Finding Extra Portfolio Income

Why Annual Insurance Reviews Are Critical To Your Family's Financial Plan
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Letter from Charles and Jane

Welcome to Sawyer Wealth Management’s 2019 first quarter newsletter. We hope everyone is having a fantastic start to the new year. We trust you are enjoying our weekly updates and our quarterly newsletter. Our goal is to keep you informed and pass along articles that are both enjoyable and useful in everyday life.

We want to thank you for putting your loyalty and trust in Sawyer Wealth Management. Our job is to go above and beyond to assist you with every aspect of financial planning; we are committed to do so with excellence and superior professionalism. When doing something as important as preparing for the future, you shouldn’t have to go it alone. We’re dedicated to assisting you in building your security, protecting your legacy and promoting your financial wellbeing. Our team looks forward to working with you in 2019.

Please let us know if there is anything we can do to make this year financially successful!

Sincerely,
Charles and Jane
Now that 2018 is officially behind us, we can say goodbye to a year that brought the return of market volatility. However, we cannot assume that the new year will bring a complete end to market volatility. 2018 had many milestone events in the world of investing and the impacts of these milestones have left many investors questioning what is coming next in 2019.

2018 brought us a 10% drawdown of the S&P 500 in the first quarter and after a smoother ride in the 2nd and 3rd quarters, we saw a rare non-recessionary 20% drawdown. Major factors leading to this volatility included worries of slowing global economic growth, tensions with China and other countries regarding trade, political uncertainty, a hawkish tone from the
Federal Reserve regarding interests and lastly, investor complacency.

2018 was only the third time in post war America that the S&P 500 and the 10 year treasury return were both negative in a calendar year. This created a difficult environment for even the most diversified portfolios. In 2018 60/40 stocks and bonds did not work. Many felt that with rising interest rates, cash would be king. However, if we remain cognizant of real rates of return, we remember it means the rate of return minus inflation; historically cash is not king once adjusted for inflation. Many private investment asset classes such as private equity, private real estate, certain hedging strategies and short-term fixed income investments created much needed diversification to the normal 60/40 portfolio. We anticipate that these investments will continue to create much needed non-correlated growth as we navigate the later stages of the economic cycle and anticipate the moves of the Federal Reserve when it comes to interest rates and fixed income investing.

2018 also ended the year with equities looking the cheapest they have since almost 2013, as evaluated by the P/E Ratio. International opportunities especially in emerging economies continue to look attractive but albeit more susceptible to global volatility and uncertainty. If you compare January of 2019 to December 2018, it shows that much of the investor sentiment that caused deep selling late into the year—including an unusual Christmas Eve selloff—is starting to ease for now.

So far in 2019, it appears that Jay Powell and the Fed are striking a more dovish tone, saying that rate increases will be much more “As Needed” as opposed to “Gradual”. Progress towards resolving the trade deal with China seems to be in the works for now, but even presently the actions are relieving some investor worries. Earnings season seems to be strong so far, but they will indicate what the next few years will bring, and at what point we enter a recession.

One of our themes for this year on the investment front includes quality when it comes to equities. This translates to looking for opportunities within dividend growers, companies with stronger balance sheets and companies that have more attractive valuations. We also continue to favor private investments that are non-correlated to the market, including private equity and real estate opportunities. 2019 may also be an opportunity to add duration gradually into fixed income investments as the Federal Reserve pauses rate hikes.

The most important theme and message for the year will remain our commitment to disciplined investing. Volatility is here to stay and we want to reinforce the importance of proper asset allocation and staying disciplined during times of stress.

An S&P 500 investor recovered nearly 70% of their December losses in January MTD. Many balanced portfolios with alternatives recovered nearly all of their losses by maintaining discipline. We urge to avoid greed when the market is booming and resist selling when the market declines.
Looking for extra portfolio income? We have you covered!

By Brian Pacen CFP®, CIMA®, CRPC®
When market growth slows down or even stops completely, many investors look for outside of the box ways to manage the situation. One such strategy is called covered call writing. It has been used for decades to increase rate of return or reduce the downside of portfolios. For clarity’s sake, this strategy can be complex to understand and is not suitable for all investors. However, if deemed suitable for your risk tolerance and other financial objectives, writing covered calls can add extra income and dividends to a stock portfolio.

Writing covered calls is an options strategy so investors will need approval for options trading. Specifically, covered call writing is deemed a Level 0 option strategy which relates to its complexity and riskiness compared to more advanced and complex strategies.

