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Gatien Strategic Wealth Management
Christy Gaten, CFP®
Sr. V.P., Portfolio Manager
10400 NE 4th Street
Suite 400
Bellevue, WA 98004
425-467-2241
cgatien@dadco.com
www.gatienstrategicwealthmanagement.com

Market Comment

The old Wall Street saying “markets climb a wall of worry” has been well supported this year.

In spite of concerns surrounding tariffs and global trade, and in the shadow of potential volatility given the upcoming mid-term elections, the US stock market summer rally continued into September, leading to strong performance numbers for US stocks overall in the 3rd quarter and year-to-date. However, losses in international stocks, particularly in emerging markets, as well as losses in commodities and bonds have offset at least some of those gains in diversified portfolios.

US stock market leadership this year has been dominated by big US technology companies, with outsized gains in companies like Amazon, Apple and Microsoft making up the bulk of index returns. Big US growth companies are up over 17% year to date, while more conservative, typically dividend-paying value companies have only gained about 4% (Source: JP Morgan Asset Management).

As a result of these significant gains, big US growth stocks appear on the expensive side relative to their value counterparts and US stocks in general are trading at loftier valuation levels than many international companies.

What does this mean for your portfolios? In our managed accounts, we are actively trimming the gains we’ve seen in US growth companies and rebalancing back to targets where our growth allocations have become overweighted.

Where are we putting those gains? It may feel counterintuitive, but we are buying into the relatively unloved areas of the market. Adding to US value companies where necessary, but also adding to international companies where we’ve actually seen year-to-date losses.

Our dedication to an investment strategy focused on diversification and asset allocation means we will continue to be disciplined investors, even when it might not be the most popular course of action.

By rebalancing to target, we do what we should be doing: selling high (trimming the winners) and buying low (adding to down areas of the market). However, that can be relatively difficult to commit to because for most investors, the instinct is to buy what’s working (that is, buying high) and sell what isn’t (selling low).

Of course it’s critical to make sure that if we are buying unloved areas of the market, we are doing so with high quality investments. Over the past several months we’ve been making some changes to our Paragon accounts, improving the overall quality of our bond portfolio in the face of rising interest rates and also replacing a small company index fund with two active managers. These changes were made in the context of where we are in our current market and economic cycle and expectations for how these different types of investments will perform in the future.

What do we expect for the future? Overall, the US economy remains strong. Consumers continue to spend, businesses are investing cash that has been sitting on the sidelines, unemployment is at 3.9%, wage growth is improving and manufacturing is holding steady. Corporate earnings are strong, with the recent tax cuts providing a tailwind. Fundamentally, the economy is on steady footing and over the long-term fundamentals drive growth.

That being said, we are heading into the final quarter of the year and mid-term elections are looming. While a new trade deal with Mexico and Canada is in the works, trade tensions with China remain. We believe that is a good time to stay invested for the long-term but encourage you to prepare for probable market volatility.

As always, please do not hesitate to reach out with any questions or concerns.

Best,
Christy

October 2018

On the Road to Retirement, Beware of These Five Risks

Quiz: Can You Answer These Social Security Benefit Questions?

When should I submit college financial aid forms?

What’s so great about a college net price calculator?



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On the Road to Retirement, Beware of These Five Risks



No investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.

There is no assurance that working with a financial professional will result in investment success.

On your journey to retirement, you'll likely face many risks that have the potential to throw you off course. Following are five common challenges retirement investors face. Take some time now to review and understand them before your journey takes an unplanned detour.

1. Traveling aimlessly

Setting out on an adventure without a definitive destination can be exciting, but probably not when it comes to saving for retirement. As you begin your retirement strategy, one of the first steps you'll need to take is identifying a goal. While some people prefer to establish one big lump-sum accumulation amount — for example, \$1 million or more — others find that type of number daunting. They might focus on how much their savings will need to generate each month during retirement — say, the equivalent of \$5,000 in today's dollars, for example. ("In today's dollars" refers to the fact that inflation will likely increase your future income needs. These examples are for illustrative purposes only. They are not meant as investment advice.)

