Making Lemonade
Trading and selling in a volatile market.

Pages 18 and 24
Dear Client,

The world is a very different place than when we last mailed this magazine. COVID-19 upended our personal lives and the economy, and market volatility reached new heights. In uncertain times, it’s often best to remain focused on your long-term goals, but that isn’t always possible. That’s why we’ve put together our top strategies for selling in a down market, should that prove necessary (page 24).

Elsewhere in this issue we discuss how delaying withdrawals can help extend the life of your retirement portfolio (page 9) and provide tips for fighting financial fraud (page 30).

If you need help navigating your finances in the wake of recent market changes, or if your circumstances have changed, I encourage you to reach out to us at 877-297-1126. We welcome every opportunity to help you achieve your goals.

Sincerely,

Joseph Vietri
Senior Vice President, Investor Services
ONWARD
Summer 2020

CONTENTS

5 On the Cover: Illustration by Giacomo Bagnara

DEPARTMENTS

2 SCHWAB ORIGINALS
Watch, learn, and listen.

3 CEO’s NOTE
Living up to your trust.
By Walt Bettinger

THE BOTTOM LINE

5 New contribution limits for tax-advantaged savings plans.

6 When high-quality funds become overpriced.

8 Are kids with summer jobs required to pay taxes?

9 Extending the life of your retirement portfolio.

11 FAMILY MATTERS
Advising aging parents.

13 PERSPECTIVES
How to handle a pension fund change.
By Rob Williams

16 How presidential elections affect the market—and vice versa.
By Mike Townsend

18 TRADING
Four do’s—and one don’t—for trading in a down market.
By Randy Frederick

38 SPOTLIGHT
Schwab Intelligent Income™; Schwab Portfolio Builder.

44 ON YOUR SIDE
We’re here for you.
By Charles R. Schwab

FEATURES

20 Raising the Next Generation of Investors
Fostering financial independence and literacy among young people.

24 Turn That Frown Upside Down
How cash-strapped investors can turn selling in a tough market to their advantage.

30 Stop, Thief!
How to fight financial fraud.

34 All in the Family
Three ways to help finance a loved one’s business.

CORRECTIONS: Spring 2020 issue

In “To Refi or Not to Refi” (page 13), the monthly payments listed in the “Loan vs. loan” table are incorrect. The monthly payment under “Current loan” should be $1,968 and the monthly payment under “Refinanced loan” should be $1,427.

In “Going the Distance” (page 26), the description of how dividends are taxed is incorrect. Dividends are frequently taxed at long-term capital gains rates, provided certain requirements are met—including but not exclusively how long you’ve held the asset.

Onward (ISSN 2330-3514) is published quarterly. This publication is mailed at Standard A postal rates. ◆ If you prefer not to receive Onward, please call 877-908-0065. ◆ POSTMASTER: Send address changes to Onward, Charles Schwab & Co., Inc., P.O. Box 982600, El Paso, TX, 79998-2600. Onward does not assume any liability resulting from actions taken based on the information included in this magazine. Mention of a company or security does not constitute endorsement. Some contributors to Onward may have active positions in securities or companies discussed in this issue. MAG105674Q220-00
SCHWAB ORIGINALS

Watch

Brush up on the fundamentals of smart money management with the “Personal Finance 101” playlist at youtube.com/charlesschwab.

Learn

Concerned about market volatility? Visit schwab.com/volatility for expert analysis and suggestions you can use to help with your portfolio.

Listen

WashingtonWise Investor™ offers a nonpartisan take on how politics and policy can affect your finances. Listen and subscribe at schwab.com/washingtonwise.

Follow

Fixed income @kathyjones
International @jeffreykleintop
Markets and economy @lizannsonders
Personal finance @carrieschwab
Research @schwabresearch
Trading @randyafrederick
Washington @miketownsendcs
A t Schwab, we have a deep and abiding belief in seeing the world through our clients’ eyes. And we know that, this year, many of you have had reasons to be concerned about the future. Whether you’re saving for a child’s college education or working toward a comfortable retirement, these last few months have made it difficult to know if you’re still on track to meet your goals.

First, I want to reiterate our strong belief in the power of long-term investing. Even in truly challenging circumstances, we believe one of the best things you can do is to stay focused on your plan. Keep saving. Keep investing in the future. And, to the extent possible, try to tune out the noise. History shows that markets have demonstrated a remarkable ability to recover from even the most trying times. If you can stick to your goals through the ups and downs, you’ll be in the best position to create a better tomorrow for yourself and your family.

Second, I want you to know that everyone at Schwab is committed to helping you meet your goals. If you need help, you can reach out to us anytime in the manner that makes the most sense for you: online at schwab.com, via the Schwab Mobile app, or by calling us at 800-435-4000.

We’re honored that you’ve entrusted us with your business, and we will continue to do our very best to live up to that trust every day.

Sincerely,

Walt Bettinger
President & CEO

See page 42 for important information.
* Investing involves risk, including loss of principal. (0520-0DL5)
Schwab Intelligent Portfolios®

Automated investing with human help when you need it.

Our robo-advisor builds, monitors, and automatically rebalances a diversified portfolio based on your goals.

Access live support from U.S.-based service professionals 24/7.

Start with as little as $5,000.

Get your portfolio recommendation in minutes.

Learn more at schwab.com/automatedinvesting.
or the second consecutive year, the IRS has increased contribution limits for 401(k) and 403(b) plans, as well as Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs).

Not only do these new limits allow you to save more (see “The new contribution limits ...,” next page), they also allow you to do so on a pretax basis, which could reduce your tax bill.
The value of saving as much as you can in a 401(k) or an IRA, in particular, is twofold,” says Mark Riepe, head of the Schwab Center for Financial Research. “First, tax-deferred contributions to such accounts reduce your taxable income dollar for dollar—which is a huge benefit in its own right. Second, every extra dollar you save is one that stands to benefit from compound growth over time.” (See “... and why you should max out,” below)

The new contribution limits ...

<table>
<thead>
<tr>
<th>PLAN TYPE</th>
<th>2019 MAX</th>
<th>2020 MAX</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>401(k), 403(b), or similar</td>
<td>$19,000</td>
<td>$19,500</td>
<td>$500</td>
</tr>
<tr>
<td>401(k), 403(b), or similar catchup contribution</td>
<td>$6,000</td>
<td>$6,500</td>
<td>$500</td>
</tr>
<tr>
<td>FSA</td>
<td>$2,700</td>
<td>$2,750</td>
<td>$50</td>
</tr>
<tr>
<td>HSA (family)</td>
<td>$7,000</td>
<td>$7,100</td>
<td>$100</td>
</tr>
<tr>
<td>HSA (individual)</td>
<td>$3,500</td>
<td>$3,550</td>
<td>$50</td>
</tr>
</tbody>
</table>

... and why you should max out

Two hypothetical investors started contributing to their 401(k)s in 2000 and maxed out their accounts in the first year. In the following years, Investor 1 never increased his annual contribution, while Investor 2 maxed out her account every year, taking full advantage each and every time the IRS raised contribution limits. By the end of 2020, Investor 2 maxed out her account every year, taking full advantage each and every time the IRS raised contribution limits. By the end of 2019, Investor 2 had accumulated 41% more than Investor 1.

