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DEPARTMENTS

2 SCHWAB ORIGINALS
Listen, read, and learn.

3 CEO's NOTE
Tackling retirees' biggest challenge.
By Walt Bettinger

THE BOTTOM LINE
5 Does your fund's age matter?
7 States that tax Social Security.
8 Dividend-paying stocks.
9 A better approach to rebalancing.

11 ASK CARRIE
How to help your folks with their finances.
By Carrie Schwab-Pomerantz

PERSPECTIVES
13 To refi or not to refi?
By Rob Williams

17 Drowning in debt.
By Liz Ann Sonders

20 THE BIG PICTURE
7 SECURE Act takeaways.

23 TRADING
Learning from your losses.
By Joanna Payne

38 SPOTLIGHT
Schwab Live | Schwab Bank Visa®
debit card | 1099 Dashboard.

44 ON YOUR SIDE
A helping hand.
By Charles R. Schwab

ON THE COVER

EXTEND YOUR SAVINGS
6 Tax-efficient ETFs.
15 Municipal bonds' tax-free income.
26 How smart tax planning can help extend the life of your savings.

FEATURES

30 DIY vs. Pro
When to take financial matters into your own hands—and when to ask for help.

34 Worth Their Weight
Alternatives to ubiquitous capitalization-weighted index funds can help diversify your portfolio.

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Sincerely,

Walt Bettinger
President & CEO

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When comparing actively managed mutual funds for your portfolio, how much attention should you pay to a fund’s age?

On the one hand, research has shown that, on average, younger funds outperform older funds, perhaps because advances in technology give new fund managers an advantage over existing managers. As one might predict, this advantage dissipates over time as new funds enter the fray.¹

On the other hand, it’s very difficult to assess whether a new fund will go the distance. “Investing in a brand-new active strategy is pretty risky, because you’re basing your entire investment on the promise of strong returns without a track record to back it up,” says Michael Iachini, vice president and

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¹This advantage may not persist indefinitely due to market conditions and other factors.
How Tax-Efficient Is Your ETF?

Because ETFs are structured and traded differently than mutual funds, ETFs typically realize fewer capital gains, making them one of the more tax-efficient investments you can own.

If you invest in ETFs that generate significant income from payouts, however, taxes might be of greater concern. “Dividends and interest are treated differently and should therefore be a factor when selecting funds for your portfolio,” says Emily Doak, CFA and managing director of ETF research at Charles Schwab Investment Advisory.

For example, most dividends from ETFs holding U.S. stocks are considered “qualified” for federal tax purposes, meaning they’re taxed at the long-term capital gains rate of 0%, 15%, or 20%, depending on your income.1 (By contrast, nonqualified dividends are treated as ordinary income, meaning they could be taxed as much as 37% for high-income earners.) But to qualify for the long-term capital gains rate, you must meet certain holding period requirements; if you don’t, your dividends will be subject to ordinary income tax rates.2

Interest payouts from taxable bond ETFs, on the other hand, are always taxed as ordinary income, irrespective of how long you’ve held the fund. So, if generating tax-efficient income is one of your goals, you might instead want to consider municipal bond ETFs, which are tax-free at the federal level (and sometimes at the state level, depending on where you reside).

Of course, taxes are only one consideration among many when selecting investments for your portfolio. Regardless of how their payouts are taxed, funds also need to support your investment goals or income needs. Fortunately, ETFs remain one of the most tax-efficient ways to reach your long-term objectives.

1 An additional 3.8% surtax may apply for high-income earners with significant investment income. 2 Payments from securities-lending revenue and income from options strategies are not eligible for qualified tax treatment. For more details, see IRS Publication 550, “Investment Income and Expenses,” at irs.gov/pub/irs-pdf/p550.pdf.

Log in today to view year-to-date and estimated future income payouts for each of your Schwab accounts.

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Social (In)Security

Here’s when—and where—the tax man could take a bite out of your benefits.

Contrary to popular belief, some Social Security recipients may owe taxes on their benefits—at the state and federal levels.

“The majority of states won’t take a piece of your Social Security check,” says Hayden Adams, CPA, CFP®, and director of tax and financial planning at the Schwab Center for Financial Research. “But some do, and they vary in their methods for determining taxability, making it all the more confusing to figure out what you owe.” (You can check your state’s rules using the directory at taxadmin.org/state-tax-agencies.)

Even if you live in a state that doesn’t take a bite out of your Social Security benefits, the federal government still might: More than 40% of current beneficiaries pay income taxes on a portion of their benefits. “Depending on your combined income—which is the sum of your adjusted gross income, tax-free interest, and half your Social Security benefit (or benefits, if you’re married)—up to 85% of your benefits could be taxable as ordinary income,” Hayden says.

If you’re worried your Social Security payouts will increase your tax bill—or perhaps even push you into a higher tax bracket—a bit of tax management can go a long way, Hayden says. “Taxes can often be offset by, say, strategically selling assets from various accounts or making charitable donations, so reach out to your tax advisor to talk through all the available options.”

Unlucky 13
If you live in one of these states, your Social Security benefit could be taxed.

See page 42 for important information.  • This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, you should consult with a qualified tax advisor, CPA, financial planner, or investment manager. (0220-94EK)
Stocks That Pay

Adding dividend-paying stocks to your portfolio can help boost returns over time.

With bond yields hovering near historical lows, stocks that offer quarterly payouts may have renewed allure for income-seeking investors.

Nearly half (48.8%) of the stocks in the S&P 500® Index offered a dividend yield of at least 1.90%, as of December 16, 2019. Meanwhile, 10-year U.S. Treasuries offered a yield of 1.87% on that same day—though of course payouts from Treasuries are guaranteed while those from dividend-paying stocks can be reduced or eliminated at any time and without notice.

Dividend-paying stocks can be especially important to retirees. “As health care costs continue to rise and bonds offer nominal yields, retirees need a way to help offset inflation and rising expenses,” says Bill McMahon, a senior vice president at Charles Schwab Investment Advisory. “Dividend-paying stocks can help.”

That said, dividend-paying stocks aren’t only about dividends. “In addition to helping boost portfolio income, companies that increase their dividends send a positive signal about the business’s health,” Bill says. Indeed, over the past four decades, equities with strong and rising dividends have significantly outperformed their low- and non-dividend-paying counterparts in terms of total returns, which include price appreciation (see “The dividend dividend,” right).

By the same token, companies facing economic hardship may slash their dividends to help preserve capital or meet other obligations. And when a company cuts its dividends, its stock price often declines, potentially compounding the impact on your portfolio.

Investing in dividend-paying stocks via an exchange-traded fund or a mutual fund can help manage this risk. “Fund managers have the time and expertise to research businesses that seem poised not only to sustain their current payouts but also to grow their dividends in the future,” Bill says.

The dividend dividend

The stocks of companies that grew their dividends over time have historically outperformed all other stocks.

Historical total returns, 1980–2019

<table>
<thead>
<tr>
<th>Stocks that grew or initiated dividends</th>
<th>Stocks with no change in dividends</th>
<th>Stocks that cut or eliminated dividends</th>
<th>Stocks that did not pay dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.8%</td>
<td>11.1%</td>
<td>8.7%</td>
<td>7.9%</td>
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</table>

Research dividend-paying funds by logging in to the mutual fund screener (schwab.com/fundscreener) or ETF screener (schwab.com/ETFscreener), selecting Basic Criteria, and then selecting your desired criteria under Fund Category and Distribution Yield.