Regardless of the approach you follow, setting a goal may help you better focus your investment strategy. In order to set a realistic target, you'll need to consider a number of factors — your desired lifestyle, pre-retirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. Examining your personal situation both now and in the future can help you determine how much you may need to accumulate.

2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your investment dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

3. ...Or too aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situations. Although you might consider investing at least some of your retirement portfolio in more aggressive investments to potentially outpace inflation, the amount you invest in such higher-risk vehicles should be

based on a number of factors. Appropriate investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Would you be able to sleep at night if your portfolio lost 10%, 15%, even 20% of its overall value over a short time period? These are the types of scenarios you must consider when choosing an investment mix.

4. Giving in to temptation

On the road to retirement, you will likely face many financial challenges as well — the unplanned need for a new car, an unexpected home repair, an unforeseen medical expense are just some examples.

During these trying times, your retirement savings may loom as a potential source of emergency funding. But think twice before tapping your retirement savings assets, particularly if your money is in an employer-sponsored retirement plan or an IRA. Consider that:

- Any dollars you remove from your portfolio will no longer be working for your future
- You may have to pay regular income taxes on distribution amounts that represent tax-deferred investment dollars and earnings
- If you're under age 59½, you may have to pay an additional penalty tax of 10% to 25% (depending on the type of plan and other factors; some exceptions apply)

For these reasons, it's best to carefully consider all of your options before using money earmarked for retirement.

5. Prioritizing college saving over retirement

Many well-meaning parents may feel that saving for their children's college education should be a higher priority than saving for their own retirement. "We can continue working, if needed," or "our home will fund our retirement," they may think. However, these can be very risky trains of thought. While no parent wants his or her children to take on a heavy debt burden to pay for education, loans are a common and realistic college-funding option — not so for retirement. If saving for both college and retirement seems impossible, consider speaking with a financial professional who can help you explore the variety of tools and options.





Did you know that 94% of all workers are covered under Social Security?

Source: Social Security Fact Sheet on the Old-Age, Survivors and Disability Insurance Program, July 2017

Quiz: Can You Answer These Social Security Benefit Questions?

Most people will receive Social Security benefits at some point in their lifetimes, but how much do you know about this important source of income? Take this quiz to learn more.

Questions

1. Can you receive retirement and disability benefits from Social Security at the same time?

- a. Yes
- b. No

2. If your ex-spouse receives benefits based on your earnings record, your benefit will be reduced by how much?

- a. Reduced by 30%
- b. Reduced by 40%
- c. Reduced by 50%
- d. Your benefit will not be reduced

3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?

- a. 6%
- b. 7%
- c. 8%

4. Monthly Social Security benefits are required to be paid by which of the following methods?

- a. Paper check only
- b. Paper check, direct deposit, or debit card
- c. Direct deposit or debit card

5. Are Social Security benefits subject to income tax withholding?

- a. Yes
- b. No

6. Once you've begun receiving Social Security retirement benefits, you can withdraw your claim if how much time has elapsed?

- a. Less than 12 months since you've been receiving benefits
- b. Less than 18 months since you've been receiving benefits
- c. Less than 24 months since you've been receiving benefits

Answers

1. b. No. If you receive a disability benefit, it will automatically convert to a retirement benefit once you reach full retirement age.

2. d. Your benefit will not be reduced if your ex-spouse receives Social Security benefits based on your earnings record.

3. c. Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

4. c. Since 2013, the Treasury Department has required electronic payment of federal benefits, including Social Security. You can sign up for direct deposit of your benefits into your current bank account or open a low-cost Electronic Transfer Account (ETA) at a participating financial institution. Another option is to sign up for a Direct Express® prepaid debit card. Under this option, your Social Security benefits are deposited directly into your card account, and you can use the card to make purchases, pay expenses, or get cash.

5. b. No. Withholding isn't mandatory, but you may voluntarily ask the Social Security Administration to withhold federal income tax from your benefits when you apply, or later, if you determine you will owe taxes on your Social Security benefits (not everyone does). You may choose to have 7%, 10%, 15%, or 25% of your benefit payment withheld. Ask a tax professional for help with your situation.