In 2020, the IRS raised the annual contribution limits to $20,500 for singles and $27,000 for joint filers. To max out a 401(k)/403(b), investors must contribute $19,500 for singles and $26,000 for joint filers.

This chart is hypothetical and for illustrative purposes only. Annual return for both portfolios is represented by the S&P 500 Index’s year-end returns from 12/31/95 through 12/31/2019. Investor 1’s portfolio assumes an annual contribution of $10,500 from 2000 through 2019. Investor 2’s portfolio assumes maximum annual contributions, starting with $10,500 in 2000 and adjusting as necessary in future years to meet the IRS limits. Neither portfolio reflects the effects of fees, taxes, or catchup contributions. Indexes are unmanaged, do not incur management fees, costs, or expenses, and cannot be invested in directly.

Undercutting Quality

The rush to high-quality funds can compromise their utility.

In market conditions grow challenging, many investors turn to high-quality funds, whose underlying stocks generally offer low debt levels, stable earnings, and strong cash flows. Although such funds tend to be less volatile than their more quality-oriented peers, rising to quality can come at a cost.

“High-quality funds may offer some safety, but they can quickly become overpriced,” says Steve Greiner, senior vice president of Schwab Equity Research. “Such was the case in 2019, when investors pushed the prices of high-quality stocks—and thus the funds that track them—to their highest levels in two decades (see “Towering heights,” right).

Be that as it may, Steve recommends having at least some exposure to high-quality funds, in part because they’re designed to deliver steadier results over time than the broader market and hence can complement the more growth-oriented parts of your portfolio. (Of course, that doesn’t mean they’re completely invulnerable to market declines. Indeed, in 2018, a handful of popular high-quality funds fell more than the overall market.)

Towering heights

Measured by their median price-to-book ratios, high-quality stocks have grown expensive relative to their lower-quality peers in recent years.

Value funds favor stocks that are trading at a discount relative to their underlying fundamentals—the bigger the discount, the more the prominence the stock is given in the fund.

Quality funds also favor stocks that are undervalued relative to their fundamental characteristics; however, they screen stocks for strong fundamentals relative to their peers—the stronger the fundamentals, the more prominent the stock.

Screening for funds with “quality” in the name can help narrow your hunt. When in doubt, check the prospectus to confirm a fund focuses on companies with consistent earnings, healthy cash flows, manageable debt levels, and other traits associated with quality.

“Towering heights,” right).

Are you saving enough? Use Schwab’s Retirement Calculator at schwab.com/retirementcalculator to find out.

See page 42 for important information.

Investing involves risk, including loss of principal.

Are you saving enough? Use Schwab’s Retirement Calculator at schwab.com/retirementcalculator to find out.

See page 42 for important information.

Investing involves risk, including loss of principal.

Are you saving enough? Use Schwab’s Retirement Calculator at schwab.com/retirementcalculator to find out.

See page 42 for important information.

Investing involves risk, including loss of principal.

Are you saving enough? Use Schwab’s Retirement Calculator at schwab.com/retirementcalculator to find out.

See page 42 for important information.

Investing involves risk, including loss of principal.
Taxing Teenagers

Are kids with summer jobs on the hook for filing—and paying—taxes?

Is your teen on the hunt for a summer job this year? Whether he or she is required to file a federal tax return and/or pay federal taxes depends on the type of job and how much they earn (see tables at right).*

Even if your child is not required to file a federal tax return, it may be wise to submit one anyway, ideally after a consultation with a tax advisor. “If your teen worked as a regular employee and had taxes withheld, he or she may be due a tax refund, so it could be worth the effort to file a return,” says Hayden Adams, CPA, CFP®, and director of tax and financial planning at the Schwab Center for Financial Research.

Finally, Hayden says it’s a good practice to include your children in the tax-preparation process as soon as they start earning income. “Teaching our kids the significance of taxes—and the ramifications of not managing them correctly—is an important lesson on the road to financial literacy,” he says.

If they’re hired as a regular employee in 2020 ...

<table>
<thead>
<tr>
<th>... and their net earnings are:</th>
<th>Filing a tax return is:</th>
<th>And their tax liability is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,400 or less (the standard deduction in 2020)</td>
<td>Not required</td>
<td>Zero federal income tax; however, Social Security (6.2%) and Medicare (1.45%) withholding may apply</td>
</tr>
<tr>
<td>More than $12,400</td>
<td>Required</td>
<td>Their earned income that exceeds the standard deduction, multiplied by the applicable federal tax rates, plus any Social Security and Medicare withholding</td>
</tr>
</tbody>
</table>

If they’re hired as an independent contractor in 2020 ...

<table>
<thead>
<tr>
<th>... and their net earnings are:</th>
<th>Filing a tax return is:</th>
<th>And their tax liability is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $400</td>
<td>Not required</td>
<td>Zero in federal income tax</td>
</tr>
<tr>
<td>$400 to $12,400</td>
<td>Required</td>
<td>Zero in federal income tax; however, they may owe a self-employment tax of 15.3% (12.4% for Social Security and 2.9% for Medicare)</td>
</tr>
<tr>
<td>More than $12,400</td>
<td>Required</td>
<td>Their net earned income that exceeds the standard deduction, multiplied by the applicable federal tax rates, plus the self-employment tax</td>
</tr>
</tbody>
</table>

*These tables are for general informational purposes only. They address only federal filing requirements for earned income. Other federal filing requirements may apply; see IRS Publication 929 for more details.

See page 42 for important information. • Investing involves risk, including loss of principal. • 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. (0520-0MR0)
**Wait for It**

**Delaying withdrawals can help extend the life of your retirement portfolio.**

Beginning at age 59½, you’re permitted to make penalty-free withdrawals from traditional IRAs and other tax-deferred retirement accounts. But just because you can doesn’t mean you should, especially if you’re not yet retired.

“It’s best to view your retirement savings as sacrosanct—that is, earmarked for retirement above all else,” says Rob Williams, vice president of financial planning and retirement income at the Schwab Center for Financial Research. “Even then, you should avoid tapping tax-deferred accounts until absolutely necessary, since every dollar you withdraw lessens your growth potential and hence how long your nest egg might last.”

That’s especially true of withdrawals made during a market downturn. “If you sell assets at depressed prices in the first few years of retirement—or, worse, before you even reach retirement—you run the risk of never regaining that lost ground,” Rob says (see “Buying time,” right).

That said, taking early withdrawals may be necessary if you’re facing financial hardship and have exhausted all other options. “Emergencies are by their nature unpredictable,” Rob says, “but even so, a rainy-day fund can help keep you from tapping your retirement accounts prematurely.”