See page 42 for important information. ✦ Investing involves risk, including loss of principal. ✦ The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision. ✦ Dividend-focused funds may underperform funds that do not limit their investment to dividend-paying stocks. Stocks held by the fund may reduce or stop paying dividends, affecting the fund’s ability to generate income. (0220-92H2)
Rebalance, Rebalance, Rebalance

How regularly rebalancing your portfolio can help reduce risk.

What if there were a way to consistently buy low and sell high? As it happens, there is—if you take a disciplined approach to rebalancing your portfolio.

Because some of your holdings will invariably do better than others as the market rises and falls, your portfolio can drift away from its target asset allocation over time. If you commit to regularly selling assets that have become overweighted in your portfolio and buying those that have become underweighted, you’ll effectively be buying low and selling high.

Unfortunately, many people do the opposite. “When you have new money to invest or are making changes to your portfolio, the common urge is to put more money into the stocks or funds that have been doing the best recently,” says Mark Riepe, head of the Schwab Center for Financial Research. “Instituting a disciplined rebalancing strategy can help remove those emotions from the decision-making process.”

Practically speaking, you can approach rebalancing in a number of ways. Some people like to follow a strict schedule, realigning their portfolio to their target asset allocation monthly or quarterly. Others—including Mark—find it more useful to set a threshold past which it’s time to act. “One approach would be to use a five-percentage-point departure in any one area of your target allocation as a prompt to rebalance,” he says. For example, if your target allocation calls for 60% stocks, you might choose to rebalance when that allocation rises to 65% or falls to 55%. (To see if your portfolio is in line with your target allocation, log in to schwab.com/portfoliocheckup.)

However you choose to approach rebalancing, the important thing is to have a reasonable rule—and to stick to it, regardless of what the market is doing.

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Filter out the noise.
Focus on the facts.

Of 8,000 funds reviewed by Morningstar for its “Terrific 28” list, less than 1% were chosen. Six are American Funds.*

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* Source: Morningstar, “FundInvestor: The Terrific 28,” by Russel Kinnel, May 2019. Morningstar’s criteria for the “Terrific” list include: expense ratio in the cheapest quintile, manager investment of more than $1 million in the fund, Morningstar Risk rating below the High level, Morningstar Analyst Rating of Bronze or higher, Parent rating of Positive, returns above the fund's benchmark over the manager’s tenure for a minimum of five years, must be a share class accessible to individual investors, and no funds of funds. Each fund’s results were evaluated based on share classes that were accessible to individual investors. Morningstar evaluated American Funds’ Class A shares because they are most widely held by individual investors. According to Kinnel’s report, American Funds’ “institutional and clean share classes would have gotten more funds through the tests.” The list’s criteria have changed over the years.
Dear Carrie,
My parents are in their early 80s. Fortunately, they’re still healthy and quite independent, but I want to help them be prepared should things change. How can I talk to them about their finances without overstepping?

Q

Dear Reader,
Some might say that 80 is the new 60, but the reality of aging is that no matter how young your parents feel now, they’re likely to need some type of help in the future. I applaud you for being proactive—it’s better to have these difficult conversations before a change in your parents’ situation necessitates your involvement.

A
Here are five tips to help broach the subject.

1. **Ask about their financial security**

A lot of people don’t like to talk about money, but if you come from a position of concern, they might feel more comfortable. Here are some questions to start with:

- **How are they handling everyday expenses?** Do they have enough income to cover the essentials? If they’re struggling to stay on top of bills or debts, you might help them create a more realistic budget or suggest they work with a planner who can help get a handle on their expenses. It can also help to look into benefits programs nationwide, which can help with everything from finding affordable housing to tax relief. Learn more at benefitscheckup.org.

- **Do they have a financial advisor?** If so, ask if they’d be willing to introduce you and perhaps even include you in a meeting. If they don’t have an advisor, you can start by encouraging them to create a simple financial plan. At the very least, you might help them draft a basic net worth statement, establish a monthly budget, and review their insurance coverage. You can use the resources available at schwabmoneywise.com to get started.

- **Do they have a complete estate plan?** Chances are, your parents have a will and perhaps even some asset titling in place, but what about health care directives and powers of attorney? Ask whether they’ve created any legal documents that specify how to manage their financial and health care decisions should they become unable to do so themselves. If they do have a solid plan in place, ask when they last reviewed the documents and whether any updates are necessary.

2. **Discuss future living arrangements**

Some people want to live in their homes as long as they can, while others are open to independent-living communities should their health decline. Ask your parents if they’ve thought about what they might do in the event they need ongoing help. Position it as just an exploration of future possibilities—not a recommendation.

3. **Plan ahead for long-term care**

The median annual cost for assisted living is $48,612, according to the Genworth 2019 Cost of Care Survey. However, median annual costs vary widely by location—as much as $84,255 in New Hampshire and as little as $34,566 in Missouri, for example—and expenses are generally per person.

Not everyone will need long-term care, of course, but it’s still worth discussing. If your parents already have long-term care insurance, understand what it will cover. While future care can be an emotional flashpoint, it’s also an important financial consideration because they—and you—need to understand how much they can afford and whether you might need to supplement any costs.

4. **Be on the alert for abuse**

Seniors lose more than $36 billion to financial abuse each year.1 While senior investor protection laws are in place in many states and more are in the works, everyone needs to be mindful of potential scams. For more information, check out the “Senior Investor Protection” page on SIFMA’s website (sifma.org/explore-issues/senior-investors), which includes helpful tips and resources for combating elder fraud.

Be sure to discuss this with your parents, too. As a precaution, you might suggest they add you or another trusted family member to some or all of their accounts to help monitor balances and transactions. (If your parents are Schwab clients, they can also designate you as a Trusted Contact so Schwab may discuss with you possible indications they’re being financially exploited. Learn more at schwab.com/trustedcontact.)

5. **Have a family discussion**

If you have siblings, make sure everyone is aware of your parents’ situation and desires, and come to a consensus on who will do what should your parents need assistance in the future. In this way, you can ensure there are no misunderstandings or disagreements, and that whoever takes the lead gets the support they need.

Finally, when it comes to family financial conversations, it is all about talking openly and honestly. While the burden often falls on the kids to get the conversation going, I encourage any older adults reading this column to initiate these discussions themselves. The more mutual understanding there is about the future—of both emotional and financial matters—the more you will all be able to enjoy the present.

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hen the Federal Reserve began cutting interest rates in July 2019, homeowners jumped at the chance to refinance their mortgages, with such activity reaching a three-year high in August.\(^1\)

But locking in a lower interest rate won’t always save you money in the long run. Here are four common reasons to refinance—and what to consider about each.

**Reason 1: Cut your interest rate**
In September 2019, more than half of all borrowers with 30-year fixed-rate mortgages could have saved at least three-quarters of a percentage point on their interest rate by refinancing, according to mortgage-analytics firm Black Knight.\(^2\)

However, locking in a lower rate may not be enough, especially if you plan to move in the next few years. If you can’t make back what you paid in closing costs and other expenses by the time you sell, refinancing probably isn’t worth it.

Even if you plan to remain in your home, you need to think about how far along you are in your current loan. For example, if you’re 10 years into a 30-year loan and you refinance with another 30-year loan, you’re potentially adding 10 years to the time it will take to pay off your home. To justify that extra decade, you’d have to save a significant amount of money on your monthly mortgage payments (see “Loan vs. loan” on the following page). Either that or you’d need to commit to paying off the loan far more quickly than required.

