Seide Financial Notes

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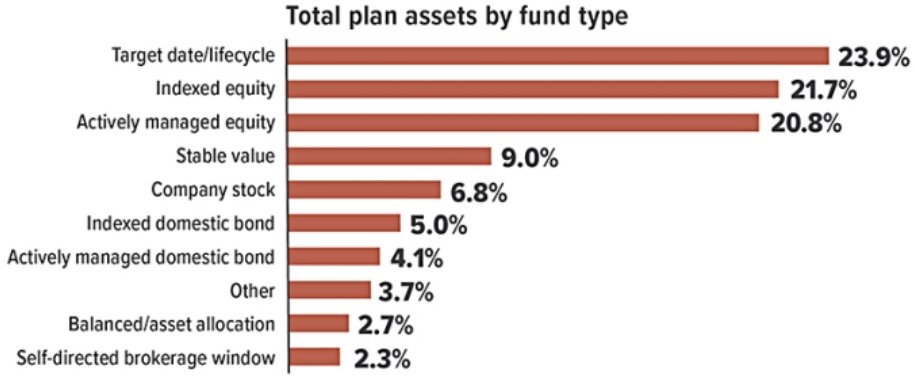
We hope you had a wonderful summer and look forward to a Fall filled with football, fun, and family. If we can be helpful to you or someone in your life, please let us know.

Until October,

Steve, Todd, Michael and Dawn

How Are 401(k) Plan Participants Investing Their Money?

Created in 1996, National 401(k) Day has historically been celebrated on the Friday following Labor Day to shine a spotlight on this important employee benefit. Since the late 1990s, plans have evolved substantially, and most participants can now choose from a diverse variety of investments. The chart below shows how 401(k) and profit-sharing funds were invested in 2020.



Source: Plan Sponsor Council of America, 2021

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

Mutual 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.

How Much Life Insurance Do You Need?

Throughout your life, your financial needs will change and life insurance can help you meet some of those needs. But how much life insurance do you need? There are a number of approaches to help determine how much life insurance you should have. Here are three of those methods.

Family Needs Approach

With this approach, you divide your family's financial needs into three main categories:

- Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit-card and other debts including a mortgage (unless you choose to include mortgage payments as part of ongoing family expenses), and an emergency fund for unexpected costs
- Ongoing income needs for expenses such as food, clothing, shelter, and transportation, which will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's income, your debt, and whether you'll provide funds for your surviving spouse's retirement
- Special funding needs, such as college, charitable bequests, funding a buy/sell agreement, or business succession planning

Once you determine the total amount of your family's financial needs, subtract that total from the available assets your family could use to help defray some or all of these expenses. The difference, if any, represents an amount that the life insurance proceeds, and the income from future investment of those proceeds, might cover.

Income Replacement Calculation

This method is based on the premise that family income earners should buy enough life insurance to replace the loss of income due to an untimely death. Under this approach, the amount of life insurance you should consider is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds may generate.

Estate Preservation and Liquidity Needs Approach

This method attempts to calculate the amount of life insurance needed to settle your estate. Settlement costs may include estate taxes and funeral, legal, and accounting expenses. The goal is to preserve the value of your estate at the level prior to your death and to avoid an unwanted sale of assets to pay for any of these estate settlement expenses. This approach takes into consideration the amount of life insurance you may want in order to maintain the current value of your estate for your family, while providing the cash needed to cover death expenses and taxes.

Unfortunately, many people underestimate their life insurance needs. Often, the purchase of life insurance is based solely on its cost instead of the benefit it might provide. By the same token, it's possible to have more life insurance than you need. September is Life Insurance Awareness Month, a good time to review your life insurance to help ensure that it matches your current and projected needs.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.

Interest in Life Insurance Stays Strong

Source: 2022 Insurance Barometer Study, Life Happens and LIMRA

Passive, Active, or Both?

Index funds, which try to match the performance of a particular market index, have drawn increasing interest from investors, but traditional actively managed funds still hold more assets (see chart). There is ongoing discussion in the financial media about which approach is most effective, but there may be good reasons to hold both in a well-diversified portfolio. Here are some pros and cons to consider.

