Community Wealth Advisors

Financial Advisor

Record Consumer Complaints in 2020

The Federal Trade Commission (FTC) received more than 4.7 million consumer reports of illegal activity or unfair business practices in 2020, a 45% increase over the 3.2 million reports in 2019. It's unclear why there was such a large increase, but it may be related in part to social isolation and economic stress during the pandemic. In October 2020, the FTC launched a new website for consumers to report fraud and other consumer issues that enables more efficient sharing with law-enforcement authorities: [ReportFraud.ftc.gov.](https://ReportFraud.ftc.gov)

Source: Federal Trade Commission, 2021

October 2021

Company Stock and Your Retirement Strategy

The opportunity to acquire company stock — inside or outside a workplace retirement plan — can be a lucrative employee benefit. Your compensation may include stock options or bonuses paid in company stock. Shares may be offered at a discount through an employee stock purchase plan and held in a taxable account, or company stock might be one of the investment options in your tax-deferred 401(k) plan.

Either way, having too much of your retirement savings or net worth invested in your employer's stock could become a problem if the company or sector hits hard times, especially if a job loss and stock value loss occur at the same time. There are also tax implications to consider.

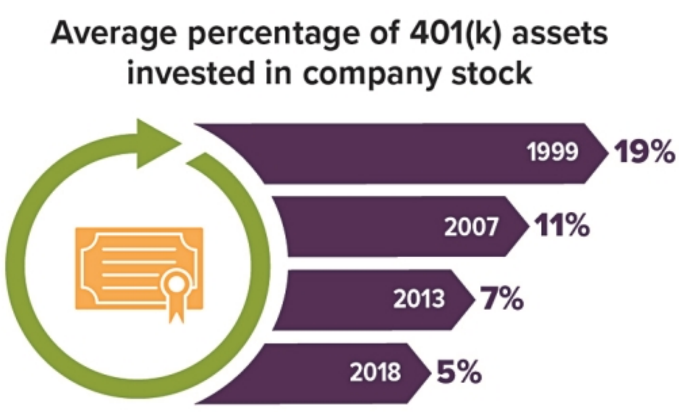
Concentrate on Diversification

The possibility of heavy losses from having a large portion of your portfolio holdings in one investment, asset class, or market segment is known as *concentration risk.* Buying shares of any individual stock carries risks specific to that company or industry, so a shift in market forces, regulation, technology, competition, scandals, and other unexpected events could damage the value of the business.

Holding more than 10% to 15% of your assets in company stock could upend your retirement strategy if the stock suddenly declines in value, and overconcentration can sneak up on you as your position builds slowly over time. To help maintain a healthy level of diversification in your portfolio, look closely at your plan's investment options and consider directing some of your contributions into funds that provide exposure to a wider variety of market sectors.

You might also consider strategies that involve selling company shares systematically or right after they become vested. But make sure you are aware of the rules, restrictions, and time frames for liquidating company stock, as well as any tax consequences.

Company Stock Ownership Has Fallen



Source: Employee Benefit Research Institute, 2021 (data from participants in the 2018 EBRI/ICI 401(k) database)

Take Advantage of NUA

If you sell stock inside your 401(k) account and reinvest in other plan options, or you roll the stock over to an IRA, future distributions will likely be taxed as ordinary income. However, if you own highly appreciated company stock in your employer plan, you might benefit from a special tax break on lump-sum distributions of net unrealized appreciation (NUA). NUA allows the appreciation on company stock in a 401(k) to be taxed at lower long-term capital gains rates when the shares are sold, instead of the ordinary income tax rates that would otherwise apply to retirement plan distributions.

To qualify for NUA, the lump-sum distribution must follow a triggering event such as separation from service, reaching age 59½, disability, or death. The stock must be distributed in kind — as stock — and transferred to a taxable account. You would owe income tax at the ordinary rate in the year of the distribution, but only on the cost basis of the stock.

If your retirement plan consists of employer stock and other types of investments (cash, mutual funds, etc.), the other assets can be transferred into an IRA, to another employer's plan, or withdrawn entirely. This doesn't have to happen simultaneously with the stock distribution, but the distributions must occur in the same tax year, and the account balance on your employer plan must be zero by the end of that year.

If distributions of company stock are handled correctly, the savings from NUA can be substantial, especially for those in higher tax brackets. But keep in mind that taking any partial distribution from your employer plan after a triggering event — even an in-plan Roth conversion or required minimum distribution — could disqualify you from the NUA tax break, unless another triggering event occurs.

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

Following the Inflation Debate

During the 12 months ending in June 2021, consumer prices shot up 5.4%, the highest inflation rate since 2008.[1] The annual increase in the Consumer Price Index for All Urban Consumers (CPI-U) — often called headline inflation — was due in part to the "base effect." This statistical term means the 12-month comparison was based on an unusual low point for prices in the second quarter of 2020, when consumer demand and inflation dropped after the onset of the pandemic.

