PARAGON FINANCIAL ADVISORS

MONDAY, JUNE 10, 2019

Goal Setting

We at Paragon Financial Advisors don't believe that "any direction" is acceptable. The financial well-being of you and your loved ones is too important to be left to chance. That's why we encourage our clients to develop their personal financial goals.

Goals are basically a result or achievement toward which you are willing to expend time and effort. Goals vary with the individual's wishes; hence, you set your own. Defining effective goals requires developing *characteristics* for those goals. For example, "I want to retire comfortably" is not a well-defined goal. Additional information is required.
Goal Characteristics

A well-defined goal requires the following characteristics:

1. *Specific*- An effective goal is specific in nature. It clearly defines the desired result or achievement in an unambiguous manner.
2. *Measurable*- Goals must be measurable, i.e. you must have a way to determine the attainment of the goal and monitor the process toward goal attainment. Financial goals would be measured in dollars.
3. *Achievable*- Effective goals must be achievable. For example, a goal of playing quarterback for an NFL football team would not be achievable for me given my size and athletic ability. Achievable does not necessarily mean easy. "Stretch" goals requiring significant effort are permissible if it is possible to achieve the final goal.
4. *Relevant*- Goals must be relevant; a relevant goal provides incentive for expending the effort required for goal attainment.
5. *Priority*- Most individuals will have multiple goals as they go through the goal setting process. Some goals will be more important to the individual than others. Therefore, goals should be ranked by priority. Which goals are most important and which goals have lesser importance? Identify and rank according to priority.
6. *Time frames*- An effective goal has associated time frames for completion and "mile posts" to monitor progress toward goal achievement.
7. *Action Items*- Action items outline the actions necessary to attain the goal. What needs to be done to successfully reach the goal?

Let's restate our retirement goal according to these parameters.

"My first priority is to retire in 30 years at an income level equal to 85% of my current income adjusted for inflation at 3% per year. To accomplish this goal, I need to save X dollars per year and my investment portfolio needs to grow at Y % per year."

This restatement clearly provides better definition with the characteristics discussed above.

- Specific/Measurable- "…retire… at an income level equal to 85% of my current income adjusted for inflation at 3% per year."
- Achievable- certainly.
- Relevant/Priority- "…first…"
- Time frame- "… in 30 years…" with measurable mile posts—the value of the portfolio each year based on an assumed savings rate and portfolio appreciation rate can be identified and monitored.
- Action Items- "… save X dollars per year."

Please contact us at Paragon Financial Advisors. We'll assist you in developing your personal financial goals. Paragon Financial Advisors is a fee only registered investment advisory company located in College Station, TX. We offer financial planning and investment management services to our clients

Posted by Paragon Financial Advisors at 1:31 PM

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Location: College Station, TX, USA

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TUESDAY, JANUARY 15, 2019

Asset Protection??

Normally, retirement plans are generally considered safe from creditors. A recent ruling by the Bankruptcy Panel for the 8th U.S. Circuit Court of Appeals has called that safety into question. An individual was awarded ½ of his ex-wife's 401(k) plan and her entire individual retirement account in their divorce settlement. He later filed for Chapter 7 bankruptcy and claimed those assets were exempt from creditors because they were in retirement plans. The Bankruptcy Panel disagreed on the basis that the retirement plans were not originally his; thus, they were subject to creditor claims.

Defined contribution 401(k) plans are sheltered from creditors in bankruptcy filings for individuals who own the plan. IRAs are also usually exempt from bankruptcy as well (subject to a cap under federal law that is approximately $1.2 million). However, once the assets are separated from the original owner, you should expect that the asset protection will go away. In the Supreme Court ruling of Clark v. Rameker, the Court held that inherited IRAs are not considered retirement funds for bankruptcy protection.

Although the 8th Circuit ruling applies only in that district, other courts may follow suit. For protection, IRA assets received in a divorce settlement should not be intermingled with the individual's own IRA. Co-mingling funds could possibly jeopardize the creditor protection of the entire IRA.

Please note that this discussion does not constitute legal or tax advice; it is informational only. Your individual circumstances should be discussed with your legal and/or tax counsel. Paragon Financial Advisors is a fee only registered investment advisory company located in College Station, TX. We offer financial planning and investment management services to our clients.