---

**Buying time**

The portfolio of an investor who was able to wait out a market decline would have lasted two years longer than the portfolio of an investor who was forced to tap his savings during a downturn.

Both investors start with $1 million, but a market decline causes their portfolios to lose 20% per year at ages 60 and 61. At the same time, Investor 2 makes two early withdrawals of $30,000 per year.

Because of his two early withdrawals, Investor 2 starts his 85th year with just $27,744 left in his portfolio. Investor 1, on the other hand, still has $163,198 left.

---

This chart is hypothetical and for illustrative purposes only. Neither investor made contributions to his portfolio after age 59, and withdrawals in retirement increased 2% annually for inflation after the first year. Both portfolios declined 20% in value in the first and second years and increased 4.9% annually every year thereafter. Neither portfolio reflects the effects of fees or taxes. Performance is based on Schwab’s moderate hypothetical portfolio.

---

**LET’S TALK**

Need help thinking through your retirement withdrawal strategy? Your Schwab financial consultant can work with you to assess your needs and plan for income in retirement. Call today to schedule an appointment.

---

*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. ◆ Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. (0520-0NWH)
With Schwab Private Client, you'll collaborate with a dedicated team of experienced professionals who will get to know you and your goals. They'll work with you to build a personalized plan to help grow, preserve, and manage your wealth while providing ongoing recommendations based on your unique needs. And they'll continue to work side-by-side with you as you make all final investing decisions.

To learn more, ask your Financial Consultant about Schwab Private Client or call us at 877-520-6533 or visit schwab.com/spc.

Investment minimum: $500,000.

Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value

Wealth management refers to a number of different products and services offered through various subsidiaries of The Charles Schwab Corporation. See schwab.com/wealth.

Please read the Schwab Private Client and the Schwab Private Client Investment Advisory, Inc. Disclosure Brochures for important information and disclosures about this service.

Schwab Private Client™ (SPC) is a non-discretionary investment advisory service sponsored by Charles Schwab & Co., Inc. ("Schwab"). Schwab Private Client Investment Advisory, Inc. (SPCIA) is a registered investment advisor and provides portfolio management for the SPC service. Schwab and SPCIA are affiliates and are subsidiaries of The Charles Schwab Corporation.

©2020 Charles Schwab & Co., Inc. All rights reserved. Member SIPC.
When we’re young, our parents try to help us manage our money effectively. But as our parents get older, the tables are likely to turn.

“Older adults face a variety of challenges: They may feel less confident making financial decisions. They may have a harder time understanding their bills and brokerage statements. And studies show they have a greater chance of being targeted by financial scams,” says Bob Barth, a Schwab wealth strategist based in Orlando, Florida. On top of that, today’s retirees are living longer and therefore may need help navigating long-term care and a retirement that can stretch on for decades.

“Adult children can play an important role in helping their parents anticipate potential problems and plan for the future,” says Nancy Murphy, a Schwab senior financial planner in Indianapolis. “The challenge becomes figuring out how to do so in a way that feels supportive rather than condescending.”

Here are five steps for helping aging parents manage their finances.

1. Start slowly and early

Parents who have accumulated significant wealth over the years may be offended by the idea that they’d ever need help managing their money, so don’t be surprised if you meet resistance. That said, the earlier you bring it up, the easier it will be to step in when they do need assistance.

“First, realize this probably isn’t going to be a one-and-done conversation,” Nancy says. “It’s best to start slowly by finding common ground, such as a discussion about recent market performance. That should organically lead to talks about the overall health of their investments and any concerns they might have about the longevity of their retirement savings.”

Parental Guidance Suggested

Five tips for helping aging parents navigate the future.
Even if your parents are amenable to help, they may find it uncomfortable to talk about money. “The goal at this stage isn’t to get to the bottom of every last detail—it’s just to get them talking,” Bob says. “Once they become more comfortable discussing the broad strokes, you can move on to more delicate subjects.”

2. Alert them to scams
Next, make sure they’re aware of the rise in financial fraud and the growing number of scams targeting seniors, which are estimated to cost victims some $36 billion each year.1

“Generally speaking, older individuals aren’t as savvy when it comes to modern technology, so they might not pick up on what seem to us like obvious scams,” Nancy says.

For example, if they’re not already familiar with today’s phishing tactics, explain how to spot them. Make sure they also understand they should never provide their Social Security numbers or other personal details when they receive unsolicited phone calls or emails.

As an extra precaution, you might suggest a power of attorney (POA) agreement to give you or another trusted family member the authority to manage and monitor their financial accounts. With a POA, your parents retain control and ownership over their assets, but their designated agent can sign checks, withdraw funds, and handle other transactions on their behalf. (If your parents are Schwab clients, they can also designate a Trusted Contact that Schwab can reach out to if it suspects fraud or diminished capacity. Learn more at schwab.com/trustedcontact.)

3. Talk about health care
With health care costs continuing to rise, a 65-year-old couple with median drug expenses would need to save roughly $248,000 to pay for routine medical care in retirement.2

And if one or both of them develop a medical condition, that number could easily double.3

Many married couples assume that one spouse will simply take care of the other should one of them need ongoing care. That’s what Bob’s parents thought before both became incapacitated for different reasons. “The idea of taking care of each other becomes less realistic the older a couple gets,” he says.

Adult children can help facilitate the discussion by doing some preliminary research into the cost of care, as well as thinking through how insurance or family members might be leveraged to help keep expenses down.

“Try to help your parents see it as a form of disaster planning,” Bob says. “It’s better to be prepared for the worst than to be blindsided by disaster, and health care is no different.”

4. Ask about estate plans
As unpleasant as it is to think about, there may come a time when your parents are no longer able to make decisions on their own. That’s why it’s so important they have financial and medical POA agreements in place, which allow you or other trusted individuals to make decisions on your parents’ behalf.

It’s also prudent to discuss whether they expect to pass on any assets to their heirs and to review the ramifications of certain types of inheritances, especially retirement assets. “Some older adults are reluctant to share this information,” Nancy says. “But the reality is that nonspousal heirs could face real tax consequences that must be planned for.”

For example, the SECURE Act of 2019 requires most nonspouse inheritors of tax-advantaged retirement accounts to deplete them within 10 years of the decedent’s passing (or face a penalty), which could push the recipients into a higher tax bracket. (In the past, recipients could choose to stretch withdrawals over their lifetimes.)

“But the potential consequences don’t end there,” Nancy says. “Taking withdrawals from an inherited IRA can affect an heir’s decision about when to retire—and can even increase the costs for Medicare premiums. In a worst-case scenario, it could impact a disabled heir’s ability to qualify for government assistance.” She adds: “Timing is critical to minimize tax implications.”

If you haven’t already done so, ask your parents to introduce you to their estate-planning attorney or financial advisor. “He or she can help everyone concerned better understand the rules at play and all the applicable estate-planning strategies,” Bob says. “For example, those who plan to pass on large retirement accounts could consider a variety of different trust options to help mitigate the long-term tax consequences for heirs.”

