economic activity falls enough to set in motion adverse feedback loops that cause unemployment to rise. Right now, households have run out of excess savings and default rates on credit cards and auto loans are skyrocketing. All at a time when the S&P 500 is super-concentrated and trades at a large premium to fair value. This is why we seek investments with a margin of safety and in great companies that are reasonably priced. The media-hyped speculations of the recent past, such as Nvidia, that are up 10-fold in a short period of time can easily trade down 90%.

[1]Source: Bank of America

The most sensible approach to this type of environment, in my strong opinion, lies not in passive investing, but in investors becoming more engaged and more active in the management of their financial resources. The effort to become a better informed, more active investor will reward not only those who choose to make their own decisions, but those who prefer to have their investments managed by others because it will improve their ability to ask well-informed questions. In our business, we enjoy engaged clients.

Here at Townsend, we spend a lot of time on our investments and believe we own investments with high upside and low downside. From year-to-year, we can't know how other people will price them, but all possess the ingredients for higher prices -- later. We try to apply the lessons of Buffett and Munger in the effort to earn you high returns without exposure to the large downside risks that so many other investors unwittingly own today.

If we can answer any specific questions about what is currently happening in the market and what that might mean for you, please don't hesitate to reach out to us.

John Goltermann, CFA, CGMA
Senior Vice President and Chief Investment Officer

Near and Dear to Our Hearts......

SafeHouse Denver

We wanted to introduce Townsend clients to a nonprofit that is very special to two of our clients, Dan & Jan. SafeHouse Denver serves survivors of domestic violence and their children through an Emergency Shelter, a non-residential Counseling & Advocacy Center and an Extended Stay Program. It is the only agency in the City & County of Denver that offers a full continuum of care specifically for survivors of domestic violence. Founded in 1977, SafeHouse Denver never charges fees for their services so every adult and child can reclaim their lives free from domestic violence.

To learn more about all the ways you can support survivors through this amazing nonprofit, you can visit **safehouse-denver.org**

SAFEHOUSE
DENVER

CAYLE'S CONNECTION

Happy Spring! It's been a wild winter and I am ready for spring. Here's a few things to think about as you plan your adventures. As always, if you have any ideas for me to include, please send them to Savanna.

A client recommended the book Keep Sharp, Build a Better Brain at Any Age by Sanjay Gupta after he found out my mom has dementia. Good read – and one of my take aways is that I need to learn something new every day. To help me learn something new I get these 3 emails: weirdhistory@ranker.com, hello@interestingfacts.com and mail@wordgenius.com . I've learned words I didn't know existed and found out some interesting things that might come in handy in a trivia game. Let me know if you try any of these!

Here's something new I learned about today – at the Denver Botanic Gardens there is the Boettcher Memorial Tropical Conservatory. It's an enclosed space that's warm and humid and full of tropical plants. It may be a good place to visit on our crazy snowy days. http://tinyurl.com/mwnttu26

Located in Sadalia, there's the Cherokee Ranch and Castle. It's a ranch and castle that dates to late 19th-century homesteaders who shared the land and build a replica 15th-century palace. They host Tea at the Castle and other special events like whiskey and wine tastings, educations series and children's programs. http://cherokeeranch.org

Here's something to look forward to: Sometime between March and June, Colorado will experience the monarch butterfly annual migration. Apparently, it occurs yearly and this year it's expected to be better than usual. If you want to attract them to your yard, plant milkweed. I know what Eli and I will be planting!

Have you visited YMCA of the Rockies in Estes Park? I used to go with Outdoor Ed when I taught but I think this would be a great place to take families and enjoy the outdoors. There is also the Rockies' Snow Mountain Ranch in Granby where they have year-round tubing. https://www.ymcarockies.org/ and https://www.ymcarockies.org/snow-mountain-ranch

This is something I'd sign up for. The Durango Zipline Tour at Soaring Tree offers 34 platforms and 27 ziplines that range in length from 56 to 1,400 feet. They call it an all day, family friendly zipline adventure that lasts a lifetime. Anyone ready to join me? Durango Zipline Tour at Soaring Tree Top Adventures in Colorado (soaringcolorado.com)

Be sure to share your favorites with me!

