BRUCE & KAREN'S NOTES

Hoping this newsletter finds you all well and staying home as much as possible. Stock markets around the globe have improved nicely over the last four months, and positive news about both treatments and vaccines for Covid-19 has been favorably received. Although still high, unemployment numbers have been improving, and consumer demand has remained strong. Rest assured we will be calling immediately if portfolio changes are deemed necessary. However, do not hesitate to call if you have questions or concerns. Hopefully social distancing will defeat this Covid-19 enemy, and we hope you will do your part and encourage others to also do so.

It's hard to believe that August sent the Brown & Associates Team's children back to the classroom. Karen's oldest, Dawson, began his senior year at East Carolina University, and Jackson and Callie have returned to Fayetteville Academy in 6th and 3rd grades. Candace's Joseph and Isaac are at Mintz Christian Academy in 4th grade and Kindergarten. Heather's Havyn, Harmony, and Jacob all returned to Fayetteville Christian School in 5th, 4th, and 2nd grades. Join us in wishing them all a wonderful year, especially amongst our challenging environment.

As a reminder, we will be transitioning to our new Broker Dealer, Securities America, on 18 September. As we have stated in previous emails and letters, this will be a paperless move for you, and your accounts will remain exactly as they are now. No action is required in response to the negative consent letter you have received, and you may discard the letter as long as you wish to maintain your relationship with us; we certainly hope that is the case. Thank you for your continued trust and confidence, and we wish you good health and continued prosperity in the coming months.

Bruce Karen

Citations :

Little-Known Homeowners Insurance Facts
1 - USNews.com, May 14, 2020
2 - TheZebra.com, April 22, 2020

Financial Strategies for Young Families
1. PewResearch.org, March 25, 2020

Federal Student Loan Relief
1. Whitehouse.gov, August 8, 2020

Starting a Roth IRA for a Teen
1 - USNews.com, February 21, 2020
2 - Bankrate.com, July 23, 2020
3 - Forbes.com, February 13, 2020
4 - USNews.com, January 1, 2020
5 - IRS.gov, January 16, 2020

QUOTE OF THE QUARTER

"Of course, you cannot achieve perfection and you kind of get paralyzed, so you have to find equilibrium between the possible— what's realistic and what is ideal."

-Yo Yo Ma

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Financial News

3RD QUARTER 2020

Little-Known Homeowners Insurance Facts

If you have a homeowners insurance policy, you should be aware of what this insurance does and does not cover. These policies have their limitations as well as underrecognized perks.

Some policies insure actual cash value (ACV). ACV factors depreciation into an item's worth. If someone makes off with your expensive camera that you bought five years ago, a homeowners policy that reimburses you for ACV would only pay for part of the cost of a new equivalent camera bought today.[1]

Other policies insure replacement cash value (RCV). That means 100% of the cost of an equivalent item today, at least in the insurer's view.[1]

Insurers cap losses on certain types of items. If you lose an insured 42" flat-screen TV to a burglar, the insurer could reimburse you for the RCV, which is probably around $300. An insurance carrier can handle a loss like that. If a thief takes an official American League baseball (say, from the 1930s signed by Babe Ruth) out of your home, the insurer would probably not reimburse you for 100% of its ACV. It might only pay out $2,000 or so, nowhere near what such a piece of sports memorabilia would be worth. Because of these coverage caps, some homeowners opt for personal floaters – additional riders on their policies to appropriately insure collectibles and other big-ticket items.[1]

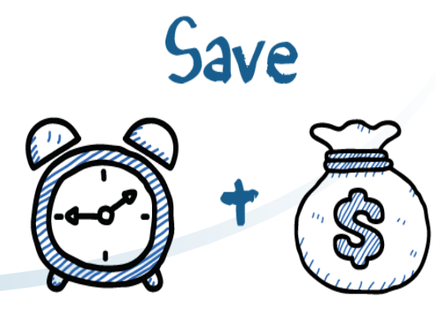
Did you know that losses away from home may be covered? For example, you have your laptop with you on a business trip. Your rental car is broken into, and your laptop is taken. In such an instance, a homeowners policy will frequently cover a percentage of the loss above the deductible – perhaps closer to 10% or 20% of the value above the deductible rather than 100%. However, if you have cash stolen during a trip, most insurance policies put a limit on what they will reimburse you for; typically, around $200 to $250.[1]