5. Include the family
Too often, important discussions between parents and adult kids happen one-on-one rather than as a family—and that can create problems down the road. “We see it all the time,” Bob says. “An absentee sibling shows up and starts second-guessing everything.”

That’s why he urges families to air out issues such as care and estate plans together. “There’s a natural tension when it comes to questions about who’s going to take care of Mom and Dad,” Nancy says. “The best way to avoid any hard feelings is to make sure all relevant parties are included in the conversation.”


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. (0520-0AEZ)
If you’re one of the 30 million Americans who participate in a pension plan, the recent spate of high-profile pension freezes and buyouts—including those at DuPont, General Electric, IBM, and UPS—may have you worried about the future of your own benefits.

Here’s what to know should you face a pension freeze or buyout—and what you can do to help protect your future.

Get the facts

When a company freezes its pension, active employees may no longer accrue new benefits, though they’re still entitled to all previously earned benefits. If this happens to you, request an updated retirement-benefit estimate so you can determine whether you’ll need to save more to reach your long-term goals. Then inquire if your employer will offer extra compensation—for example, an increased 401(k) match—to help make up for the shortfall.

When a company offers a lump-sum buyout, on the other hand, employees are under no obligation to accept it and may want to think twice before doing so. Assuming they’re fully funded or insured against insolvency, pensions offer guaranteed minimum payments for life, so choosing the buyout means giving up that security. So, what factors should you weigh when deciding?

■ Your health: Employees (and their spouses) who expect to live long lives may be better off sticking with their existing pensions, whereas those who don’t expect to live as long might be better off taking the lump sum.

■ The company’s health: If the company’s primary goal is to remove a financial obligation from its books, then that could be a good reason to stick with the plan. However, if the company is looking for ways to keep an already underfunded plan afloat, then you might want to consider the buyout before things go further south.

Close the gap

If a change to your pension results in less guaranteed retirement income than you’d planned on, you’ll need to figure out a way to help close the gap.

If you’re considering taking the buyout, think about what to do with the lump sum once you receive it. Generally speaking, you have three options:

1 Invest it yourself: For those comfortable with selecting their own investments and able to stomach the risks that come with exposure to the market, investing the lump sum in a tax-deferred IRA may allow the funds to benefit from future growth.

2 Invest it with a robo-advisor: If the idea of managing a lump-sum investment feels daunting, consider putting the money in a low-cost robo-advisor account, which can help select and manage investments for you—and may even be able to help you generate a predictable monthly paycheck once you reach retirement (see “Pay yourself,” next page).
**Buy an annuity:** An annuity is a contract with an insurance company that can be used to grow your funds through tax-deferred savings or offer guaranteed lifetime income through annuitization (subject to the financial strength and claims-paying ability of the issuing insurance company). Using the lump sum to purchase an annuity generally makes sense only if it provides bigger payouts or has more flexible features than your employer’s pension, or if you feel more comfortable housing your assets with an established insurance company.

Annuities come in a variety of different flavors, but they usually fall under three broad categories:

- **Fixed annuities** typically have an accumulation phase during which your initial investment can earn a minimum guaranteed interest rate. When the accumulation phase ends and payouts begin, the income payments generally will be paid for your (and, depending on the payout option you choose, your spouse’s) lifetime.

- **Fixed indexed annuities** offer growth during a specified period from either a fixed interest rate or a variable interest rate linked to the performance of a broad market index. The insurance company guarantees that your principal investment won’t lose value due to negative market performance, though your returns may be subject to a cap or other limits. For an additional cost, you can add a guaranteed lifetime withdrawal benefit (GLWB) rider that provides a base level of income for your (and your spouse’s) lifetime.

- **Variable annuities** allow you to invest your lump sum in one of several investment portfolios for future potential growth. Consequently, your investment can grow or shrink with the market—meaning your payouts could be higher or lower based on your account value at the time of the distribution. You can also add a GLWB—again, at an additional cost—to provide a base level of income for your (and your spouse’s) lifetime.

Annuities can be complex and involve a variety of fees and insurance costs. Additionally, they may not offer as much flexibility as investing in the market. However, the resulting income stream can still be a valuable addition to your retirement portfolio—just make sure you understand all the details before buying.

Regardless of whether you’re facing a freeze or a buyout, make sure you’re contributing enough to your 401(k) to capture the full match from your employer. If you need to save even more—which may be the case with a freeze, since you’ll no longer accrue new benefits—in 2020 you can contribute up to $19,500 to your 401(k), plus another $6,500 if you’re 50 or older. (See how Schwab can help you save for retirement at schwab.com/retirementaccounts.)

**Talk it out**

If you need help weighing your options, it’s wise to consult with a financial advisor before making a decision.

“*How many American workers participate in workplace retirement plans?* Pension Rights Center, 07/15/2019.

### Pay yourself

**A robo-advisor can provide a low-cost, efficient way to generate income in retirement.**

When it’s time to tap your retirement investments for income, it can be challenging to figure out how much you can afford to withdraw without depleting your savings too soon or generating a significant tax bill. That’s why Schwab created Schwab Intelligent Income™, which pairs the technology of Schwab Intelligent Portfolios® with a tax-smart withdrawal strategy that generates a predictable monthly paycheck from your investments.

When you activate the Schwab Intelligent Income feature on your Schwab Intelligent Portfolios account, you’ll receive a projection of a monthly paycheck amount based on your portfolio value and time horizon, tools to help you see how far your savings could go, notifications if you veer off course, and tips for getting back on track.

**Learn more at schwab.com/intelligentincome.**
FROM NICHE TO MAINSTREAM.

Our investment conviction is that investors can pursue better risk-adjusted returns over the long term with sustainability-integrated portfolios.

iShares Sustainable ETFs make sustainable investing more accessible to investors.

Invest in something bigger.

Visit www.ishares.com to view a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. Risks include principal loss.

A fund’s ESG investment strategy limits the types and number of investment opportunities available to the fund and, as a result, the fund may underperform other funds that do not have an ESG focus. This information should not be relied upon as research, investment advice, or a recommendation regarding any products, strategies, or any security in particular. This material is strictly for illustrative, educational, or informational purposes and is subject to change. BlackRock Investments, LLC, distributor ©2020 BlackRock. iSHARES and BLACKROCK are registered trademarks of BlackRock, Inc. ICRMH0320U-1124968

B24312_1a_iShares_Schwab_032020
03.23.20
RD
Trim: 8"x10.5"
Bleed: 8.25"x10.75"
Live: 7"x9.5"
The White House Effect

How presidential elections affect the market—and vice versa.
By Mike Townsend

Interest in the next presidential election and its potential impact on the market increases exponentially as we approach Election Day. While the outcome is uncertain, history does reveal some interesting trends.