Posted by Paragon Financial Advisors at 8:18 AM

Labels: Aggie, Asset Protection, CAIA, Certified Financial Planner, CFA, CFP, College Station, CTFA, free consult, IRA, Market Downturn, Retirement, Texas fee-only, wealth management

Location: College Station, TX, USA

WEDNESDAY, DECEMBER 5, 2018

Alternative Investments

It has been a good run. Ten years after the 2008 "meltdown," the bull market in securities is beginning to show its age. And, after a very placid 2017, volatility in the market is showing it's alive and well. That volatility has been driven by interest rate expectations, trade/tariff discussions, and the mid-term elections. The elections are (mostly) behind us, but volatility may still be around for a while. Investors have made some money with this long bull market; now the goal is to protect those gains.

Alternative investments can play a major role in hedging risk in the stock market; however, there are many different hedging strategies available. Many investors are not familiar with these strategies or how to access them. In general, there are two broad categories of alternatives: 1) those investments offering ***diversification*** from the stock market, and 2) those investments that ***reduce risk*** of loss of portfolio value while still maintaining some return potential.

Access to hedging strategies used to be a major problem; lack of liquidity (the ability to easily buy and sell) being a prime example. Many of these strategies are now available in a mutual fund format. Shares can be purchased or sold daily with valuations set at the end of the day. Some strategies are available as exchange traded funds (ETFs) which provide intra-day liquidity.

Correlation

Correlation is an analysis of the relationship of two data variables, or how the variables move in relation to each other. Normally this relationship is combined into a single number—the *correlation coefficient*. A correlation coefficient can have a value of +1 to -1. A value of 0 indicates that the variables have no relationship, i.e. they are independent. Positive values (>0) imply that when one variable goes up, the other variable goes up also. Negative values (<0) imply that wen one variable goes up, the other variable goes down. The magnitude of the number (the closer the coefficient is to a value of +/- 1) explains the degree to which moves in one variable are like moves in the other variable.

Diversification Alternatives

Since most investment portfolios contain stocks, alternative strategies which have a lower correlation to them can provide diversification benefits. Listed below are three strategies which have lower correlations to the S&P 500 over the last 10 years.

- *Managed Futures*- A fund manager utilizing this strategy usually invests in different asset classes (both long and short positions) depending on the manager's analysis of which asset classes are going to increase or decrease. Successful ability to capture both rising and falling markets have a substantially different return profile from the stock market—a correlation coefficient of about -0.10.
- *Market Neutral*- A market neutral manager usually has a portfolio long (owned) on stocks the manager expects to rise and short (sold) on stocks the manager expects to under-perform the market. When the portfolio has similar long and short holdings, the return of the portfolio has returns less related to the stock market- a correlation coefficient of about +0.34

- *Multi-currency*- A multi-currency manager usually invests in different currencies depending on the manager's perceived relative strength. Since returns are usually different between stocks and fixed income investments, this strategy has had a correlation coefficient of +0.48.

Risk Reduction Alternatives

Ideally, investors would like a diversification strategy that doesn't significantly sacrifice returns. Such strategies would not only have less losses in down equity markets, but would also have more positive returns in up equity markets. Over longer time periods, these alternatives would outperform those alternatives that provide only downside risk mitigation. Examples include the following:

- *Long/Short Equity*- A long/short manager usually has a long (owns) position in stocks in which the manager expects to outperform the market and short (sells) stocks which are expected to under-perform the market. The manager may use the sale proceeds from the short positions to increase his/her holdings in the long positions.
- *Non-traditional Bonds*-Such a manager usually has the ability to invest in bonds of varying maturities, differing credit quality, differing economic sectors, or varying geographic areas as the manager perceives have value. A successful manager has the ability to move according to interest rate changes and other variables affecting the returns markets.

The Bottom Line

Make no mistake—investing involves risk! So does putting money under the mattress in times of inflation. However, if one can mitigate risk (even in a minor way), it surely is worth the effort. Please contact us at Paragon Financial Advisors to see if such alternative investments might benefit your investment portfolio. Paragon Financial Advisors is a fee only registered investment advisory company located in College Station, TX. We offer financial planning and investment management services to our clients.

Posted by Paragon Financial Advisors at 11:14 AM

Labels: alternative investments, CFA, CFP, College Station, CTFA, IRA, long term outlook, Market correction, Market Downturn, Tax deferral, Texas, Texas fee-only, wealth management

Location: College Station, TX, USA

TUESDAY, NOVEMBER 27, 2018

Thanksgiving-Turkey or Dressing?

Thanksgiving week, 2018 was an interesting one for the stock market. The S&P dropped 3.8% for the week putting us officially into a market correction. We closed the week down 10.2% from our last market high. This Thanksgiving week was the worst week since 1939. Monday, November 26, 2018 did see the S&P rebound (up about 41 points or one and half percent), but it has been a wild ride.

Why the Market Drop?