Your location affects your coverage and your rates. If you live in an area with more frequent property crime, your insurance carrier might cap its reimbursements on some forms of personal property losses. The insurer might even refrain from covering certain types of losses in your geographic area. The best thing to do is to review your policy carefully to make sure that, if the unthinkable happens, you have adequate coverage.[1]

Do you have a home-based business? If you do, damage and losses to your residence, resulting from or linked to your business activity, won't be covered by your homeowners insurance policy. The same holds true for a personal umbrella liability policy.[2]

Having a separate, discrete business insurance policy to protect your home-based company is important. Without such a policy, you have in adequate coverage for your business. If a visiting client has a bodily injury claim, or an employee at your residence file a workers' compensation claim, you could end up losing your home.[2]

Read the fine print on your policies. Recognizing the basic limitations of homeowners insurance is critical. You should know what is and is not covered to address a weak spot(s) before it becomes a major issue.



Financial Strategies for Young Families

It's never too late to start.

The hardest part is getting started. Even though more than half of U.S. households have some form of investment in the stock market, many new parents may still find that creating a financial strategy is the last thing on their minds. And who can blame them? After all, new parents have a million concerns to keep in mind on top of any unexpected financial pressure that may arise. But for young families with discretionary income, creating a financial strategy may be easier than they realize.[1]

Remember that investing involves risk, and the return and principal value of investments will fluctuate as market conditions change. Investment opportunities should take into consideration your goals, time horizon, and risk tolerance. When sold, investments may be worth more or less than their original cost. Past performance does not guarantee future results.

What's your end goal? What expenses do you anticipate in 5, 10, or even 15 years from now? These can be tough questions to answer while raising a family.

Establishing your investments' goal or goals is one of the many ways your financial professional can help. Before your first meeting, jot down all the financial questions you can think of – no matter how silly they may seem to you. These answers can help define your family's short-term and long-range financial goals.

Once you start, try not to stop. If you have already started investing, congratulations may be in order! In getting an early start, you have taken advantage of a powerful financial asset: time. However, don't overlook the power of consistency. For some, consistent investing may be the most realistic pathway to pursuing their financial goals.

For those who haven't started, that's okay too. Remember, it doesn't always take a lump sum to begin. Even auto-depositing $100 a month into an account is a step toward your family's goals. And who knows? As your family's circumstances change, you may be able to contribute even more over time.

There is no "one way." The point is that there isn't a single, one-size-fits-all solution for young families that are looking to invest in their future. Financial professionals also know this and can help craft a strategy suited to your risk tolerance, goals, and financial situation.

Federal Student Loan Relief

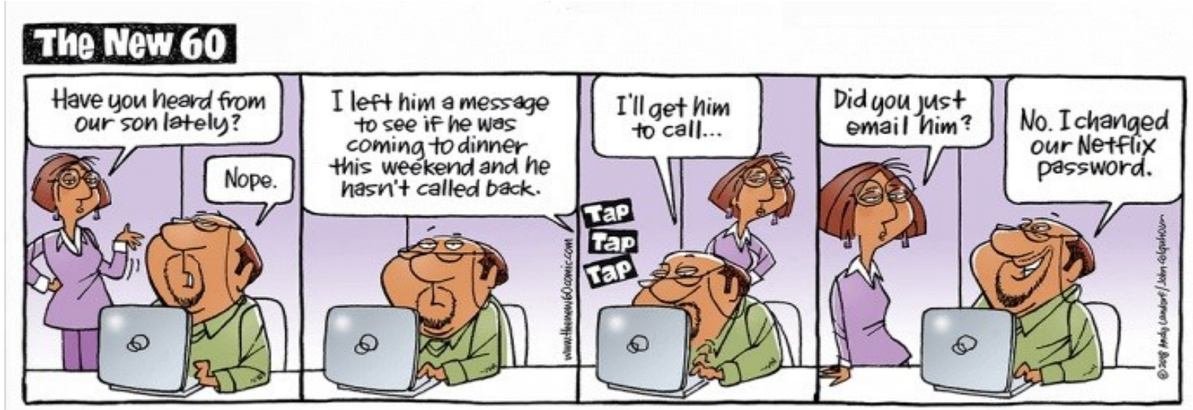
How does it work? What should you do?