Market performance in election years

Looking back at the performance of the S&P 500® Index since 1928, the Schwab Center for Financial Research found that the market ended on a positive note in 17 of the past 23 presidential election years—or 74% of the time—with an average annual return of 7.1%.

The two calendar years following an election tended to be slightly less positive, however, with average annual returns of 5.8% and 4.5%, respectively.

The third calendar year after an election historically has been the most fruitful, ending in positive territory a whopping 82% of the time, with an average annual return of 13.7%.

Of the six presidential election years that coincided with down markets, most had obvious explanations. In 1932, the country was in the midst of the Great Depression; in 1940, the world was on the brink of war; in 2000, the tech bubble burst; and in 2008, markets suffered fallout from the financial crisis. In other words, market performance in those years likely had little to do with the presidential election. And this year may follow suit, because of the COVID-19 pandemic.

Politics, incumbency, and the market

Investors often ask about the interplay between politics and the market: Do politics drive the market, or is it the other way around?

The first thing to note is that stock returns are influenced by multiple factors, including business cycles, corporate profits, and globalization—to say nothing of unpredictable events like the 9/11 terrorist attacks.

Still, I’m often asked whether the market has historically performed better under Democratic or Republican presidents. If we look at the numbers alone, the short answer is: Democrats. Since 1929, the total return of the S&P 500 has averaged 57.4% under Democratic presidential administrations, versus just 16.6% under Republicans. However, investors should treat this as a historical artifact rather than an ironclad law of politics and the markets.

More reliable is the market’s influence on election outcomes. To wit: When the S&P 500 has risen in the three months before an election, the incumbent party generally has gone on to win the White House; when it has fallen, the incumbent party has generally lost. Since 1928, this trend has been broken just three times—an 87% success rate—and it hasn’t missed since 1980.

So, what can we learn from all this? While some clear patterns between market performance and presidential elections have emerged, past performance is no guarantee of future results. Thus, the best option is to stick with a broadly diversified portfolio that can help you to achieve your own specific financial goals—regardless of who prevails in November.
Numbers tell only half the story.

Your investments deserve the full story.

Strategic investing takes us beyond the numbers. This approach has helped inform our investment decisions since 1937. By asking the right questions at the right time, we seek to uncover opportunities and manage risk to continue guiding our clients through a variety of market conditions.

Explore 33 funds on the Q1 2020 Mutual Fund OneSource Select List®.
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.

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

Charles Schwab & Co., Inc., Member SIPC, receives remuneration from fund companies in the Mutual Fund OneSource® service for recordkeeping and shareholder services and other administrative services. Schwab also may receive remuneration from transaction fee fund companies for certain administrative services. The amount of fees Schwab or its affiliates receive from funds participating in the Mutual Fund OneSource® service is not considered in the Select List selection, nor does any fund pay Schwab to be included in the Select List. Schwab, Mutual Fund OneSource®, and Mutual Fund OneSource Select List® are trademarks of Charles Schwab & Co., Inc. and used with permission.

T. Rowe Price and Charles Schwab & Co., Inc. are not affiliated.

T. Rowe Price Investment Services, Inc., Distributor.
TRADING

Bear Necessities

Four do’s—and one don’t—for trading in a down market.

By Randy Frederic

Market volatility is inevitable but impossible to predict. That’s why it can make sense to protect your downside even in the best of times so you aren’t caught flat-footed when markets move against you.

Here are five ways you can help manage risk in your trading portfolio—in good times and bad.

Do: Keep trades small

Just as limiting the size of your trading portfolio can help manage risk, so can limiting the size of individual trades.

The concept of “value at risk”—the amount of your total investable assets you’re willing to risk on a single trade—is important here, and I generally try to limit mine to 2%. For example, if your total portfolio is worth $500,000, it may be unwise to risk more than $10,000 on a single trade. During a bear market, that number should probably be lower, since it’s even likelier that a trade may move against you.

Do: Consider ETFs

Exchange-traded funds (ETFs) can be bought and sold throughout the trading day, and are traded just as heavily as individual stocks. But because ETFs track a basket of securities, they tend to be less volatile than individual equities. ETFs are still subject to losses, of course, but it’s almost inconsiderable that all the stocks an ETF tracks would fall to zero.

Individual stocks, on the other hand, can and do, albeit relatively rarely.

That said, beware inverse and leveraged ETFs. Inverse ETFs are designed to return the exact opposite performance of whatever index or benchmark they are meant to track, while leveraged ETFs use debt and/or derivatives to generate double or triple the daily performance of a certain index or asset class.

Such funds are incredibly speculative and can quickly incur significant losses should the market move against them. You can screen for trade candidates at schwab.com/ETFScreener.

Do: Actively manage risk

With any trade, it’s wise to employ some downside protection tools—such as stop orders—to help reduce the likelihood that your positions will fall below your intended exit points.

Of course, stop orders get you only so far, and the three main types each have their benefits and limitations:

■ Standard stop orders: When one of your positions reaches the sell-stop price you’ve set, it triggers an order to sell your position at the next available price. During a typical trading day, your stock would be sold at a price close to the market price at the time the stop order was triggered. But when a stock is falling rapidly, your execution price could be significantly lower than your stop price—and if you leave a stop order open beyond the trading day, it won’t provide any protection at all. Stop orders execute only during regular trading hours, so if a stock gaps down at the next day’s open, you could face a much larger loss than expected. Therefore, you may want to close out or reduce the size of positions you feel are at greater risk of gapping down.

■ Stop-limit orders: Unlike standard stop orders, stop-limit orders allow you to set both a stop price and a limit price—or the price below which you don’t want the trade to execute. So, if a declining stock reaches your stop price, it will be sold, as long as it can fetch your limit price. However, if the next available price after the stop is below your limit, your order won’t be executed unless it bounces back to your limit within the trading day.

■ Trailing-stop orders: With a trailing-stop order, the stop price trails the bid price of the stock as it moves higher. The stop price essentially self-adjusts and remains below the market price by the number of points or the percentage that you specify, as long as the stock is moving higher. Once the stock begins to move lower, the stop price freezes at its highest level less the amount specified. But just like standard stop orders, you aren’t protected from an overnight gap down.

Watch: It helps to be prepared for any type of market. Watch Trading Up-Close at youtube.com/charlesschwab and follow along as Schwab experts break down a variety of trading strategies.

Don’t: Jump the gun

When the market drops, it can be tempting to immediately start bargain shopping. But bargains can become the opposite if the downturn continues. When there’s a big dip in the market, I generally recommend waiting for two consecutive positive days before opening a new position—and even then I suggest starting small.

When in doubt, wait it out

Bear markets don’t last forever. Indeed, since 1946 the S&P 500® Index has experienced 11 bear markets lasting an average of just 16 months—while the 12 bull markets during the same period lasted an average of more than five years.

So if your emotions get the better of you, simply waiting out the dip may be the best option of all. In such instances, consider closing out or reducing the size of some of your positions and maintaining a higher level of cash than normal within your trading portfolio, until volatility levels off.

