Financial Fitness

Duncklee & Nott Monthly Newsletter

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Greetings!

Will the groundhog see his shadow and lead us to six more weeks of winter? Or will we be granted an early spring? Only time will tell. Just like with the groundhog, we have to wait things out with the market and take the bad with the good. January reminded us that markets can go down, but reacting to short-term volatility will only make those declines more permanent. Try to keep a longer perspective; the market is still higher than it was last fall and much higher than it was before the pandemic started.

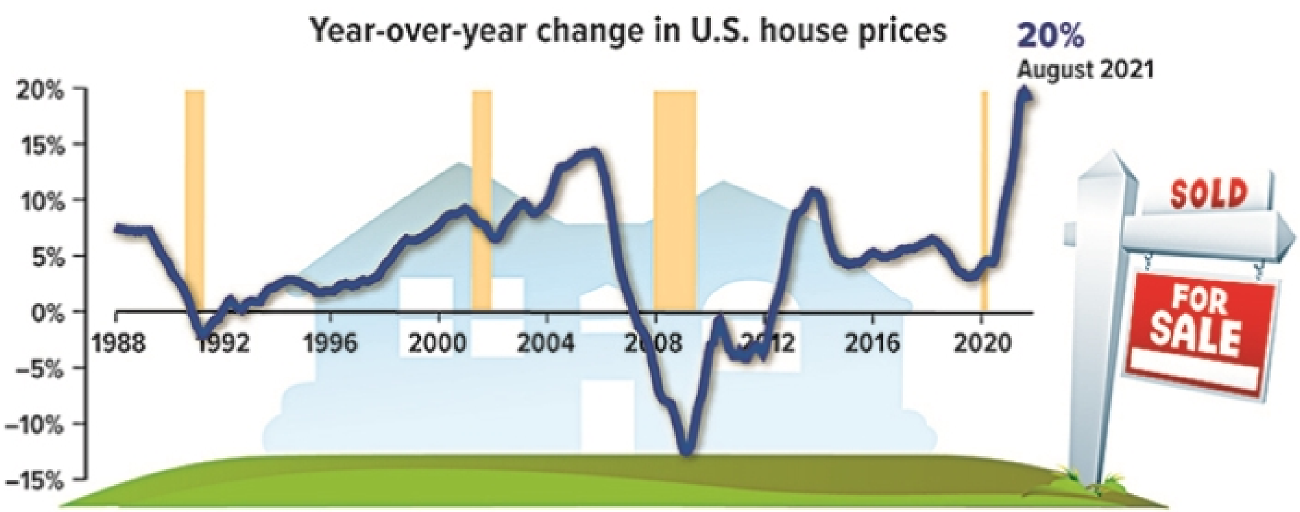
Enjoy this month's articles!

Ken, Megan, Sharon, Brad, and Ross

Home Prices Have Risen at Record Pace

U.S. home prices rose 20% during the 12 months ending in August 2021 as buyer demand far exceeded the supply of dwellings for sale. This was the largest annual price increase in the history of the monthly S&P/Case-Shiller U.S. National Home Price Index going back to 1988. The index continued strong growth at a slightly slower pace in the fall, typically a time when the market takes a breather.

Home prices fell during most past recessions, but the housing market has been anything but normal since the pandemic began in 2020. In many cities, builders struggle to build enough homes to meet the demand driven by low interest rates, a desire for more space while working and schooling at home, and the aging of millennials into homeownership. This trend was amplified by labor shortages and spiking material costs in 2021.



Shaded areas indicate U.S. recessions

Sources: S&P Dow Jones Indices, 2021 (data for the period January 1988 to October 2021); *The Wall Street Journal,* July 27, 2021; National Association of Realtors, November 17, 2021

When Two Goals Collide: Balancing College and Retirement Preparations

You've been doing the right thing financially for many years, saving for your child's education and your own retirement. Yet now, as both goals loom in the years ahead, you may wonder what else you can do to help your child (or children) receive a quality education without compromising your own retirement goals.

Knowledge Is Power

Start by reviewing the financial aid process and understanding how financial need is calculated. Colleges and the federal government use different formulas to determine need by looking at a family's income (the most important factor), assets, and other household information.

A few key points:

- Generally, the federal government assesses up to 47% of parent income (adjusted gross income plus untaxed income/benefits minus certain deductions) and 50% of a student's income over a certain amount. Parent assets are counted at 5.6%; student assets are counted at 20%.[1]
- Certain parent assets are excluded, including home equity and retirement assets.
- The Free Application for Federal Student Aid (FAFSA) relies on your income from two years prior (the "base year") and current assets for its analysis. For example, for the 2023-2024 school year, the FAFSA will consider your 2021 income tax record and your assets at the time of application.

Strategies to Consider

Financial aid takes two forms: need-based aid and merit-based aid. Although middle- and higher-income families typically have a tougher time receiving need-based aid, there are some ways to reposition your finances to potentially enhance eligibility:

- Time the receipt of discretionary income to avoid the base year.
- Have your child limit his or her income during the base year to the excludable amount.
- Use countable assets (such as cash savings) to increase investments in your college and retirement savings accounts and pay down consumer debt and your mortgage.
- Make a major purchase, such as a car or home improvement, to reduce liquid assets.

Many colleges use merit-aid packages to attract students, regardless of financial need. As your family explores colleges in the years ahead, be sure to investigate merit-aid opportunities as well. A net price calculator, available on every college website, can give you an estimate of how much financial aid (merit- and need-based) your child might receive at a particular college.