Townsend's Recipe Round-Up

Each month, we want to share some of our favorite recipes. This month's recipes come to us from Senior Vice President and Financial Advisor, **Terri Thomas**. She is sharing her recipe for homemade pasta sauce and pasta dough!

Terri's Homemade Pasta Sauce (yield for 1lb of your favorite pasta)

3 quart saucepan
4T olive oil
5 cloves Fresh garlic (minced)
Spices: 1 t black Pepper, 1 ½ t of salt (I used garlic salt), ½ teaspoon red pepper flakes, 2 T of Italian Seasoning
4 or 5 leaves of Fresh Basil – (Pull apart when putting in the saucepan)
¼ cup of Parmesan cheese (to mix in sauce while cooking)
Grated Parmigiano Reggiano cheese to sprinkle on top of noodles.
1 28 0r 32 oz can of San Marzano tomato puree (I use Cento brand)
1 15oz can of Tomato Sauce (I like Contadina brand)
*** 2 Cups of Red Wine (1/2 cup for the sauce and 1 1/2 cups to drink while making sauce)

Heat olive, fresh garlic and black pepper in saucepan and cook until garlic has browned (be careful not to burn). Add red wine, salt, Italian seasoning, and red pepper flakes and let simmer for 5 minutes. Add the tomato puree, tomato sauce and parmesan cheese and fresh basil. Let simmer, uncovered, for at least 3 to 4 hours. (You can add water to make sauce thinner and/or more seasoning to your taste. If your sauce taste too tomatoe-y, add a little sugar).

We like some meat with our spaghetti, so I usually cook Italian sausage links (my favorite store brand is Canino's Hot Italian sausage links). Cut each link into 3's and brown in saucepan with a little olive oil, prior to putting the sauce together. (You don't need to cook all the way through because you will add back into the sauce while it is simmering all day). Once the sausage is browned on all sides, remove from the pan. Do not drain oil and drippings from sausage, just add the fresh garlic and black pepper and follow recipe above (you may need to add a little more olive oil).

Serve with your favorite pasta and top with fresh grated Parmigiano Reggiano cheese. **NOTE**: Do not plate your pasta in a bowl and throw sauce over the top. You need to put the noodles back in the pan after you drain them and spoon enough sauce over the top of noodles and then toss together. (Add more sauce to your individual plate if more is needed. I like a light sauce over my spaghetti noodles, while Mark likes to add more sauce to his).

Homemade Pasta Dough (Courtesy of our client Pat Aiello)

This recipe is easy to make and there is nothing better than fresh pasta for Sunday dinner. I was intimated by making pasta and finally tried it, I couldn't believe how easy it was! Give it a try.

3 1/2 cups Semolina, (all-purpose unbleached flour will work but add 1 more egg), plus extra flour for preparing.
1/2 tsp salt
1 T Olive oil
4 large eggs, beaten.
2 T water
Pat uses a Kitchen Aid Mixer with a dough hook.

Beat the eggs first then add the water and the flour slowly, if the dough does not form a ball add more water a teaspoon at a time till the dough comes together. I mix my dough by hand: Mix the flour and salt together and then pour it out on a wooden pasta board (or cutting board) Make a well in the center. Pour the beaten eggs, water and olive oil in the middle. Take a fork and slowly mix the flour into the liquid mixture until it is all folded together. I then knead the dough together for about 8 minutes or so, just to make sure it is all mixed well together. Form a round ball and wrap in cling wrap. Let it rest at room temperature for at least 30 minutes.

NOTE: Pasta, especially the classic semolina pasta (which is made with durum semolina), is a high-gluten product. To make it correctly, you need to develop that gluten. It makes a great dough, and you can feel the change in texture while kneading. By letting the dough rest, it relaxes the gluten and will make it easy to roll and cut into your favorite pasta shape. When I am ready to make my noodles, I prefer to use my pasta maker, (CucinaPro Pasta Maker Deluxe 5 Piece Set, which is available on Amazon). You will follow the instructions that come with the machine to make your desired pasta from thin to thick noodles.

HAVE FUN AND EXPERIMENT! I PROMISE IT IS NOT DIFFICULT AND IS ACTUALLY A LOT OF FUN!
Enoy and let me know if you have any questions or comments with either recipe. BON APPETIT!

P.S. Please share your comments with us if you do try this.
Also, if you have a favorite recipe you would like to share, please send it to Savanna@townsendretirement.com

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