In the end, trading is supposed to be enjoyable. If you can stomach the ride, these tactics can help you hone your approach in any down market—and perhaps even limit your losses.

See page 42 for important information. • Investors should carefully consider 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. • Investing involves risk, including loss of principal. • There is no guarantee that execution of a stop order will be at or near the stop price. (0520-844A)

Randy Frederic

(@randyafrederick)

is president of trading and derivatives at the Schwab Center for Financial Research.
How do you foster financial independence and financial literacy among young people? Two Schwab experts share their tips.

Think back to your education in personal finance. Did you learn about money management at home? At school? Through trial and error?

“When I talk to people about their own financial educations, I hear a lot about regret—regret that they didn’t learn the fundamentals sooner,” says Carrie Schwab-Pomerantz, CFP®, president of Charles Schwab Foundation and senior vice president of Schwab Community Services at Charles Schwab & Co., Inc. “Indeed, entering the workforce with a solid understanding of money management can give you a real leg up in the long run.”

Unfortunately, many young people aren’t getting an education in the fundamentals of financial independence, such as budgeting, investing, and saving. According to the Council for Economic Education, just 21 states require high school students to take a class in personal finance.1
“It’s really up to each of us to ensure our kids are prepared to thrive as adults,” says Chris Kawashima, CFP®, and a senior research analyst at the Schwab Center for Financial Research. “Otherwise, it could take them years to figure it out, all while saving too little and spending too much—both of which are huge barriers to financial security.”

Here, Carrie and Chris share their top tips for instilling healthy money habits at three crucial early stages of life.

When they’re little

- Introduce the value of money
  An allowance is a good first step—even if you tie at least part of it to chores that teach responsibility and work ethic. Earning an allowance introduces kids to the value of money and making choices for themselves. “In fact,” Carrie says, “kids often find they make different choices with their own money than they would with someone else’s.”

- Emphasize saving
  At some point, your kids are going to want things that exceed their allowance. Encourage them to save for those items. Teach them the concepts of delayed gratification and trade-offs. Make saving a part of their routine and have them set aside a small portion—say, 10%—of every dollar they receive, including allowances and gifts.

- Help your child create a savings plan
  Introduce them to saving plans like Schwab.com/savingscalculator.

- Introduce them to investing
  Once your kids have saved up some money, you can consider opening a custodial brokerage account for them. “Let them choose a few stocks to invest in, then set up regular meetings to review their performance,” Chris says. “You might be surprised by how engaged they become.”

- Help your child create a savings plan
  Introduce them to investing. SchwabMoneyWise offers the insights young adults need to master the essentials, including:

  - To learn more, visit schwabmoneywise.com.

  - Consider a Roth IRA
    Once your kids have earned income, they can start contributing to an individual retirement account (IRA). Chris suggests a Roth IRA for most young savers. “Roths are funded with after-tax dollars, but withdrawals in retirement are entirely tax-free,” he says. “By teaching them that saving early—and earning, even in college—means they can start earning tax-free income in retirement.”

  - Help your child start saving for retirement with a custodial IRA
    Learn more at schwab.com/custodial_ira.

When they’re teenagers

- Encourage a summer job
  “We know from our research that young people who have jobs are more likely to be better savers in the long run,” Carrie says. So, make sure your child is saving a portion of every paycheck—and maybe even require them to help out with other expenses, as well. “It’s perfectly reasonable to expect kids to pay for their own gasoline or trips to the movies,” she says.

- Introduce them to credit
  As teenagers become more independent and start driving themselves around, Carrie says it can be helpful to make them authorized users on one of your credit cards. “From a practical perspective, having a credit card to deal with emergencies like flat tires is always a smart idea,” she says. More to the point, it can help them learn to spend within their means—assuming you require them to pay back every dollar they charge—and to begin to understand how the credit they establish today can affect big purchases in the future.

  - Introduce them to credit
    When they begin to earn income, they can start to explore the concepts of credit scores, so they can see that their creditworthiness is being graded, just like a test at school.

  - Encourage them to stay invested
    “You want your kids to be fully independent, but there will be times when you might need to step in to help them manage their money correctly. After all, making poor financial decisions can be an expensive learning experience.”

When they’re young adults

- Help them set a budget
  Once your kids accept their first jobs after college, help them draw up budgets based on their salaries and estimated expenses. “When you’ve never lived on your own, it’s easy to underestimate common expenses, such as groceries and utilities,” Carrie says. It’s also a good idea to review your children’s employer benefits with them to ensure they’re taking full advantage of all available options, especially any matching contributions to employer-sponsored retirement accounts, such as 401(k)s. “It’s important for them to understand the value of those matching contributions,” Carrie says. “It’s like free money!”

- Help your child create a monthly budget plan
  Learn more at schwab.com/budget.

- Encourage them to stay invested
  While you’re on the subject of investing, it’s a great time to introduce basic principles like diversification, risk tolerance, time horizon, and compound interest. “Understanding these concepts can help them select a healthy mix of investments—and help them stay invested when markets turn rocky,” Chris says.

  As for the investments themselves, there are literally thousands of low-cost index funds to choose from, which can be overwhelming to a novice—so when in doubt, choosing a product that allocates and invests their money for them might be the best approach.

  One such option is a target-date fund, whose asset allocation mix becomes more conservative as the target date approaches. Another option would be to consider a robo-advisor (like Schwab Intelligent Portfolios®), which builds, monitors, and rebalances a diversified portfolio of exchange-traded funds on an investor’s behalf.

- Learn more about Schwab Intelligent Portfolios
  Let them know they’re not alone. “You want your kids to be fully independent, but there will be times when you might need to step in to help them manage their money correctly. After all, making poor financial decisions can be an expensive learning experience.”

- Help your child create a monthly budget plan
  “You want them to get in the habit of asking for help if they need it, and not just from you,” she says. “Even the professionals get help—I know I do.”

- Help them set a budget
  “I’ve noticed that when people have a set of goals and understand the trade-offs involved, they’re more likely to be successful,” Carrie says. “It’s like being the client and having a wealth manager work with you.”

- Encourage them to stay invested
  “You want your kids to be fully independent, but there will be times when you might need to step in to help them manage their money correctly. After all, making poor financial decisions can be an expensive learning experience.”

- Help your child create a monthly budget plan
  “You want them to get in the habit of asking for help if they need it, and not just from you,” she says. “Even the professionals get help—I know I do.”

- Consider a Roth IRA
  Once your kids have earned income, they can start contributing to an individual retirement account (IRA). Chris suggests a Roth IRA for most young savers. “Roths are funded with after-tax dollars, but withdrawals in retirement are entirely tax-free,” he says. “By teaching them that saving early—and earning, even in college—means they can start earning tax-free income in retirement.”

- Help your child start saving for retirement with a custodial IRA
  Learn more at schwab.com/custodial_ira.

- Let them know they’re not alone
  “You want your kids to be fully independent, but there will be times when you might need to step in to help them manage their money correctly. After all, making poor financial decisions can be an expensive learning experience.”