However, some obvious inflationary pressures entered the picture in the first half of 2021. As vaccination rates climbed, pent-up consumer demand for goods and services was unleashed, fueled by stimulus payments and healthy savings accounts built by those with little opportunity to spend their earnings. Many businesses that shut down or cut back when the economy was closed could not ramp up quickly enough to meet surging demand. Supply-chain bottlenecks, along with higher costs for raw materials, fuel, and labor, resulted in some troubling price spikes.[2]

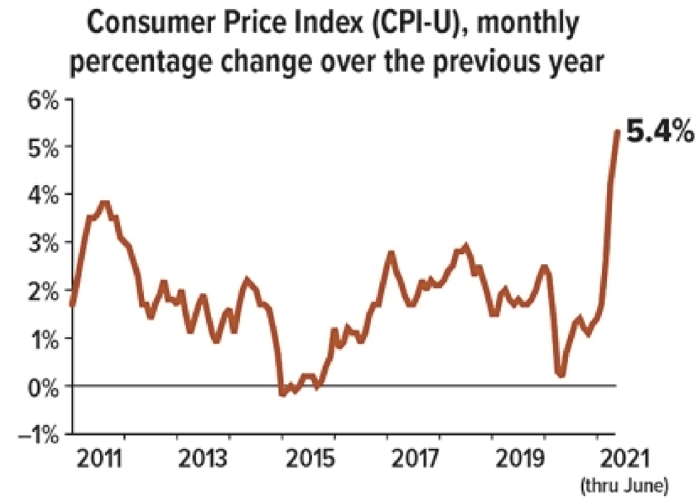
Monitoring Inflation

CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of the prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in one or more categories. In June 2021, for example, used-car prices increased 10.5% from the previous month and 45.2% year-over-year, accounting for more than one-third of the increase in CPI. Core CPI, which strips out volatile food and energy prices, rose 4.5% year-over-year.[3]

In setting economic policy, the Federal Reserve prefers a different inflation measure called the Personal Consumption Expenditures (PCE) Price Index, which is even broader than the CPI and adjusts for changes in consumer behavior — i.e., when consumers shift to purchase a different item because the preferred item is too expensive. More specifically, the Fed looks at core PCE, which rose 3.5% through the 12 months ending in June 2021.[4]

Competing Viewpoints

The perspective held by many economic policymakers, including Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen, was that the spring rise in inflation was due primarily to base effects and temporary supply-and-demand mismatches, so the impact would be mostly "transitory."[5] Regardless, some prices won't fall back to their former levels once they have risen, and even short-lived bursts of inflation can be painful for consumers.



Source: U.S. Bureau of Labor Statistics, 2021

Some economists fear that inflation may last longer, with more serious consequences, and could become difficult to control. This camp believes that loose monetary policies by the central bank and trillions of dollars in government stimulus have pumped an excess supply of money into the economy. In this scenario, a booming economy and persistent and/or substantial inflation could result in a self-reinforcing feedback loop in which businesses, faced with less competition and expecting higher costs in the future, raise their prices preemptively, prompting workers to demand higher wages.[6]

Until recently, inflation had consistently lagged the Fed's 2% target, which it considers a healthy rate for a growing economy, for more than a decade. In August 2020, the Federal Open Market Committee (FOMC) announced that it would allow inflation to rise moderately above 2% for some time in order to create a 2% *average* rate over the longer term. This signaled that economists anticipated short-term price swings and assured investors that Fed officials would not overreact by raising interest rates before the economy has fully healed.[7]

In mid-June 2021, the FOMC projected core PCE inflation to be 3.0% in 2021 and 2.1% in 2022. The benchmark federal funds range was expected to remain at 0.0% to 0.25% until 2023.[8] However, Fed officials have also said they are watching the data closely and could raise interest rates sooner, if needed, to cool the economy and curb inflation.

Projections are based on current conditions, are subject to change, and may not come to pass.

1, 3) U.S. Bureau of Labor Statistics, 2021; 2) *The Wall Street Journal,* April 13, 2021; 4) U.S. Bureau of Economic Analysis, 2021; 5-6) Bloomberg.com, May 2, 2021; 7-8) Federal Reserve, 2020-2021

Usage-Based Auto Insurance Might Provide Savings

Like everything else, the pandemic greatly impacted driving habits. Workers who once had long commutes and drove to work every day suddenly found themselves working remotely. Others were spending more time at home as the result of a job loss or reduction in hours. In fact, there was a 55% decrease in the average number of miles driven in 2020. That, coupled with a record unemployment rate, resulted in a surge in auto insurance shopping, driven by consumers looking to change their coverage or find better rates.[1]

If you are driving less than you used to, you might consider switching to a usage-based auto insurance policy that could save you money on your premiums. Usage-based policies use apps or tracking devices (telematics) to collect and monitor mileage and driving habits (e.g., speeding, acceleration, hard braking, cell phone use) to help determine rates. Usage-based policies typically provide a discount for signing up or upon policy renewal, and additional discounts are given based on safe driving performance.

If you have privacy concerns and find this type of monitoring too invasive, another option is a pay-per-mile policy, which only monitors your mileage. Pay-per-mile policies usually have a base rate and then charge an additional amount for each mile driven. In addition, you can also check with your current insurer to see if it offers a low-mileage discount, which typically only requires you to provide your car's odometer readings or maintenance records to obtain a discount.

If you are looking for other ways to save money on your insurance, consider the following additional cost-saving options.

Raise your deductible. Generally, the higher your deductible, the lower your premiums. Before you raise your deductible, though, be sure you can cover the out-of-pocket expense should an accident occur.

Take advantage of discounts. You may be eligible for one or more auto insurance discounts. For example, your insurer might provide discounts to individuals with a safe driving record, teens with good grades, or when bundling your auto policy with your homeowners insurance.

Drop unnecessary coverage. If you have an older car with limited value, it might make sense to drop your collision and comprehensive coverage, since a claim paid by your insurance company may be minimal and might not exceed what you would pay in premiums and deductibles.

Shop around. Auto insurance rates vary from company to company — sometimes significantly. Compare the various rates offered by different insurers.

1) J.D. Power, 2021