**Reason 2: Replace an adjustable-rate mortgage**
Today’s rates don’t have much room to go lower, but they have plenty of room to rise. Although we don’t expect rates to increase significantly anytime soon, the benchmark 30-year fixed-rate mortgage did rise in mid-December to 3.93% from 3.90%, according to Bankrate’s weekly survey of large lenders. And it was 5.04% only a year earlier.\(^3\)

Hence, refinancing might make the most sense for borrowers with an adjustable-rate mortgage (ARM), which is susceptible to rate hikes once the loan’s initial fixed-rate period expires.
Loan vs. loan
Even a 0.75 percentage point cut to your current loan wouldn’t be worth it over the life of your new 30-year loan.

<table>
<thead>
<tr>
<th>CURRENT LOAN</th>
<th>REFINANCED LOAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400,000 @ 4.35% 30-year term</td>
<td>(original loan minus principal paid to date)</td>
</tr>
<tr>
<td>Monthly payment</td>
<td>$2,272</td>
</tr>
<tr>
<td>Years remaining</td>
<td>20 years</td>
</tr>
<tr>
<td>Interest paid to date</td>
<td>$153,926</td>
</tr>
<tr>
<td>Total interest due over life of loan</td>
<td>$308,671</td>
</tr>
<tr>
<td>Total interest paid</td>
<td>$308,671</td>
</tr>
<tr>
<td>($350,046 Due on refinanced loan)</td>
<td></td>
</tr>
</tbody>
</table>

See page 42 for important information. © 2019 Charles Schwab & Co., Inc. Schwab & Co., Inc., and Schwab Schwab Bank, Member FDIC and Equal Housing Lender. Schwab & Co., Inc. is not affiliated with The Charles Schwab Corporation, Schwab Bank, or any other Schwab entity. Schwab Bank is a separate financial institution, subject to independent regulation by the Federal Deposit Insurance Corporation (FDIC) and the Consumer Financial Protection Bureau (CFPB). Depository accounts are not insured by the FDIC or other federal agencies. Schwab Bank is a Division of Schwab Bank, Member FDIC. Schwab Schwab Bank is a service mark of The Charles Schwab Corporation, and a Separate Banking Entity from The Charles Schwab Corporation, Schwab & Co., Inc., and Schwab Bank. **For definitions of Schwab Home Equity Line of Credit, please visit schwab.com/hec.**

Reason 3: Get rid of private mortgage insurance
If you pay for private mortgage insurance (PMI)—which is usually required when you have a conventional loan and make a down payment of less than 20%—it may be possible to eliminate that expense by refinancing.

How you can plan on staying in your home for much longer—or if your potential new rate isn’t substantially lower than your current rate—you must first make sure you have the equity to stick with your current loan, as demonstrated in “Loan vs. loan,” above.

Of course, if you believe the value of your home has risen to the point where your equity stake no longer requires your home to be a cash flow trigger. (There are a number of online mortgage calculators, such as the one available at bankrate.com/calculator, that can help you run the numbers.) A mortgage recasting strategy MORTGAGE REFINANCING

Compare and contrast
Whatever your reason for considering a refi, make sure you do a thorough cost-benefit analysis before pulling the trigger. (There are a number of online mortgage calculators, such as the one available at bankrate.com/calculator, that can help you run the numbers.) A lower monthly payment may be your goal, but it’s possible you could end up paying more in the long run.

Mortgage recasting
Another way to reduce payments. Some lenders allow borrowers to "recast" their mortgages by paying a lump sum against the principal owed. The loan’s interest rate and term remain the same, but the lender sets up a new amortization schedule based on the smaller principal balance, thereby reducing monthly payments for the remainder of the loan. This strategy can increase cash flow right away without extending the life of the loan, but generally requires borrowers to have cash on hand to cover the lump sum and any applicable fees.

Source: Bankrate.com. This example is hypothetical and provided for illustrative purposes only.

control in the future. But it goes without saying that a cash-out refi will increase your monthly mortgage payments, potentially putting your home at risk should the payments become unmanageable.

Reason 4: Pay off more expensive debt
If you’re carrying significant amounts of high-interest debt, you might be considering a cash-out refi, which allows you to borrow extra funds against the value of your home.

Using low-rate funds to pay off high-rate debt may be a smart strategy, provided you’re disciplined enough to keep your high-rate debt under control in the future. But it goes without saying that a cash-out refi will increase your monthly mortgage payments, potentially putting your home at risk should the payments become unmanageable.

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Source: Bankrate.com. This example is hypothetical and provided for illustrative purposes only.
continue to drive demand and bolster returns for tax-advantaged munis for the foreseeable future.

- The muni market’s overall credit health remains strong, and issuers should be able to continue making timely interest and principal payments. Indeed, from 1970 through 2017, the default rate among muni issuers was less than 1%—compared with 6.7% for corporate bonds during the same period.4

- Because of their tax-free status, munis may also offer higher after-tax yields than corporate bonds of similar maturity (see “A leg up,” right). That said, individuals in lower tax brackets or those who reside in low-tax states may find better after-tax yields from taxable bonds, including corporates.

Shopping around
If you’re looking to add munis to your portfolio, we suggest keeping three factors in mind:

1. **Geographic diversification:** Despite a positive credit outlook for the muni market overall, some regional pockets, such as areas of the Rust Belt, suffer from heightened risk. Investors should stick to issuers in economic regions with stable or growing populations, which generally have stronger financials than those in areas experiencing slow growth or outmigration.

Furthermore, it’s generally wise for most investors to diversify across multiple U.S. municipalities. Investors who live in California or New York, however, may want to consider an all-in-state portfolio in order to shelter as much income as possible from their state’s high taxes. Both states issue a wide variety of munis each year, making a home-state portfolio fairly easy to implement.

2. **Bond classification:** Broadly speaking, munis fall into one of two categories:

- General obligation (GO) bonds, which are backed by a specific tax source or the full taxing power of a state or local government.

- Revenue bonds, which are supported by the revenue from a specific project or public service, such as a sports stadium or utilities.

Revenue-bond issuers vary in terms of credit quality and are therefore generally viewed as less secure than issuers of GO bonds, but it’s important to evaluate the risks and benefits of both options. You should ideally look to combine different muni types to build a well-diversified portfolio.

3. **Credit rating:** Recently, investors have been scooping up hundreds of millions of dollars in munis from lower-rated issuers in the hope of earning higher yields. Because such bonds have a much higher risk of default than investment-grade issues, we recommend sticking with higher-rated issuers (AA/Aa and above), which comprise about two-thirds of the $3.6 trillion muni market.

### Pick and choose
Munis are a great way to earn competitive yields while protecting income from taxes. Before you join the fray, however, be sure to do your homework and consider the regions and municipalities that make the most sense for your needs and tax situation.

### A leg up
The higher the federal marginal income tax rate, the more valuable muni bonds’ tax-free income becomes in comparison to corporate bonds and U.S. Treasuries.

<table>
<thead>
<tr>
<th>Federal tax bracket</th>
<th>Municipal bonds</th>
<th>Corporate bonds</th>
<th>U.S. Treasuries</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>22%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>24%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>32%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>35%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>37%</td>
<td>7.5%</td>
<td>7.5%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

Source: Bloomberg Barclays Indices, as of 12/16/2019. Corporate bonds assume an additional 5% state income tax and U.S. Treasuries assume an additional 3.8% surtax for the 32%, 35%, and 37% tax brackets.