Investors are concerned about rising interest rates and tariff/trade talks. Oil has been down seven weeks in a row, dropping more than 20% in November. The EU is in the midst of deciding how Brexit is going to work out and there are additional political challenges in Europe. Tech stocks are down significantly; apparently due to reduced guidance in future earnings. Doesn't pose a pretty picture, does it?

Things to Consider

Obviously, no one can predict the future; however, there are a few things to consider about what's going on.

- Thanksgiving week had light trading volume. That trend usually happens over the Thanksgiving holidays. Light volume also tends to magnify pricing trends (down in this case). The decline we experienced may not be as significant as we see.
- Black Friday shopping was strong. Online purchases were up about 28% over 2017. Employment data may mean that consumers have discretionary money to spend for Christmas.
- The G20 summit is approaching and trade is sure to be a major topic. President Trump and Chinese President Xi are scheduled to discuss trade topics. The fruitfulness of these discussions is definitely uncertain; however, we'll have to wait and see.
- Further economic data is coming out this week: consumer confidence, GDP, new home sales, jobless claims—let's see what happens.

The Bottom Line

Remember why your investment goals were established. You established an asset allocation with your risk tolerance and the long term in mind. See if your personal circumstances have changed before making drastic portfolio changes.

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Posted by Paragon Financial Advisors at 3:15 PM

Labels: Aggie, Certified Financial Planner, CFA, CFP, College Station, Investment, investment management, market drop, Texas, Texas fee-only, wealth management
Location: College Station, TX, USA

THURSDAY, OCTOBER 25, 2018

Rocky Road Ahead?

October 2018 marked the 10th year of the longest bull market in history. In 2017, the stock market (S&P 500) moved placidly upward; in fact, the market set record highs over 100 times since the Presidential election in November 2016. This year, 2018, has given investors pause to think, however. In late January, the S&P 500 peaked around 2873, fell just over 10% in February, and recovered to January levels by mid-August. Another record level in late September (around 2930), then the market fell about 7% in mid-October. The roller coaster ride, especially following last year's "tranquility," has been a concern to investors. This might be a good time to step back and look at the bigger picture.

Historical Market Corrections

History can give some guidance on the severity of previous market corrections, as well as how long their recovery took. Since 1926, there have been 16 instances of market downturns more than 10%.

The ***longest and largest downturn*** was the Great Depression (Sept 1929-June 1945) during which the stock market lost 83%. That downturn lasted 34 months and the recovery took 151 months. The rampant speculation associated with stocks in the years preceding the downturn resulted in the Securities Exchange Act of 1933 (which regulated the offer and sale of securities—previously governed by state laws, commonly referred to as "blue sky" laws). That law was followed by the Securities Exchange Act of 1934 which created the Securities Exchange Commission and governed the secondary trading of securities.

The ***second longest*** downturn was the early 2000 bear market in which the market lost 44.7% and lasted 25 months. The recovery period was 49 months.

The ***second largest*** market downturn was the Nov 2007-March 2009 liquidity crisis. The market lost 50.9%, lasted 16 months, and recovered in 37 months.

Let's look at the record categorically (excluding the Great Depression which, hopefully, won't happen to such an extreme again because of more stringent securities regulation). The total period is 1926 through October 2018—approximately 92 years.

- Greater than 50% downturn- One occurrence lasting 16 months and recovering in 37 months.
- Greater than 40% but less than 50% downturn- Two occurrences lasting an average of 23 months and recovering in an average of 35 months.
- Greater than 30% but less than 40%- There have been no such occurrences.
- Greater than 20% but less than 30% downturn- Four occurrences lasting an average of 8.5 months and recovering in an average of 18 months. (There have been no instances of a 30-40% downturn.)
- Greater than 10% but less than 20% downturn- Eight occurrences lasting an average of 8 months and recovering in an average of 5 months.

The Take-Away

Make no mistake—watching your investment portfolio lose money is not fun. It brings anxiety, especially for individuals near or in retirement and depending on their portfolio for a portion of living expenses. History is not guaranteed to repeat, but the data above does indicate that "this too shall pass," and that a portfolio positioned to withstand downturns can prosper. An investor should have cash and short-term fixed income investments needed to cover 36-60 months of normal living expenses in a combination of personal savings and an asset allocation in the portfolio. Stocks remaining in the portfolio will then be given time to recover with no necessity to sell at a loss to cover distribution needs.

For individuals who are not near retirement—congratulations! *Stocks just went on sale*. You have an opportunity to buy desirable companies at a discount. You should maintain your 3 to 12 months cash "ready reserve," and consider your risk tolerance and future time horizon, but a downturn may be an opportunity to really boost your future portfolio performance.