6. a. If something unexpected happens and you've been receiving Social Security benefits for less than 12 months after signing up, you can change your mind and withdraw your claim (and reapply at a later date). You're limited to one withdrawal per lifetime, and there are also financial consequences. You must repay all benefits already paid to you or your family members based on your application (anyone affected must consent in writing to the withdrawal), and repay any money previously withheld, including Medicare premiums or income taxes.



D.A. Davidson & Co.

Gatien Strategic Wealth Management
Christy Gatien, CFP®
Sr. V.P., Portfolio Manager
10400 NE 4th Street
Suite 400
Bellevue, WA 98004
425-467-2241
cgatien@dadco.com
www.gatienstrategicwealthmanagement.com

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When should I submit college financial aid forms?

For the 2019-2020 school year, the federal government's financial aid form, the FAFSA, can be filed as early as October 1, 2018. It relies on current asset information and two-year-old income information from your 2017 tax return, which means you'll have the income data you need when you sit down to complete the form. This is a relatively new process. A few years ago, parents had to wait until after January 1 to file the FAFSA and use tax data for the year that had just ended, which forced them to scramble to complete their tax return in order to complete the FAFSA.

If you have a new or returning college student, it's a good idea to file the FAFSA as early as possible in the fall because some aid programs operate on a first-come, first-served basis. The deadline for filing the FAFSA is typically March or April and will vary by college. But don't wait until then. It's a good idea to submit any college aid forms as early as possible, too.

The FAFSA is a prerequisite for federal student loans, grants, and work-study. In addition, colleges typically require the FAFSA before distributing their own need-based aid and, in

some cases, merit-based aid. Even in cases when you don't expect your child to qualify for need-based aid, there may be another reason to submit the FAFSA. All students attending college at least half-time are eligible for federal unsubsidized Direct Loans regardless of financial need. ("Unsubsidized" means the borrower, rather than the government, pays the interest that accrues during school, the grace period after graduation, and any deferment periods.) So if you want your child to have some "skin in the game" with a small loan, you'll need to file the FAFSA. (Loan amounts are capped each year: \$5,500 freshman year, \$6,500 sophomore year, and \$7,500 junior and senior years.) What if you file the FAFSA but then change your mind about taking out a loan? Don't worry, you aren't locked in. Your child can always decline the loan after it's offered.

The FAFSA is available online at fafsa.ed.gov. In order to file it, you'll need to create an FSA ID if you haven't done so already (follow the online instructions). You'll need to resubmit the FAFSA each year, but fortunately you can use the built-in IRS Data Retrieval Tool to have your tax data electronically imported, which saves time and minimizes errors.



What's so great about a college net price calculator?

If you're saving for a child's college education, at some point you'll want to familiarize yourself with a college net price calculator, which is an invaluable tool for estimating financial aid and measuring a college's affordability. Available on every college website, a net price calculator gives families an estimate of how much grant aid a student might expect at a particular college based on his or her personal financial and academic profile and the college's specific criteria for awarding grant aid. A college's sticker price minus grant aid equals a family's "net" price, hence the name.

The idea behind a net price calculator is to give families who are researching colleges a more accurate picture of what their out-of-pocket costs are likely to be, rather than having them rely on a college's published sticker price. The figures quoted by a net price calculator aren't guarantees of grant aid, but the estimates are meant to be close, so running the numbers is an excellent way for parents to see what their net price might be at different colleges.

Keep in mind that each college has a different sticker price and formula for determining how

much grant aid it distributes, so every calculator result will be different. For example, after entering identical financial and family information on three separate net price calculators, you might find that College A has a net price of \$25,000 per year, College B has a net price of \$30,000, and College C is \$40,000.

A net price calculator typically asks for the following information: parent income and assets, student income and assets, and the number of children in the family, including how many will be in college at the same time. (Generally, the more children in college at the same time, the more grant aid.) It may also ask more detailed questions, such as a student's class rank and/or test scores, how much money parents have saved in employer retirement plans in the most recent tax year, current home equity, and how much parents expect to pay in health-care costs in the coming year.

A net price calculator typically takes about 10-15 minutes to complete and is time well spent. Typing "net price calculator" in the search bar of a college's website should direct you to it.



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