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See page 42 for important information.

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision. Tax-exempt bonds are not necessarily a suitable investment for all persons. Information related to a security’s tax-exempt status (federal and in-state) is obtained from third parties and Schwab does not guarantee its accuracy. Tax-exempt income may be subject to the Alternative Minimum Tax (AMT). Capital appreciation from bond funds and discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax. (0220-98CE)

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LET’S TALK

Need help deciding if munis make sense as part of your fixed income strategy? Call 866-893-6699 to speak with a Schwab fixed income specialist.
Drowning in Debt

How might the country’s rising tide of red ink affect your portfolio?

By Liz Ann Sonders

The debt bubble may have burst during the 2008–2009 financial crisis, but the United States has been in an ongoing, if subtler, debt crisis ever since.

In fact, the current economic expansion, although the longest, is also the weakest since WWII—due in no small part to the ever-growing debt problem plaguing corporations and the U.S. government. And as debt rises, it tends to crowd out more productive investments and leave the economy vulnerable to a slowdown.

Let’s take a look at the depth of our debt—and how investors might prepare for any repercussions.

In the red

To illustrate the magnitude of U.S. debt, let’s look at total credit market debt (TCMD), which includes all debt from financial and nonfinancial corporations, governments, and households. TCMD is considered high if it exceeds 320% of gross domestic product (GDP) and low if it falls below 160%.

Prior to the financial crisis, the debt-to-GDP ratio rose as high as 380%, fueled in large part by the unmanageable debt loads of financial institutions and households. Although there’s been a significant decrease in such debt since 2009, the debt-to-GDP ratio remains only slightly lower—at 350%—thanks to government and nonfinancial corporate debt (see “Down and up,” upper right).

The problem, according to Ned Davis Research, is that economic output becomes severely stunted when the debt-to-GDP ratio surpasses that 320% threshold (see “Diminished by debt,” lower right).
And if you think the government debt problem, in particular, is going to ease up anytime soon, think again. Over the next decade, the Congressional Budget Office expects net interest payments on outstanding federal debt to increase nearly 150%;1 potentially crowding out more productive investments such as infrastructure and research.

Fear not

Until policymakers can come up with a viable solution to ballooning debt, we may be in for an era of weak economic growth and increased volatility. Given that possibility, investors should consider taking the following actions to help offset those risks:

1 Look abroad: U.S. equities may not continue to deliver strong relative returns over the coming decade, so all but the most risk-averse investors should consider having exposure to international and even emerging markets for diversification purposes. Of course, international investing comes with its own risks, including currency weakness and geopolitical turmoil, which is why Schwab suggests that:

- Conservative investors allocate no more than 5% of their portfolios to international equities—including both developed- and emerging-market companies.
- Moderate investors who can stomach a bit more risk allocate no more than 15% to international equities.
- Aggressive investors allocate no more than 25% to international equities.

To screen for low-volatility stocks, log in to schwab.com/stock screener, click Analyst Ratings, select SER Volatility Outlook, and then choose Low.

2 Rebalance regularly: During periods of volatility, your portfolio may deviate from your target asset allocation more dramatically than usual—resulting in undue risk. Adopting a disciplined rebalancing strategy can keep your investments on a more even keel.

To learn more about the benefits of rebalancing, see “Rebalance, Rebalance, Rebalance,” page 9.

In short, investors are right to be concerned about historically elevated debt levels, whether from the private or public sectors. But with a little planning, you can reposition your portfolio to help weather the uncertainty.

If you haven’t already done so, consider adding defensive assets to your portfolio, such as low-volatility stocks and precious metals. U.S. Treasuries, too, remain a good defensive choice; it would take much more than the current debt problem to jeopardize the security of federally backed bonds.

3 Play defense: As debt crises persist and we near the end of the current economic cycle, bond and stock markets are likely to turn choppy.

If you haven’t already done so, consider adding defensive assets to your portfolio, such as low-volatility stocks and precious metals. U.S. Treasuries, too, remain a good defensive choice; it would take much more than the current debt problem to jeopardize the security of federally backed bonds.

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The policies and politics coming out of Washington move markets and affect every aspect of our personal finances, from the taxes we pay to how our portfolios perform. For example, Congress has temporarily suspended the debt ceiling—meaning the federal debt can grow unfettered until July 31, 2021, at which point it’s projected to reach $25 trillion.

“That number is indisputably outrageous, and yet few Americans understand just how profoundly the federal debt can affect their lives,” says Mike Townsend, host of WashingtonWise Investor and Schwab’s D.C.-based vice president of legislative and regulatory affairs. “And that lack of understanding means a lack of pressure on politicians to do anything about this crisis.”

In each episode, Mike tackles such issues, while his expert guests suggest what to do (and not do) in response.

Listen and subscribe for free at schwab.com/washingtonwise or through your favorite podcast app.
Meet the newest members of our fixed income ETF family.

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Schwab Annual Operating Expenses</th>
<th>Industry Average Annual Operating Expenses*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schwab® 1–5 Year Corporate Bond ETF</td>
<td>SCHJ 0.05%</td>
<td>0.11%</td>
</tr>
<tr>
<td>Schwab® 5–10 Year Corporate Bond ETF</td>
<td>SCHI 0.05%</td>
<td>0.18%</td>
</tr>
<tr>
<td>Schwab® Long-Term U.S. Treasury ETF</td>
<td>SCHQ 0.05%</td>
<td>0.14%</td>
</tr>
</tbody>
</table>

*Category average expense ratio from Morningstar Direct as of 12/13/2019.

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- Operating expense ratios that are among the lowest in the industry
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Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares of ETFs are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

Diversification does not eliminate the risk of investment losses.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. All of these factors can subject the funds to increased loss of principal.

Investment income may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. Capital gains are not exempt from federal income tax.

An investment in the fund(s) is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Government backing applies only to the government-issued bonds that make up the fund, not the fund itself. TIPS generally have lower yields than conventional fixed rate bonds and will likely decline in price during periods of deflation, which could result in losses.

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The SECURE (Setting Every Community Up for Retirement Enhancement) Act includes provisions that can help new parents, retirees, savers, and students. But these potential new benefits could come at a cost to some taxpayers. Here are seven key changes—and what they could mean for you.

1. **RMDs kick in at 72**
   IRS-mandated required minimum distributions (RMDs) from tax-deferred retirement accounts now begin at 72 for anyone who turns 70½ after December 31, 2019.
   **THE FINE PRINT**
   If you turned 70½ in 2019, the old law still applies and you must take your first RMD by April 1, 2020. If you turned 70½ before 2019, you must continue to take your RMDs by the end of each calendar year. Failure to take RMDs on time results in a 50% penalty on the portion not withdrawn.

2. **IRA contributions aren't restricted by age**
   Contributions to traditional IRAs are now permitted no matter your age, so long as you have earned income.
   **THE FINE PRINT**
   Whether you're working or not, you'll still be subject to RMDs at either 70½ or 72 (see "RMDs," left).

3. **Inherited IRAs must be depleted within a decade**
   Other than a spouse, a minor child, and certain other “eligible designated beneficiaries,” inheritors of retirement accounts must now deplete those assets within 10 years.
   **THE FINE PRINT**
   The new withdrawal schedule could generate significant taxable income for inheritors, potentially pushing them into a higher tax bracket. If assets remain after 10 years, inheritors face a penalty equal to 50% of the undistributed amount.

