Six Financial Best Practices for 2020

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What a year it's been. Remember December 2018? As The New York Times reported at the time, "Stocks plunged in December [2018], posting their worst monthly loss since the financial crisis and the worst December since 1931 and the Great Depression."

It's amazing how quickly memories fade and markets move on. Around this time last year, we were busy encouraging everyone to avoid any emotion-driven panic. Six financial best practices we shared then focused on maintaining your steadfast resolve. That's never bad advice, but in this considerably quieter year-end (at least so far!), let's turn to a fresh new batch of financial best practices, to help you hit the ground running in 2020.

1. Revisit your tax plans

Old habits die hard. Although the Tax Cuts and Jobs Act (TCJA) is now in full swing, you're probably still following a few well-worn tax-planning paths that may no longer apply. You may want to revisit them. For example:

- Holding a mortgage is much less likely to offer the tax-deductible advantages it used to. Have you altered your payment plans accordingly?
- Ditto on charitable contributions. Have you looked at creative new strategies, like establishing a Donor Advised Fund, to continue engaging in tax-favored giving?
- Unless Congress acts to extend them, TCJA's lower individual income tax rates will expire in 2026. Have you considered how the current, lower-rate environment might impact your retirement planning? For example, performing a Roth IRA conversion with after-tax dollars may make more sense today than it used to.

2. Set up a password manager

Using a password manager to generate and secure strong passwords for your financial accounts is a widely accepted best practice. And yet, surveys suggests few investors have installed a password manager as recommended. Consider adding this important line of defense against hackers as a holiday gift to yourself. Use it to reset and strengthen all your financial account passwords.

3. Consider rebalancing your portfolio

Have you stayed the course in 2019, with a globally diversified portfolio reflecting your financial goals and risk tolerances? If so, that's fantastic! But if it's been a while since you've touched your portfolio, you may find some of your strongly performing assets have now overshot their target allocations. Depending on trading costs and tax ramifications, you may want to sell some of your winning asset classes from 2019 (in which you're now over-invested), and buy recently underperforming ones (in which you're now under-invested). It may feel counterintuitive to sell "winners" and buy "losers," but not if you recognize you're selling high and buying low.

4. Take advantage of $0 trading

If you've been watching the financial headlines this year, you may have noticed that many brokers have been competing to lower online trading commissions—often, all the way down to $0 for individual stock and ETF trades. Of course, if it undermines rather than advances your greater investment goals, even a "free" trade can cost you dearly. But zero-commission stock and ETF trades may have opened new cost-saving opportunities when managing your portfolio to reflect your investment plans.

For example, now might be a good time to deconcentrate out of any individual stock positions you've been hanging onto for no particular reason. Or, next time you're engaging in tax-loss harvesting, we may be able to reduce the trading costs involved by identifying an appropriate ETF with which to maintain your portfolio's target allocations mid-harvest.

5. Keep an eye on your cash

On those "free" trades, there's a side effect worth noting. Brokerages are businesses, not charities. If they're not profiting one way, they'll need to profit somewhere else. One tactic we've seen brokers using is slashing interest paid on your cash accounts, charging market-rate interest on loans, and keeping the spread for themselves. In October 2019, The Wall Street Journal's Jason Zweig observed of one zero-commission firm: "The firm automatically sweeps idle cash not into money-market mutual funds or other assets that could yield about 2% at today's rates, but into its own bank, which pays peanuts."

It's important to maintain enough liquidity for near-term and emergency spending, and to do so in an FDIC-protected or similarly protected institution. But you might consider looking beyond your brokerage accounts to earn market-rate interest on any significant cash reserves.

6. Live a little

You may not have noticed the news, buried as it was in a year's worth of jittery geopolitical headlines: As of mid-December, investors have earned double-digit year-to-date returns across most asset classes. Not only might this warrant some rebalancing, but you might find yourself on top of your financial goals. If so, you may want to be inspired by Benjamin Franklin's sentiment from his 1736 Poor Richard's Almanack: "Wealth is not his that has it, but his that enjoys it." If you were a steadfast investor in 2019 and your portfolio is doing well, consider treating yourself to a bit of a year-end reward. You've earned it.

As always, we're here to assist you in implementing any or all of these best practices—and more. In the meantime, we wish you and yours a most happy and healthy new year.

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