- Help your child create a monthly budget plan
  “You want them to get in the habit of asking for help if they need it, and not just from you,” she says. “Even the professionals get help—I know I do.”


See page 42 for important information. • Please read the Schwab Intelligent Portfolios Solutions® disclosure brochures for important information, pricing, and disclosures related to the Schwab Intelligent Portfolios and Schwab Intelligent Portfolios Premium programs. Schwab Intelligent Portfolios® and Schwab Intelligent Portfolios Premium® are made available through Charles Schwab & Co., Inc. (“Schwab”), a dually registered investment advisor and broker dealer. Portfolio management services are provided by Charles Schwab Investment Advising, Inc. (“CSIA”). Schwab and CSIA are subsidiaries of The Charles Schwab Corporation.

Schwab Intelligent Portfolios is designed to monitor a client’s portfolio on a daily basis and will also automatically rebalance as needed to keep the portfolio consistent with the client’s selected risk profile unless such rebalancing may not be in the best interest of the client. Trading may not take place daily. [0520-00GU2]
Turn That Frown

Upside Down

How cash-strapped investors can turn selling in a tough market to their advantage.
When markets take a dive, the last thing you want to do is sell at depressed prices—but sometimes you have no choice. A medical or tax bill could be due, or you may simply need to replenish your cash reserves.

Rebalance your portfolio
Periodically rebalancing your portfolio—which involves selling overweight positions and buying underweight ones to keep your portfolio in line with its target asset allocation—is a good idea in the best of times. But when the going gets rough, it can also help you make dispassionate decisions that can lead to better outcomes.

“The recent market turbulence likely threw your portfolio out of whack,” Mark says. “By refocusing on bringing your portfolio back to its target allocation, you can more easily identify those assets you’d probably want to sell anyway.” For example:

Imagine an investor with a $500,000 portfolio and a target allocation of 60% stocks, 35% bonds, and 5% cash investments. After a rough few months, the stock portion of his portfolio falls by $75,000:

<table>
<thead>
<tr>
<th>Starting portfolio</th>
<th>New portfolio balance (after rebalancing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks $300,000</td>
<td>$225,000</td>
</tr>
<tr>
<td>Bonds $175,000</td>
<td>$175,000</td>
</tr>
<tr>
<td>Cash investments $25,000</td>
<td>$25,000</td>
</tr>
<tr>
<td><strong>Total: $500,000</strong></td>
<td><strong>Total: $425,000</strong></td>
</tr>
</tbody>
</table>

At the same time, the investor needs to withdraw $15,000 from his investment portfolio to cover an unexpected bill. To figure out what to sell in order to meet his cash need, the investor should:

Subtract his cash need from his current portfolio balance:

\[
\text{Current portfolio balance} - \text{Cash need} = \text{New portfolio balance}
\]

\[
\text{New portfolio balance} = (\$425,000 - \$15,000) = \$410,000
\]

Use his new portfolio balance and target allocation percentages to determine his target dollar amounts for stocks, bonds, and cash investments. “Interestingly,” Mark says, “to achieve his target asset allocation, our hypothetical investor actually needs to buy more stocks—presumably at lower prices, which should work in his favor should the market turn around.” After selling his overweight positions and buying underweight ones, the investor can use the remaining cash proceeds to pay his unexpected bill:

\[
\begin{align*}
\text{New portfolio balance} & = \text{Target} \\
& = \text{Current} \\
& = \text{Change needed to reach target amount}
\end{align*}
\]

\[
\begin{align*}
\text{Stocks} & = 60\% \quad \rightarrow \quad $225,000 - $225,000 = $21,000 \quad \text{Buy} \\
\text{Bonds} & = 35\% \quad \rightarrow \quad $175,000 - $175,000 = -$31,500 \quad \text{Sell} \\
\text{Cash investments} & = 5\% \quad \rightarrow \quad $25,000 - $25,000 = -$4,500 \quad \text{Sell}
\end{align*}
\]

Cash proceeds $15,000

Take out the trash
Once you’ve figured out which asset classes to sell, it’s time to identify individual investments to offload. The place to start is holdings with weak prospects or that no longer match your goals. “If you wouldn’t consider buying more of a particular investment today, then you should seriously consider selling it,” Mark says.

To assess the merits of an individual stock, check out the following company’s earnings and balance sheet for signs of weakness—or use Schwab Equity Ratings® to get a sense of a stock’s prospects. “Don’t be sentimental,” Mark says. “Even if a stock has performed well for you in the past, that doesn’t mean it will continue to do so in the future.”

For Schwab Equity Ratings, log in to schwab.com/positions and click on a particular stock. Its Schwab Equity Ratings letter grade will appear at the top of its overview page; click the latter grade for the full report.

Harvest some losses
If you need to sell more after offloading investments that no longer match your goals, it’s time to realize some losses. Selling for a loss is never easy, but sometimes it can actually work in your favor. That’s because you can use those losses to offset gains you may have realized in your taxable accounts over the course of the year, which can help reduce your tax liability—a

strategy known as tax-loss harvesting (see “Using a tax loss to get a tax break” below).

Even if you have no gains to counteract, you can still use your losses to offset up to $3,000 of ordinary income per tax year until all your losses have been accounted for.

If the proceeds from harvesting losses exceed your cash needs, you should reinvest the money in holdings that match your target asset allocation and show promising future prospects. Just be sure you don’t violate the so-called wash-sale rule by repurchasing the same or “substantially identical” securities within 30 days before or after a sale, lest your losses be disallowed.

Using a tax loss to get a tax break
A hypothetical investor who realized $10,000 in short-term capital gains and $15,000 in capital losses could use tax-loss harvesting to cut down her tax bill.

<table>
<thead>
<tr>
<th>Short-term capital gains: $10,000</th>
<th>$15,000 in capital losses could use tax-loss harvesting to cut down her tax bill.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes that could have been owed without tax-loss harvesting</td>
<td>Ordinary income</td>
</tr>
<tr>
<td>Capital gains</td>
<td>$3,200 ($10,000 x 32%)</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>$960 ($3,200 x 32%)</td>
</tr>
<tr>
<td><strong>$4,160</strong></td>
<td><strong>$4,160</strong></td>
</tr>
</tbody>
</table>

Source: Schwab Center for Financial Research. Assumes a 32% combined federal/state marginal income tax bracket, with short-term capital gains taxed at ordinary income tax rates. The example is hypothetical and provided for illustrative purposes only; it is not intended to represent a specific investment product and the example does not reflect the effects of fees.
**Be tax smart**

If, after harvesting all your losses, you still need to sell assets to meet your cash needs, be sure to make tax-efficient choices. For example, consider selling investments you’ve held for more than a year. Any gains on stocks, bonds, and mutual funds held for more than one year are taxed at a maximum federal long-term capital gains rate of 20%, whereas investments held for a year or less are taxed at your federal ordinary income tax rate.