4. **401(k)s are available to more part-time workers**
   Employers are now required to offer their 401(k)s or other workplace retirement plans to employees with three consecutive years of service of at least 500 hours per year in addition to employees with more than 1,000 hours of service within a 12-month period.
   **THE FINE PRINT**
   Newly qualified part-time employees can save money on a pretax basis—and capture the employer match, if offered—once they've accrued the requisite work history starting in 2021.

5. **529s can be used to pay back student loans**
   Account owners can now use up to $10,000 from a 529 college savings account to repay student loans—so long as it's for the account's primary beneficiary or the beneficiary's siblings or stepsiblings.
   **THE FINE PRINT**
   Those with excess 529 assets now have another penalty-free way to use them—though such funds should be used to pay the beneficiary's college tuition first, all things being equal.

6. **Retirement savings can be used for adoption and birth costs**
   Account owners can now withdraw up to $5,000 from a 401(k) or an IRA to pay for qualified adoption or birth expenses without penalty.
   **THE FINE PRINT**
   Parents may be able to avoid taking on debt to cover such expenses; however, tapping retirement funds early could put your long-term savings goals at risk.

7. **Late tax returns trigger a bigger fine**
   If your tax return is 60 or more days late, you will now incur a penalty of the lesser of $400 or 100% of taxes owed.
   **THE FINE PRINT**
   Although the new penalty is at most only $200 more than the previous one, every dollar you lose to penalties is one you can't invest for future growth.

See page 42 for important information. This information does not constitute and is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner, or investment manager. (0220-9936)

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As traders, we’re often so enamored of our winning trades that we ignore our losers. But it’s our losers from which we stand to learn the most. Here are four ways to learn from the trades that didn’t pan out.

Fail Better

Scrubinizing your losses can help you realize more gains. By Joanna Payne

1. Calculate your performance

First things first: Gather your gain and loss data so you can begin to assess the factors affecting your overall performance. Instead of simply looking at total gains or losses, I like to display it as a ratio so I can dig deeper into where my profits and losses are coming from:

\[
\begin{align*}
\text{Total gains} & = \frac{\text{# Profitable trades}}{\text{# Unprofitable trades}} \times \frac{\text{Average gain}}{\text{Average loss}} \\
& = \frac{\text{# Profitable trades} \times \text{Average gain}}{\text{# Unprofitable trades} \times \text{Average loss}}
\end{align*}
\]

For example, let’s say I had 17 profitable trades with an average $150 gain per trade and eight unprofitable trades with an average $225 loss per trade:

\[
\begin{align*}
\text{Total gains} & = \frac{17 \times 150}{8 \times 225} \\
& = \frac{2,550}{1,800} \\
& = 1.4167
\end{align*}
\]
If I looked just at the net gain/loss ratio ($2,550 vs. $1,800), I might think I’d been doing pretty well with $750 in net profit and 17 profitable trades out of 25. Looking more closely at my average gain versus my average loss, however, I can see that I lost 1.5 times more money than I gained ($225 vs. $150), on average.

The average gain versus average loss per trade also tells you how effectively you’re managing and closing out your positions. If your average loss is uncomfortably close to your average gain, ask yourself:

- Do I generally stick to my original trade plans or diverge from them?
- When trades are profitable, what influences my decision to exit?
- When trades are unprofitable, do I exit within my planned risk parameters or hold on too long?

Answering these questions can help you identify weaknesses and build better trading habits over time.

2. Drill down on your losers

When it comes to learning from my past mistakes, I pay extra attention to my average losses because I have the most control over them.

Even when you do your homework, a position can move against you without notice, turning a once-profitable trade into its inverse. It’s how you control those situations that can make or break your success as a trader. If you’ve experienced a similar about-face with one or more of your trades, take a look at how long you allowed the position to fall before you acted.

Focusing on my average losses helped me identify a bad habit in my own trading that was contributing to lackluster results: hanging on to unprofitable trades too long. Simply by exiting each losing trade before it reached my average loss, I noticed an immediate improvement in my performance.

Indeed, you can be wrong more than you’re right and still come out ahead—so long as you keep your average loss to a minimum.

3. Look at your expectancy

Expectancy is the average dollar amount you expect to gain or lose per trade based on previous performance. It combines your percentage of profitable trades and average gain per trade with your percentage of losing trades and average loss per trade:

$$\frac{\% \text{ Winning trades} \times \text{ Average gain}}{\% \text{ Losing trades} \times \text{ Average loss}} = \text{Expectancy}$$

For example, let’s say 40% of your trades in the past six months were profitable and your average gain was $500 per trade, while 60% of your trades were unprofitable with an average loss per trade of $250. Using the calculation above, you could reasonably expect an average gain of $50 per trade:

$$\left(40\% \times \$500\right) - \left(60\% \times \$250\right) = \$50$$

You should aim for an increasingly positive outcome with each trade. If the opposite is happening, revisit your losers to see where the breakdowns might be occurring.

4. Examine other variables

Finally, it can be helpful to see if any patterns emerge by dividing your trades into categories, such as:

- Fundamental vs. technical analysis techniques
- Investment types
- Order types
- Time frames
- Trade size

Do you find less success with longer-term trades, for example? Or when you choose exchange-traded funds versus stocks? Breaking down your positions in this way can help identify which strategies tend to work for you and which you may want to improve upon—or avoid altogether.

Taking control

Examining your trading performance on a regular basis can help you better understand the behaviors and other factors that may be influencing your outcomes. Paying particular attention to losses is a great way to identify shortcomings—and to up the ante on your trading approach.

See page 42 for important information. ● The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision. ● Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. ● Investing involves risk, including loss of principal. ● Past performance is no guarantee of future results. (0220-9CF3)
Numbers tell only half the story.

Your investments deserve the full story.

Strategic investing takes us beyond the numbers. That’s why over 425\(^1\) of our experts go out in the field to examine investment opportunities firsthand—like mobile payment adoption in new markets around the world. Our rigorous approach helps us select and manage investments for our funds.

Explore 33 funds on the Q1 2020 Mutual Fund OneSource Select List\(^\circledR\).

Visit Schwab.com/troweprice

Request a prospectus or summary prospectus at Schwab.com/OneSource; each includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

\(^1\)Investment professionals as of 12/31/19.

All funds are subject to market risk, including possible loss of principal, and are subject to management fees and expenses.

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Smart tax planning can help extend the life of your retirement savings.

For many current and future retirees, one question is paramount: How can I ensure I don’t burn through my savings too quickly? “Most retirees don’t have enough invested to live off the interest alone—even when combined with Social Security, pensions, and other nonportfolio income—so at some point they’ll need to start liquidating their investment assets,” says Hayden Adams, CPA, CFP®, and director of tax planning at the Schwab Center for Financial Research. Selling investments generally triggers taxes, however, which can undercut such sales and further eat into your nest egg. “Fortunately, not all investments are subject to the same tax treatment.” Hayden says, “and if you liquidate them in an efficient way, you may be able to extend the life of your savings.”

With that in mind, here’s a step-by-step approach to making tax-smart withdrawals in retirement.