A Simple Approach

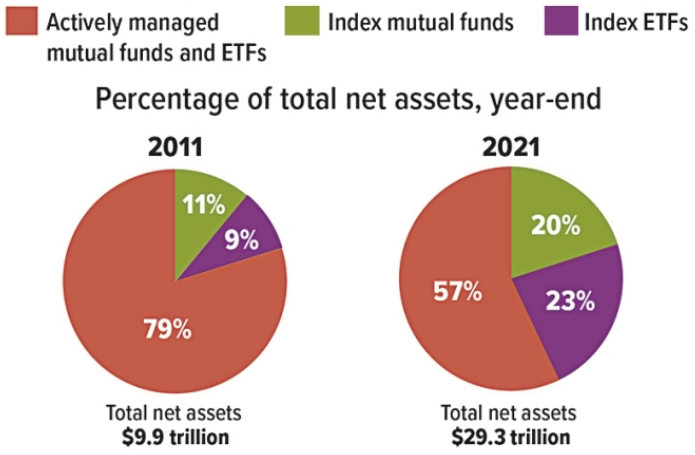
Index funds typically hold the same securities in the same proportions as the index the fund is tracking (or in some cases a representative selection of securities). After assembling the fund, the fund manager generally makes adjustments only as necessary to track the index, so these funds are called *passively managed.*

The primary appeal is cost-efficient simplicity. Because index funds have less managerial involvement, fees are often lower than they are for actively managed funds. Index funds may also buy and sell assets less frequently, and lower turnover can help reduce capital gains distributions, which could be important when funds are held in taxable accounts.

However, this simplicity can also be a negative. Many well-known indexes commonly tracked by index funds are broad based and weighted by market capitalization, a company's value based on the number of outstanding shares multiplied by share prices. Some are price-weighted, meaning the price per share determines the weighting of the security. In either case, index investing may place heavy emphasis on a relatively small number of large companies in the index. And an index fund holds securities in the index regardless of the potential performance of an individual company.

A Decade of Growth

Index funds more than doubled their share of the fund market from 2011 to 2021.



Source: Investment Company Institute, 2022 (totals may not equal 100% due to rounding)

Hands-On Strategies

Active fund managers strive to outperform benchmarks by hand-picking securities based on research and a defined investment strategy. Thus, actively managed funds offer the potential to outperform the broader market, although historically most of them have not.

According to investment analyst Morningstar, 45% of active funds outperformed the average comparable index fund in 2021, a slight drop from 49% in 2020. Both of these years were relatively successful for active funds, possibly because active managers were able to respond to rapidly changing market conditions during and after the pandemic. Over the 10-year period ending in December 2021, only 26% of active funds outperformed the average of their passive counterparts. However, performance varied widely for different underlying investments.[1]

An actively managed fund may be more diversified than an index fund holding stocks in the same asset category, because the manager can choose to weight the securities to meet the fund's objective rather than following the market-capitalization or price-weighted structure of an index. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Active managers also have more flexibility and may use a variety of trading strategies to help manage risks. For these reasons, some actively managed funds might offer defensive benefits when markets are falling, and they may be able to take advantage of specific market movements that might not be captured in an index fund.

Passive and active funds each have potential strengths and weaknesses, and there is no guarantee that any investing strategy will be successful. But holding both types of funds in your portfolio may provide a helpful balance.

The return and principal value of mutual funds and exchange-traded funds (ETFs) fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance does not guarantee future results. Actual results will vary.

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1) Morningstar, February 2022

Building Financial Resilience

Inflation, roller-coaster markets, global events, and life circumstances can test anyone's fortitude. You may not feel ready to handle these pressure-filled times and might worry about the potential effects on your financial well-being. Fortunately, you can take steps to build the resilience you need to help handle the turbulence and hopefully emerge even stronger.

Focus on the Foundation

Developing a new budget or reviewing an existing one may help reduce stress by reminding you that you still have control over many aspects of your personal finances. A budget outlines your income and expenses and shows how much money is coming in compared to how much money is going out. If you find that you are spending more than you realized, you can make adjustments.

An important companion to a budget is an emergency fund. When an unexpected expense comes up, you can use your emergency reserves to cover it, instead of dipping into long-term savings or racking up costly credit-card debt that could throw your budget off track at a time you can least afford it. Consider starting an emergency fund and build it up over time.

Stress-Test Your Portfolio

When you're investing for retirement or another financial goal, assessing the potential impact of various scenarios may help you prepare for unexpected events. This may be done using computer simulations to analyze how your portfolio might perform. Doing this at regular intervals may help take some of the emotion out of decision-making during stressful times, helping you address gaps and opportunities.

There is no assurance that a simulation will be accurate. Because of the many variables involved, you should not rely on simulations without realizing their limitations. All investing involves risk, and there is no assurance that any financial strategy will be successful.

It's better to look ahead and prepare, than to look back and regret.

Jackie Joyner-Kersee

Source: BrainyQuote.com

Prepare for the Future

Of course, you're never going to be prepared for every financial scenario. But developing a written financial strategy and reviewing it periodically may help you thoughtfully navigate life's twists and turns. It documents and organizes the pieces of your financial picture, helping you stay focused on the future as you weather the current storms.

Building financial resilience is an ongoing process, and it's never too late to start. Becoming better positioned for downturns can help you feel more confident that you can handle whatever challenges come your way.

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