Since the market is an exchange where two investors are on opposite sides of the table, we must first understand the two people in this exchange. First, there is the investor buying the Call option. This investor is bullish in nature and would like the right, but not the obligation, to purchase shares of a stock they feel will increase substantially in the near to mid future. They are willing to pay a premium for the opportunity to buy a stock at a predetermined price of their choosing. The closer the stock is to the predetermined price known as the “Strike Price”, the less premium the buyer will be required to pay.

The second party in the exchange is the seller of the call option which is also known as the writer. In the scenario we are describing, this writer already owns the stock the previous investor is interested in purchasing. The second party must have one or both of the following feelings on the stock they own: they feel that the stock will be relatively flat or even decline soon, or they are willing to sell at a predetermined price even if the stock were to appreciate beyond that price in exchange for the extra income.

The extra income can increase total returns in a flat or declining market while it can also offset some of the reduced upside if the stock were to be “called away”. The options can mature as frequently as weekly or even annually. If income is the main objective for the writer, then the shorter term options would be more advantageous and less likely to have the underlying stock called away. If your stock is called away and you have unrealized capital gains, keep in mind that it will be a taxable event. Also, the option premium is taxed as short-term capital gains, which do not receive the same tax rate as qualified dividends the stock may pay.

In basic terms, covered call writing is where you as an investor receive a premium from another investor for a predetermined sales price on the stock you already own; it is only considered to be a covered call if you own the underlying stock.
Example of a Writing a Covered Call

- Tom Jones owns 1000 shares of Exxon stock and would like to earn additional income on his shares. Exxon stock is currently trading at $69 per share.
- He decides to write 10 calls (1 call for every 100 shares of stock) with a strike price of $75 and an expiration of February 18, 2018.
- Tom will receive $600 in premium based on market prices to enter into the trade.
- If Exxon is below the strike price on the expiration date, Tom keeps the $600 and his stock. He and his advisor can then reevaluate to see if they wish to repeat the process for the next month.
- If Exxon goes above $75, Tom will have his stock sold at $75 and keep the $600 in premium, in addition to participating in the growth from the current price of $69 and the sale price of $75.

As mentioned initially, this strategy is not for everyone; however, as you can see in the example, it is a way to increase the cash flow on a stock investment under the proper circumstances. The best choices for this strategy would be dividend and value stocks over growth stocks. Also, consider not writing options on stocks that are announcing earnings if using monthly or weekly options, as price volatility tends to spike during earnings season.
Why Annual Insurance Reviews Are Critical To Your Family's Financial Plan

By Mark Kaifer, Esq

I’m a second generation insurance advisor that designs insurance coverage for families (auto/home/life/umbrella) and businesses. I’m also an attorney that has litigated personal injury cases in Federal and State Court.

Accordingly, I’ve seen how appropriate coverage protects families from catastrophic auto accidents. I have also witnessed the destructive force inadequate coverage can have on an underinsured family when the Jury comes back with a $330K judgment against a Defendant who only purchased a $100K per person auto liability limit. What happens next?
I can assure what WON’T happen is for Plaintiff’s counsel to simply “go away” with a judgment in hand. Instead, counsel will likely seize whatever personal family assets they can get their hands on, thereby putting the Defendants’ family financial plan in complete chaos.

### In our experience there are three main reasons:

1. People say, “I just opened up the mail, saw the renewal bill, and paid it.” If YOU had a nickel for every time WE heard that you’d be reading this on a very nice beach right now.

2. The underinsured family was offered and/or directly purchased a low liability limit when they first applied for auto insurance. No one told them anything different - and it was obviously cheaper - so it seemed like the right move. This family then usually renews year after year and ends up in category #1 above.

3. The underinsured family felt they were paying too much for auto insurance and they looked to reduce cost by lowering their liability limit. Beware of this dangerous practice.

If this describes you, the solution is easy - simply call your insurance advisor and ask for a comprehensive review of ALL of your policies! When you talk to them keep in mind that your liability limit covers BOTH your assets **AND your future earnings**.

### potential. You’ll be surprised how cheap and easy it is to properly protect you and your family. If you don’t have a trusted advisor - or if you want a no obligation review of your policy - then please consider us. We CAN help you.

Inevitably, the underinsured family is left to ask themselves:

**HOW DID THIS HAPPEN?**
“WHEN YOU’RE WITH SAWYER, YOU’RE WITH FAMILY.”

Watch Our Video

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