For the full story, visit oninvesting.com/tax-smart-withdrawals.
Take your RMDs
If you turned 70½ in or before 2019, start by taking the required minimum distributions (RMDs) from your tax- deferred retirement accounts. Failure to do so means getting hit with a 50% penalty on the difference between what you withdrew and what was required. Those who turned 72 in 2020 or later can now wait until age 72 to begin taking RMDs (see “SECURE Act Takeaways,” page 30).

“Because of the penalty, RMDs should be your first stop when tapping your retirement portfolio,” Hayden says. “Most financial institutions—including Schwab—can help calculate your RMDs when the time comes, or you can estimate them ahead of time using an online calculator like the one available at schwab.com/RMDcalculator.” Whatever you withdraw will be taxed as ordinary income, so if you don’t need this money to cover your living expenses, consider depositing it into a taxable brokerage account, where you could potentially generate gains.

Tap interest and dividends
Don’t realize any taxable gains on your RMDs? There’s still some money to be had. Withdraw the interest and dividends and/or CDs with staggered maturity dates and reinvesting the principal as each comes due—can help provide a steady stream of income while evening out your portfolio’s yields over time. However, should you still need cash after exhausting RMDs and your interest and dividends, the principal from a maturing bond or CD is often the next place to turn—particularly if interest rates have declined and you won’t earn as much by reinvesting the proceeds.

Generally speaking, you won’t owe any taxes on your original principal, so long as you hold on to a bond or CD until its maturity date; an early sale will result in taxable capital gains taxes if you earn a profit on the sale.

Collected principal from maturing bonds and CDs
Many retirees rely on bonds and certificates of deposit to generate regular income. Laddering such investments—that is, buying bonds and/or CDs with staggered maturity dates and reinvesting the principal as each comes due—can help provide a steady stream of income while evening out your portfolio’s yields over time. However, should you still need cash after exhausting RMDs and your interest and dividends, the principal from a maturing bond or CD is often the next place to turn—particularly if interest rates have declined and you won’t earn as much by reinvesting the proceeds.

Creating tax-smart withdrawals during retirement
Schwab Intelligent Income™—a feature of Schwab Intelligent Portfolios®—is an automated investing solution that generates a predictable, tax-smart, monthly paycheck from your investments. Whether it’s deciding which accounts to draw from, harvesting your losses, or prioritizing required minimum distributions, Schwab Intelligent Income helps ensure tax-efficient withdrawals from your portfolio is a complex undertaking.

Using a tax loss to get a tax break
A hypothetical investor who realized $20,000 in short-term capital gains and $25,000 in capital losses could use tax-loss harvesting to cut down her tax bill.

<table>
<thead>
<tr>
<th>Short-term capital gains: $20,000</th>
<th>Capital losses: $25,000</th>
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<tbody>
<tr>
<td>$20,000</td>
<td>$25,000</td>
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<tr>
<td>of capital gains</td>
<td>of losses used to offset current ordinary income</td>
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<tr>
<td>$2,000</td>
<td>$1,000</td>
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<tr>
<td>of losses used to offset future gains or ordinary income</td>
<td></td>
</tr>
<tr>
<td>$3,000</td>
<td>$2,000</td>
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<tr>
<td>$6,000</td>
<td>$7,500</td>
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</tbody>
</table>

Using a tax loss calculator like the one available online at schwab.com/RMDcalculator, you will be able to estimate them ahead of time using an online calculator like the one available at schwab.com/RMDcalculator. However, should you still need cash after exhausting RMDs and your interest and dividends, the principal from a maturing bond or CD is often the next place to turn—particularly if interest rates have declined and you won’t earn as much by reinvesting the proceeds.

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Sell additional assets as needed
If the income generated from Steps 3 through 1 isn’t enough to cover your expenses, you’ll need to sell additional assets to close the gap. But which accounts should you tap first—and in what proportion?

If you have significant tax-deferred savings, it’s possible that the size of your RMDs could push you into a higher tax bracket once they kick in, especially after accounting for Social Security, pensions, and other income. If you suspect this to be the case, you may want to consider drawing down your tax-deferred accounts alongside your taxable savings.

With this approach, you take withdrawals from both your tax-deferred and taxable accounts in amounts proportionate to their balances. For example, you say you have $80,000 in traditional IRA and $120,000 in a taxable brokerage account for a total of $200,000 in savings. If you need to continue to do so means getting hit with a 50% penalty on the difference between what you withdrew and what was required. Those who turned 72 in 2020 or later can now wait until age 72 to begin taking RMDs (see “SECURE Act Takeaways,” page 30).

“Because of the penalty, RMDs should be your first stop when tapping your retirement portfolio,” Hayden says. “Most financial institutions—including Schwab—can help calculate your RMDs when the time comes, or you can estimate them ahead of time using an online calculator like the one available at schwab.com/RMDcalculator.” Whatever you withdraw will be taxed as ordinary income, so if you don’t need this money to cover your living expenses, consider depositing it into a taxable brokerage account, where you could potentially generate gains.

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When to take financial matters into your own hands—and when to ask for help.

There’s never been a better time to take charge of your own finances. Fund fees and other expenses are lower than ever, and the proliferation of digital tools has put the power of planning firmly in the hands of consumers. Even novice do-it-yourselfers can set financial goals for themselves, select investments, and designate beneficiaries for their accounts.

But everyone has their limits. Some investors lack the discipline, interest, or time required to achieve optimal results. Others face financial circumstances too complicated for any one person to reasonably handle alone. Today’s tools,
DIY VS. PRO

When unexpected expenses arise or your financial circumstances change for the worse, your options are often the first thing to suffer,” Rob says. But diverging from your savings strategy, even for a short period of time, can significantly undermine your plan. “Setting up recurring contributions can help counter the temptation to cut back on your savings when things get tight.”

### Tools

**Prioritizing Your Goals**
- schwab.com/chart-your-future

**Estimating Your Savings Targets**
- College schwab.com/collegecalculator
- Retirement schwab.com/reirementcalculator

**Setting Up Recurring Contributions**
- schwab.com/contribute

**Determining Your Target Asset Allocation**
- schwab.com/portfolioquestionnaire

**Researching and Selecting Investments**
- Bonds schwab.com/bondsource
- Stocks schwab.com/ETFscreener
- Mutual funds schwab.com/fundscanner
- Stocks schwab.com/stockscreener

**Target-Date Funds**
- schwab.com/targetfunds

**Using a Portfolio Builder**
- (for ETFs and mutual funds)
  schwab.com/portfoliobuilder

**Designating Beneficiaries**
- schwab.com/beneficiaries

### 1 Savings

The goal-setting aspect of financial planning is a perfect do-it-yourself task, because only you can decide what you want out of life. Maybe you’d like to retire at 62, fully finance your child’s college education, or purchase a second home.

That said, “having a general sense of where you want to end up isn’t the same as making a concrete plan to get there,” David says. “Too often we end up saving what we can and hoping for the best, without any real sense of whether it’s actually enough.”

So start by articulating your financial goals, listing them in order of priority, and assigning a dollar amount and due date to each. If you need help prioritizing your goals or estimating your savings targets, there are a number of online calculators available to help.

Once you’ve sorted out your goals, it’s time to figure out how much you need to save each month to achieve them. If the prospect of juggling multiple goals feels daunting, a financial planner can help you establish a savings strategy and timeline, as well as provide an honest assessment of what is and isn’t possible.

“Of course, a financial plan is only as good as its execution—which means sticking to your plan through good times and bad,” David says.