Don't Lose Sight of Retirement

What if you've done all you can and still face a sizable gap between how much college will cost and how much you have saved? To help your child graduate with as little debt as possible, you might consider borrowing or withdrawing funds from your retirement savings. Though tempting, this is not an ideal move. While your child can borrow to finance his or her education, you generally cannot take a loan to fund your retirement. If you make retirement savings and debt reduction (including a mortgage) a priority now, you may be better positioned to help your child repay any loans later.

Some Parents Use Retirement Funds to Pay for College

	Retirement Savings Withdrawal		Retirement Account Loan	
	2020	2021	2020	2021
Percentage of families using each source	14%	16%	7%	6%
Average amount	$3,143	$3,633	$2,806	$3,631

Source: Sallie Mae, 2021

Consider speaking with a financial professional about how these strategies may help you balance these two challenging and important goals. There is no assurance that working with a financial professional will improve investment results.

Withdrawals from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10% penalty tax if taken prior to age 59½, unless an exception applies. (IRA withdrawals used for qualified higher-education purposes avoid the early-withdrawal penalty.)

1) College Savings Plan Network, 2021

Smoothing Market Ups and Downs

After the wild ride of 2020, the U.S. stock market was relatively calm in 2021, but there was still plenty of volatility. There were 55 days when the S&P 500 index — generally considered representative of U.S. stocks — closed with a rise or fall of 1% or more from the previous day's closing price. And there were seven days with a change of more than 2%.[1]

The good news for investors is that the trend was generally upward, and the S&P 500 ended the year up almost 27%.[2] But no matter which way the market is moving, trying to choose the "right" time to buy or sell can be stressful and counterproductive.

An investor who waits to buy may be frustrated as prices rise and then decide to stop waiting and purchase securities just before prices drop. On the other hand, an investor who sells when prices are dropping may lock in losses and miss out on gains when the market turns upward again. That's why one of the most fundamental maxims of investing is "you can't time the market."

One approach that might help steady your blood pressure and build your portfolio over time is *dollar-cost averaging.*

A Consistent Strategy

Dollar-cost averaging involves investing a fixed amount on a regular basis, regardless of share prices and market conditions. Theoretically, when the share price falls, you would purchase more shares for the same fixed investment. This may provide a greater opportunity to benefit when share prices rise and could result in a lower average cost per share over time.

If you are investing in a workplace retirement plan through regular payroll deductions, you are already practicing dollar-cost averaging. If you want to follow this strategy outside of the workplace, you may be able to set up automatic contributions to an IRA or other investment account. Or you could make manual investments on a regular basis, perhaps choosing a specific day of the month.

You might also use a similar approach when shifting funds among investments. For example, let's say you want to shift a certain percentage of your stock investments to more conservative fixed-income investments as you approach retirement. You could execute this in a series of regular transactions over a period of months or years, regardless of market movements.

Steady Investments

If Tina invested $6,000 in a security with a $50 share price in month one, she could purchase 120 shares. If instead she invested $1,000 each month over a six-month period, she might be able to accumulate more shares for the same dollar investment, which could result in a lower average cost per share.

Month	Amount invested	Share price	Shares acquired
1	$1,000	$50	20.00
2	$1,000	$55	18.18
3	$1,000	$45	22.22
4	$1,000	$40	25.00
5	$1,000	$50	20.00
6	$1,000	$55	18.18
TOTAL	$6,000	[$295 ÷ 6]	123.58

Average price per share: $49.16 ($295 ÷ 6)

Average cost per share: $48.55 ($6,000 ÷ 123.58)

This hypothetical example is based on mathematical principles and used for illustrative purposes only; it does not represent the performance of any specific investment. Actual results will vary.

Dollar-cost averaging does not ensure a profit or prevent a loss, and it involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, dollar-cost averaging can be an effective way to accumulate shares to help meet long-term goals.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost.

1–2) S&P Dow Jones Indices, S&P 500 index for the period 12/31/2020 to 12/31/2021. Retrieved from FRED, Federal Reserve Bank of St. Louis. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Federal Student Loan Repayment Set to Resume in May

After five payment pauses that began roughly two years ago, federal student loan payments are set to resume in May 2022.

The first payment suspension came in March 2020 when Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act and lasted for six months through September 2020. The second and third pauses came via presidential executive order (one from Trump and one from Biden) and extended the payment pause through January 2021 and again through September 2021. The Department of Education set a fourth extension through January 31, 2022. Then in December 2021, President Biden announced a fifth pause through May 1, 2022, due to ongoing public health challenges.

Here are some things to know as payments get set to resume.

Payments made during moratorium. Borrowers who chose to continue making full or partial payments during the suspension period will have the full amount of their payments applied to principal, which will draw down their loans faster.

Payments not made during moratorium. Borrowers who didn't make payments during the suspension periods won't be worse off because interest did not accrue on their loans. Essentially, the interest rate was set at 0%.

Auto-debit payments. According to the Department of Education, borrowers who signed up for auto-debit before March 13, 2020 (the date the first payment pause began) will be contacted by their loan servicer before the payment pause ends to confirm whether they want to stay on auto-debit. If borrowers do not respond to these communications, their servicer will stop auto-debit. For borrowers who signed up for auto-debit after March 13, 2020, their auto-debit payments will resume automatically on the first due date when payments begin again. Borrowers who have questions about their auto-debit status or who need to update their banking information on file should contact their loan servicer.

Hardship options. Borrowers who still face financial hardship when the moratorium ends can request a loan deferment or forbearance, which generally pauses payments for six months. The federal government's *Loan Simulator* tool can help borrowers understand the impact of suspending payments and identify loan repayment plans that may help lower payments, such as an IDR (income-driven repayment) plan. The tool is available online at studentaid.gov/loan-simulator.