Let's also consider the other alternative—selling stocks when the market is down. We'll use the 2008 liquidity crisis (market downturn of 50.9%) in our calculations. Our hypothetical stock portfolio will be invested in an S&P 500 index fund with a $500,000 value at the beginning of the market downturn. At the bottom of the downturn, the portfolio retained 49.1% of its original value or $245,500. Definitely an uncomfortable feeling! Now assume the investor takes one of three actions listed below and fast forward to October 17, 2018.

- *Sell the equities and go to CDs*—Assuming a generous 2% CD rate, the portfolio would now be worth approximately *$296,400.*

- *Sell the equities, wait one year until the market stabilizes, then reinvest in the S&P 500*—The investor would have missed a year of gain in the S&P but realized a cumulative increase of 224%: a total portfolio value of approximately *$549,900.*
- *Do nothing, hold the equities and wait*—The S&P increased a cumulative of 378%; the portfolio value would be approximately *$928,000.*

But wait, you say. Suppose the market doesn't recover as quickly. Let's look at the *periods of consecutive negative stock returns* since 1926. There have been four such periods. The market was down four consecutive years during the Great Depression: 1929-1932. In 1933, the market rose 54%. The early 2000s saw three consecutive down years: 2000-2002, followed by a 29% gain in 2003. There were three down years in 1939-1941 followed by a 20% gain in 1942. The market was down two consecutive years in 1973-1974; the market gained 37% in 1975.

There are no guarantees in the stock market. What has happened historically may not happen in the future. However, the next time the market drops, have a cup of coffee and re-consider your long-term investing goals. Maybe the world isn't ending after all. Paragon Financial Advisors is a fee only registered investment advisory company located in College Station, TX. We offer financial planning and investment management services to our clients.

Posted by Paragon Financial Advisors at 10:44 AM

Labels: Aggie, CAIA, Certified Financial Planner, CFA, CFP, College Station, Historical Corrections, Important, investment management, Market correction, Market Downturn, Texas fee-only, wealth management

Location: College Station, TX, USA

MONDAY, OCTOBER 8, 2018

Things to Think About: Tempus Fugit! Time Flies!

Time does fly—and with it, some potentially significant tax benefits. There are actions which, if taken in October 2018, can have consequences on taxes—even 2017 retirement plans. We will discuss some of the general rules here; you should discuss the specifics of your situation with your tax professional.

Roth IRAs

- ***Conversions-*** Individuals who converted a traditional IRA to a Roth IRA in 2017 may "recharacterize" that conversion back to a traditional IRA if the recharacterization is done by October 15, 2018. Income taxes are due on the amount originally converted from a traditional IRA to a Roth IRA. If the account value has decreased, a lesser tax amount would be due if the Roth was converted back to a traditional IRA, then re-converted to a Roth in 2018. Tax rates have also changed in 2018 due to the Tax Cuts and Jobs Act passed this year. Many individuals may find themselves in a lower tax bracket for 2018; hence, recharacterizing and reconverting in 2018 might mean lower taxes even if the account value remains unchanged. *Note that such recharacterizations are allowable only for transactions made in 2017; no such recharacterizations are available for 2018 or later years.*
- ***Recharacterizations-*** Contributions to a traditional IRA can be recharacterized to a Roth IRA or vice versa. Suppose an individual contributed to a traditional IRA in 2017 but found their income was too high to take a tax deduction. Recharacterizing to a Roth IRA would have no tax increase but would move the future earnings on the account *from tax deferred to tax free.* While the Tax Cuts and Jobs Act eliminated recharacterization of ***conversions*** beginning in 2018, recharacterization of ***contributions*** remains in effect.
- ***Excess Contributions-*** Excess contributions made into an IRA are subject to a 6% excess contribution penalty. Any excess contribution made in 2017 (plus accumulated earnings thereon) removed from the account by October 15, 2018 *will not be subject to that penalty.* No relief from this penalty is allowable if the October deadline is missed.
- ***SEP IRAs for 2017-*** October 15, 2018 is the deadline for *establishing and funding a SEP IRA for businesses if the business filed for an extension.* This differs from the "normal" deadline for contributing to a traditional or Roth IRA (the tax filing deadline *excluding* extensions).
- ***Simple IRAs for 2017-*** Employer contributions to Simple IRAs must be made by the tax filing deadline (including extensions) of the business. Again, if the business filed for an extension if 2017, the deadline is October 15, 2018.