### 2 Investments

To create an investment portfolio that supports your goals, first you need to consider your risk tolerance and time frame, which will help determine the appropriate mix of assets for your needs.

After determining your target asset allocation, it’s time to start researching and selecting investments. “This is often the step where people stall out,” David says. “With so many investments to choose from, it’s hard to know where to start or how to evaluate comparable choices.”

Fortunately, there are a variety of investment options that can help build and monitor your portfolio. For instance, investing in set-and-forget-it target-date funds and using a Portfolio Builder to employ a professional investment manager and an algorithm-based robo-advisor. “In the past, you had to have considerable savings to get quality advice,” Rob says. “But these days you can get top-level portfolio management at a low cost.”

Even those who’ve successfully managed their own investments during their working lives may feel the need for outside help as they approach retirement, when income generation (as opposed to wealth accumulation) takes center stage (see “Going the Distance,” page 26).

“When you reach those inflection points in your investing life, you want to know you’re making the right decisions,” David says. “When a tax pro can help you make the most of the tax code and keep more of your money, both before and during retirement.”

### 3 Taxes

People tend to think estate planning is only for the very wealthy, but if you have any assets whatsoever—such as a house, investment property, or a stock portfolio—you need to articulate what to do with them once you pass away.

### 4 Estate Planning

FINANCIAL PLANNER

Qualified—and often certified—to create financial plans for clients in the areas of budgeting, estate planning, investments, retirement, taxes, and more. (Learn more about working one-on-one with a Certified Financial Planner professional at schwab.com/portfoliopremium.)

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ROBO-ADVISOR

We manage and execute trades using sophisticated algorithms. (Schwab Intelligent Portfolios® uses a robo-advisor to build, monitor, and automatically rebalance a diversified portfolio based on your goals. Learn more at schwab.com/intelligent.)

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TAX ADVISOR

Qualified to provide advice concerning ways to minimize taxes while adhering to federal, state, and local laws.

ESTATE ATTORNEY

Bar certified to provide estate-planning services, including the drafting and implementation of wills, trusts, and other legal documents.
Alternatives to ubiquitous capitalization-weighted index funds can help diversify your portfolio.

Worth Their Weight

One alternative methodology—called equal weighting—is to hold all the stocks in an index in equal amounts; hence, as some companies rise in value, a portion of their shares are sold and the money reinvested in other companies in the index to maintain equal weighting. Other approaches focus on growth or value or volatility.

Individual stock pickers rarely beat the market over the long term—which can make a compelling case for investing in index mutual funds and exchange-traded funds (ETFs). What’s more, a single index fund can provide exposure to hundreds if not thousands of stocks, ensuring you’re not overexposed to the ups and downs of any one security.

Be that as it may, many broad-market index funds—including those that track the S&P 500® Index—aren’t nearly as diversified as you might think. That’s because their underlying indexes are often capitalization-weighted, meaning they weight each stock according to the total market value of its outstanding shares. In other words, if the total market value of Microsoft’s outstanding shares were 10 times that of Nike’s, the technology company would have 10 times more influence on the index’s performance than the activewear company.

Thus, the capitalization-weighted approach contains a hidden risk: A few large companies can come to dominate an index’s overall value (and hence its performance). The top 10 companies in the S&P 500, for example, represent only 2% of the stocks in the index but approximately 22% of its value (see “Outsize influence,” far right).

This potential for overexposure to a handful of market behemoths has helped give rise to alternative weighting methods, which determine a company’s influence on an index using metrics other than market capitalization. “Investors are recognizing that there are drawbacks to investing proportionate to market cap alone,” says Steve Greiner, senior vice president of Schwab Equity Ratings®.

Beyond cap weighted

One alternative methodology—called equal weighting—is to hold all the stocks in an index in equal amounts; hence, as some companies rise in value, a portion of their shares are sold and the money reinvested in other companies in the index to maintain equal weighting. Other approaches focus on growth or value or volatility.

These alternative weighting methodologies—known collectively as “strategic beta”—account for about 17% of U.S. equity index fund investments (see “Outsize influence,” page 8). They might also appeal to any investor looking to maximize her or his returns.

1. Dividend

What it is: A mix of stocks weighted by the highest-dividend payers, typically based on the aggregate dollar amount of each company’s dividends or other approach tied to payups.

Who it’s for: These funds are often favored by investors who are nearing retirement and shifting their focus from growth to income generation. Because equities with strong and rising dividends have in recent decades outperformed their low- and non-dividend-paying counterparts (see “Stocks That Pay,” page 8), they might also appeal to any investor looking to maximize her or his returns.

2. Fundamental

What it is: These funds screen and weight stocks based on various financial metrics—such as their underlying companies’ cash flow, dividends, and sales. Fundamental strategies tend to outperform during the middle to late stages of an economic expansion, when growth becomes scarce and value becomes more important.

Who it’s for: Because they are likely to be less volatile in down markets than, say, momentum funds (see next entry), fundamental funds may appeal to investors who want less exposure to the handful of highfliers that often dominate capitalization-weighted indexes. Even in appreciating markets, however, fundamental funds can complement traditional cap-weighted approaches because of their differentiated performance.

3. Momentum

What it is: These funds look to capitalize on an upward market trend by favoring stocks with the strongest price movements while avoiding those with the weakest price movements. Managers of momentum funds reallocate at regular intervals to reflect the latest price changes in their underlying indexes, which can generate a high degree of turnover in the fund’s holdings and henceordinate capital gains.

Who it’s for: Momentum funds might be right for investors looking to potentially boost their returns over the short term, especially during rising markets. That said, “momentum can change direction quickly, leaving investors whipsawed and with high turnover in their portfolios, which could trigger unexpected taxes,” Steve says. “For this reason, it’s wise to incorporate these funds in moderation.”

4. Growth

What it is: Growth funds seek to amplify returns by giving more weight to stocks that exhibit superior growth.
WORTH THEIR WEIGHT

⇒ Low volatility: Low-volatility funds give more weight to stocks that have smaller price swings than the market as a whole over a specified time period.

characteristics. They score their component companies by such growth metrics as rapidly rising earnings and sales—irrespective of price trends.

Who it’s for: This strategy may be appropriate for investors looking for better potential returns than those typically provided by traditional cap-weighted funds—and who are comfortable with the increased risk. Because you’re betting that the fastest-growing companies are going to continue to outperform the market, such funds could suffer if growth slows.

5. Value

What it is: Essentially the opposite of growth, these funds incorporate prices in determining how much of a discount a stock is trading at relative to fundamental characteristics such as book value, earnings, and sales. The bigger the discount, the greater the weight in the index.

Who it’s for: Value funds can be especially attractive to those in or nearing retirement because they can provide steady returns without overexposing investors to high-flying, highly volatile growth stocks.

6. Quality

What it is: A fund that favors companies that have historically delivered higher returns on equity, lower debt burdens, and steadier earnings.

Who it’s for: Quality funds are mainly geared toward investors who want exposure to stable companies with a proven track record of stronger profits and prudent financial management, and who favor consistent performance over the potentially greater returns—and risk—of high-growth stocks.

7. Low volatility

What it is: Funds in this category give more weight to stocks that have historically generated smaller price swings than the market as a whole over previous periods.

Who it’s for: Because of their orientation toward lower-volatility stocks, such funds may be particularly appealing to those nearing retirement or who are otherwise concerned about their ability to wait out a market downturn. Be aware, however, that investing in low-volatility funds may also mean sacrificing potentially bigger returns during rising markets.