This month, many universities and colleges are welcoming students back to campus, even if most campuses are largely online this year.

But that's not all that's different. The current administration has issued an executive memorandum that extends the temporary halt on all federal student loan payments, which was originally granted by the CARES Act, until December 31, 2020. This executive action instructs the Department of Education to "continue the temporary cessation of payments and the waiver of all interest on student loans held by the Department of Education."[1]

What about the interest? As stated above, this most recent executive action extends the 0% interest on the following types of federal student loans.[1]

- Direct Loans
- FFEL Program loans
- Perkins Loans



Starting a Roth IRA for a Teen

This early financial decision could prove helpful over time.

Want to give your child or grandchild a great financial start? A Roth IRA might be a choice to consider. There are many reasons why starting a Roth IRA for a teenager may be a sound financial strategy. Read on to learn more about how doing this may benefit both of you.

Tax-free benefits during retirement. Setting up a Roth IRA for the teenager in your life could prime them to have more retirement savings. Plus, a Roth IRA has the potential to accumulate over the years, and the owner may be able to better manage their tax burden if they withdraw the money after age 59½.[1]

For example, a 19-year-old who contributes $5,000 a year to a Roth IRA, which earns 8% for 40 years, would be positioned to have about $1.4 million by age 59. Of course, this is a hypothetical example that's used for illustrative purposes only. It is not representative of any specific investment or combination of investments. Actual results will fluctuate.[2]

Greater earning potential, thanks to the magic of compound interest. Setting up a Roth IRA for a teenager is a great way to introduce them to basic financial concepts, such as compound interest. Giving your teen a hands-on learning experience may help them understand the value of saving for the future. You might also be facilitating your child or grandchild to develop lifelong financial habits.[3]

Looking ahead to the future. If money is withdrawn before age 59 ½, there may be a penalty assessed. This is typically a 10% I.R.S. penalty, but in some circumstances, it can be more. There is, however, a notable exception. Up to $10,000 of earnings can be taken out of a Roth IRA at any time if the money is used to buy a first home. In this particular case, the I.R.S. waives the early withdrawal penalty. Should your teenager become a parent someday, a portion of those Roth IRA assets might also be utilized to pay college tuition costs for themself or their child.[1,4]

Keep in mind that this article is for informational purposes only. It's not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying any Roth IRA strategy.

Rules for gifting a Roth IRA. Setting up a Roth IRA for a teen means that you can gift them some of the funds to get it started, provided that your teen is earning income. So, if your 15-year-old has earned $6,000 at a summer job, you can gift them up to $6,000 (the maximum annual contribution) to invest in a Roth IRA. The amount gifted or contributed cannot exceed the teen's income, however, and the annual contribution limits to a Roth IRA still apply. What's more, you may also realize a tax perk. If you make the initial contribution to the Roth IRA as a parent or grandparent, that money can count as a gift within your $15,000 yearly gift tax exclusion ($30,000 for a married couple).[5]

There are a few things to consider when setting up a custodial Roth IRA. Setting up a Roth IRA for a minor is often referred to as a custodial IRA. Until the child is able to take it over, you act as the custodian of the account. Individual state laws determine when the minor child is able to take over management of the Roth IRA for themselves.[1,4]

You should always consult with a tax professional to ensure that you and your minor child are following all federal and state regulations. If this is something you're considering doing for a loved one, we'd be happy to talk with you further.