Trusts

Inherited IRAs may be "stretched" over the life expectancy of beneficiary—a significant extension in the time over which IRA proceeds must be distributed (and taxed). If the beneficiary is a trust, the trustee has until October 31, 2018 to provide proper documentation that may allow this stretch provision for IRAs inherited in 2017. Miss the deadline and the IRA must be distributed fully over a much shorter period. Paragon Financial Advisors is a fee only registered investment advisory company located in College Station, TX. We offer financial planning and investment management services to our clients.

Posted by Paragon Financial Advisors at 10:53 AM

Labels: CAIA, Certified Financial Planner, CFA, CFP, College Station, Conversions, Excess Contributions, free consult, Recharacterizations, Texas fee-only, wealth management

Location: College Station, TX, USA

Taxes and Investments

The single greatest expenditure that most individuals face is taxes. Google "tax freedom day" and you'll find the number of days you work during the year just to pay taxes. In 2017 that day was April 23; or 114 days (about 1/3 of the year) before you begin to keep what you earn. The Tax Foundation estimated that you work January to pay off federal taxes. In February, you pay Social Security, Medicare, other payroll taxes, and state income tax. In March, you pay state and local sales taxes, property taxes, and excise taxes. The first 23 days in April paid corporate income taxes (through higher prices on goods/services), motor vehicle taxes, and severance and estate taxes.

Tax Priorities

Given the impact of taxes on an individual's financial well- being, tax discussions warrant a discussion in financial planning. Conventional wisdom on taxes is:

1. If legally possible, avoid taxes.
2. If avoidance is not possible, defer the tax to sometime in the future.
3. If deferral is not possible, pay the tax at the least tax rate possible.

The income tax and investing consequences above can best be exemplified by contributions to a 401(k) defined contribution plan. Such contributions fulfill the planning priorities because:

1. Contributions into a 401(k) plan are not counted as taxable income in the year earned. Those contributions are excluded from taxable gross income for the year (avoid taxes).
2. Contributions grow tax deferred in the 401(k); no income taxes are paid until money is withdrawn from the plan (tax deferral).
3. Retirement plan distributions are generally mandated by age 70 ½ (well past the normal retirement age for most individuals). Assuming the individual is retired, income should be lower than in working years, and, income tax rates should be less (pay at the least tax rate).

Taxes and Investing

Tax circumstances should be considered in the financial planning process in the context of investing. Why? Different investments are more suitable in specific investment accounts than others. There are two main types of investment accounts: 1) taxable (where taxes are due depending on actions in the current tax year), and 2) tax deferred accounts (IRAs, 401(k)s, etc.) where taxes are payable at some time in the future.

There are specific taxes consequences associated with these two types of accounts that can potentially impact investments in each.

- Tax deferred accounts—While taxes on the growth of investments in these accounts are not due until money is withdrawn from the account:
  - When money is withdrawn from the account, the money (tax deferred contributions plus all earnings on those contributions) is taxed at *ordinary income* rates.
  - Losses on investments in the account are *not deductible* against ordinary income or other investment gains.
- Taxable investment accounts—Current taxes are due depending on activities in the account during the year.
  - Investments in the account which are sold within one year at a profit *are taxable as ordinary income.*
  - Investments in the account which are sold after one year at a profit are *taxable at a lower, long-term capital gains tax rate.*
  - Investments sold during the year at a loss can *use that loss to offset* gains on investment sales or to offset other income (currently limited to $3000 per year).
  - Some dividends and interest are deemed "qualified" and are *taxable at lower tax rates*.

The characteristics above can provide some *general* guidelines for investments in specific types of accounts. Those investments less subject to loss of principle and more stable income (bonds) would be more suitable in tax deferred accounts. Investments subject to possible significant fluctuations in value (positive or negative) such as stock would be more appropriate in taxable accounts. Again these are general rules; specific circumstances may make deviations from the rule entirely appropriate.

Other Tax Consequences

Financial planning should also include possible tax consequences of estate transfer. While the Tax Cuts and Jobs Act of 2017 significantly increased the estate tax exemption amount to approximately $11 million per person, that increase may expire in 2027 or with other political changes.

We at Paragon Financial Advisors help our clients minimize the tax consequences on financial planning. Of course, we recommend that specific actions associated with particular client circumstances be discussed with the client's tax professional. Paragon Financial Advisors is a fee only registered investment advisory company located in College Station, TX. We offer financial planning and investment management services to our clients.

Posted by Paragon Financial Advisors at 10:37 AM

Labels: Certified Financial Planner, CFA, CFP, free consult, investment management, Retirement, tax, tax consequences, Tax deferral, tax deferred accounts, taxable investment, wealth management

Location: College Station, TX, USA

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