Stay diversified

While momentum and pure growth funds can boost performance when growth stocks are leading the way, pure value and low-volatility funds may offer better protection when stocks slump. But does that mean you should use strategic-beta funds to respond to prevailing market conditions? “Only if you can accurately predict when to shift between styles—which is a tall order even for professional money managers,” says Mark Riepe, head of the Schwab Center for Financial Research.

Instead, Mark suggests a diversified approach—incorporating strategic beta as a complement to the cap-weighted funds many already hold. The good news, he says, is that “given the number and variety of methodologies available, most investors are sure to find one that fits their risk appetite and investment objectives.”

To search for alternative-weighted ETFs, log in to schwab.com/ETFscreener, select Portfolio from the list of criteria, then Weighting Scheme.

See page 42 for important information. Investors should consider carefully information contained in the prospectus or, if available, the summary prospectus, including investment objectives, risks, charges, and expenses. Please read it carefully before investing. The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.

Diversification and asset allocation strategies do not ensure a profit and cannot protect against losses in a declining market.

Investment returns will fluctuate and are subject to market volatility, so that an investor’s shares, when redeemed or sold, may be worth more or less than their original cost. Shares of ETFs are not individually redeemable directly with the ETF. Shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV). All ETFs are subject to management fees and expenses. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly. "Fundamental Index" is a registered trademark of Research Affiliates, LLC. Russell Investments and Research Affiliates, LLC have entered into a strategic alliance with respect to the Russell RAFI Index Series. Subject to Research Affiliates’ intellectual property rights in certain content, Russell Investments is the owner of all copyrights related to the Russell RAFI Index Series. Russell Investments and Research Affiliates jointly own all trademark and service mark rights in and to the Russell RAFI Indexes. Charles Schwab & Co., Inc. is not affiliated with Russell Investments or Research Affiliates. Schwab is a registered trademark of Charles Schwab & Co., Inc. Fundamental Index is a registered trademark of Research Affiliates, LLC. (0220-955H)
Be a true-blue friend.

Refer your friends and family, and they can get up to $500.

Friends and family earn a Bonus Award when they make a qualifying net deposit of cash or securities.

<table>
<thead>
<tr>
<th>Net Deposit</th>
<th>Bonus Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000–$24,999</td>
<td>$100</td>
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<tr>
<td>$25,000–$49,999</td>
<td>$200</td>
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<tr>
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<tr>
<td>$100,000+</td>
<td>$500</td>
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</table>

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Want to better understand what’s moving the market—and why? Whether you’re a frequent trader or an investing novice, Schwab Live Daily offers shows on a range of topics matched to your experience level:

- Get real-time market insights and perspectives from Schwab experts and third-party guests.
- Develop a better understanding of how market news could impact your investments.
- Learn more about trading strategies from our experts as they break down complex ideas in clear ways.

Sharpen your skills by tuning in to more than 10 segments, like “Liz Ann Live” with Schwab Chief Investment Strategist Liz Ann Sonders. Every other Monday at 4:30 p.m. Eastern time, Liz Ann and host Joe Mazola discuss timely topics from her Market Commentary column and update you on relevant topics that could impact the investing landscape, like these:

- The latest job growth, manufacturing, and GDP data
- Fed interest rate cuts and what could happen next
- Heightened recession concerns and the current economic cycle

FOLLOW LIZ ANN @lizannsonders and watch “Liz Ann Live” on Schwab Live Daily every other Monday at 4:30 p.m. Eastern time.

As chief investment strategist at Charles Schwab, Liz Ann analyzes and interprets the economy and markets on behalf of Schwab’s clients. She is a regular guest on CNBC, CNN, Fox Business, PBS NewsHour, and more, and is regularly quoted in financial publications, including The Wall Street Journal, The New York Times, and Barron’s.

See page 42 for important information. (0220-9521)

TUNE IN

SCHWAB LIVE DAILY
MONDAY–FRIDAY
STARTING AT 10 A.M. EASTERN TIME
SCHWAB.COM/LIVE
# Schwab Bank Visa® Platinum Debit Card

## Security features for your Schwab Bank Debit Card

Schwab Bank’s Visa Platinum Debit Card offers a variety of security features to help you control and monitor activity in your account.

<table>
<thead>
<tr>
<th>Security feature</th>
<th>How to set it up</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debit card transaction and bank alerts:</strong> Create custom alerts to help identify unfamiliar charges and track spending.</td>
<td><strong>Online:</strong> Visit schwab.com/bankalerts. <strong>In the app:</strong> Tap More &gt; Client Service &gt; Manage Cards &gt; Set Up Debit Card Alerts.</td>
</tr>
<tr>
<td><strong>Card lock/unlock:</strong> Quickly lock your card if you temporarily misplace it. Once you locate it, unlock and continue using it like always.</td>
<td><strong>Online:</strong> Visit schwab.com/cardlock. <strong>In the app:</strong> Tap More &gt; Client Service &gt; Manage Cards. Then toggle the card lock/unlock button.</td>
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<td><strong>Travel Notices:</strong> Notify Schwab about your travel plans to help us monitor your account for possible fraudulent activity.</td>
<td><strong>Online:</strong> Visit schwab.com/travelnotice. <strong>In the app:</strong> Tap More &gt; Client Service &gt; Travel Notices &gt; Add Travel. Then just follow the steps.</td>
</tr>
<tr>
<td><strong>Mobile Wallet</strong>&lt;sup&gt;1&lt;/sup&gt; access: Add an extra layer of security by using your mobile wallet. Payments are authenticated using your fingerprint, face scan, or passcode, so merchants never see your debit card number, and none of your payment details are stored.</td>
<td><strong>Online:</strong> Visit schwab.com/mobilewallet.</td>
</tr>
</tbody>
</table>

<sup>1</sup>Use of your card through a mobile wallet is also subject to the terms and conditions of your Schwab Bank Deposit Account Agreement (which contains information on any potential liability for unauthorized transactions), your Visa Debit Card Agreement, the terms and conditions of the mobile wallet you use, the privacy policy set forth at schwab.com, and the privacy policy of the mobile wallet you use.

See page 42 for important information. (0320-923N)

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**NEXT STEPS**

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Schwab’s 1099 Dashboard Brings Transparency to Tax Season

Find out when your 1099 tax forms will be available on schwab.com or via the Schwab Mobile app.

On the 1099 Dashboard, you’ll find:

- Expected availability dates for 1099 Composite forms for brokerage accounts that had taxable activity.
- Other tax forms as they become available:
  - Retirement accounts (Form 1099–R)
  - Bank accounts (Form 1099–INT)
  - Employer Sponsored Account forms (Form 1099–B, Form 1099–DIV)
- Educational resources, including filing dates and other tax-related information.
- Quick links to easily manage paperless and security preferences.

Tax season can be fraught enough on its own, without the added stress of having to track down tax documents for your various accounts or wondering when they’ll become available.

That’s why we’ve eliminated some of the guesswork.

Log in to schwab.com/1099dashboard to view your 1099 Dashboard (above). There, you can access tax forms for all of your Schwab accounts and see when new forms become available.

You can also access the 1099 Dashboard on the Schwab Mobile app. Just tap More at the bottom of the screen, then tap Client Service, and then select the special 1099 Tax Forms menu.

See page 42 for important information.

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Onion investing

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