Tax liability on $10,000 gain for person in 32% federal tax bracket

<table>
<thead>
<tr>
<th>Short-term capital gains rate</th>
<th>Long-term capital gains rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>20%</td>
</tr>
</tbody>
</table>

$3,200

$2,000

**Plan ahead**

In an ideal world, these steps would be part of your regular portfolio maintenance. If the recent volatility exposed flaws in that routine, now’s a great time to do some proactive planning so you’re better prepared next time. In particular, you should remain vigilant about maintaining an asset allocation that’s appropriate, given your time frame and goals (see “Choosing the right allocation for you,” right).

“The right portfolio allocation isn’t just about your emotional tolerance for big price swings,” Mark says. “It’s about your time horizon: Can you afford to wait out a big loss?”

That’s one reason Schwab recommends individuals who are nearing or in retirement have enough cash on hand to cover at least a year’s worth of expenses—plus another two to four years’ worth of cash in a relatively liquid investment like a certificate of deposit or short-term bond fund.

“If you have enough short-term cash reserves stored up, you can avoid selling during a downturn altogether,” Mark says. “Nobody wants to buy high and sell low—and with a little planning, you may never have to.”

**Choosing the right allocation for you**

How you allocate your assets should be based on three things: your goals (both short- and long-term), the number of years you have to invest, and your tolerance for risk.

### Time frame

- **3–5 years**
- **5 years**
- **10 years**
- **At least 10 years**
- **15 or more years**

### Goals

- Appropriate for investors who want current income, investment stability, and capital preservation.
- Appropriate for investors who want current income and investment stability, but also some opportunity to grow their investments.
- Appropriate for investors who want current income, solid growth, and relative stability, and who can tolerate low levels of portfolio volatility.
- Appropriate for investors who want current income, solid growth, and relative stability, and who can tolerate moderate levels of portfolio volatility.
- Appropriate for investors who are most concerned about growing their investments and who can tolerate high levels of portfolio volatility.

### Fixed income

- **Conservative**
  - 50%
- **Moderately conservative**
  - 50%
- **Moderate**
  - 50%
- **Moderately aggressive**
  - 50%
- **Aggressive**
  - 50%

### Cash

- **Conservative**
  - 30%
- **Moderately conservative**
  - 30%
- **Moderate**
  - 30%
- **Moderately aggressive**
  - 30%
- **Aggressive**
  - 30%

### Large-cap stocks

- **Conservative**
  - 25%
- **Moderately conservative**
  - 25%
- **Moderate**
  - 25%
- **Moderately aggressive**
  - 25%
- **Aggressive**
  - 25%

### International

- **Conservative**
  - 25%
- **Moderately conservative**
  - 25%
- **Moderate**
  - 25%
- **Moderately aggressive**
  - 25%
- **Aggressive**
  - 25%

### Small-cap stocks

- **Conservative**
  - 5%
- **Moderately conservative**
  - 5%
- **Moderate**
  - 5%
- **Moderately aggressive**
  - 5%
- **Aggressive**
  - 5%

### Schwab Intelligent Income™

Schwab Intelligent Income™ can help generate tax-smart withdrawals each month. Learn more at schwab.com/intelligentincome.

See page 42 for important information. Please read the Schwab Intelligent Portfolios Solutions™ disclosure brochures for important information, pricing, and disclosures related to the Schwab Intelligent Portfolios and Schwab Intelligent Portfolios Premium programs. Schwab Intelligent Portfolios® and Schwab Intelligent Portfolios Premium™ are made available through Charles Schwab & Co., Inc. (“Schwab”), a dually registered investment advisor and broker dealer. Portfolio management services are provided by Charles Schwab Investment Advisory, Inc. (“CSIA”). Schwab and CSIA are subsidiaries of The Charles Schwab Corporation. Schwab Intelligent Income™ is an optional feature for clients to receive recurring automated withdrawals from their accounts. Schwab does not guarantee the amount or duration of Schwab Intelligent Income withdrawals nor does it guarantee any specific tax results such as meeting Required Minimum Distributions. Tax-loss harvesting is available for clients with invested assets of $50,000 or more in their Schwab Intelligent Portfolios account. Clients must enroll to receive this service. Please be aware that the ability to realize significant tax benefits from tax-loss harvesting depends upon a variety of factors, and no assurance can be offered that a particular investor will in fact realize significant tax benefits. The information provided here is for general informational purposes only. This information does not constitute and is not intended to be a substitute for specific individualized tax, legal, or investment planning 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. Schwab does not provide tax advice. Clients should consult a professional tax advisor for their tax advice needs. Examples are hypothetical and provided for illustrative purposes only. They are not intended to represent a specific investment product or to be reflective of results you can expect to achieve. The examples do not reflect the effects of taxes or fees. Diversification, asset allocation, and rebalancing a portfolio cannot ensure a profit or protect against a loss in any given market environment. Rebalancing may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events may be created that may affect your tax liability. (0520-0ATZ)
Stop, Thief!

How to fight financial fraud. Illustrations by Ping Zhu
STOP, THIEF!

Have you ever noticed an unauthorized withdrawal from your bank, brokerage, or credit card account? Such suspicious activity can mean only one thing: Your finances have been invaded.

The good news is that there are steps you can take to limit losses and help prevent unauthorized activity from happening again if you find yourself the target of financial fraud.

1. Act fast

Once a crook has access to your account, the fraud may not end with a single purchase, transfer, or withdrawal. “Swift action is critical when it comes to stopping fraud,” says Nicole Spagnuolo, vice president for financial crimes risk management at Charles Schwab.

What to do:

- **Raise the alarm:** It’s in everyone’s interest to identify suspicious activity as soon as it surfaces. Your financial institution can freeze the compromised account, issue a new card, reset a password, and perhaps even help track down those responsible. Be sure to initiate contact through a known number or website; never respond to an unsolicited email, phone call, or text—no matter how legitimate it may seem.

- **Know where you stand:** Financial institutions generally have security policies that outline how they handle fraud—including your liability, if any, in the event of unauthorized activity (see “The Schwab Security Guarantee,” right).

- **Install antivirus protection:** Viruses and malware are commonly tied to fraud schemes. Indeed, if a virus is left unchecked it can capture your new username and password, even if it was changed after the initial breach.

2. Go wide

“When one account is compromised, it’s reasonable to suspect others have been, as well,” Nicole says. One of the most common methods fraudsters employ is called credential replay or credential stuffing, in which they attempt to use credentials stolen from one account to log in to other accounts.

What to do:

- **Change your passwords:** Whenever you spot fraud in one account, change the credentials on any other accounts with the same usernames and/or passwords. Better yet, assign a unique password to each financial account, as well as every site where you store bank account or credit card information.

- **Use a password manager:** Of course, it can be difficult to keep all those passwords straight. Password managers, such as Dashlane and LastPass, can generate a unique password for every account, keep track of them all, and even securely auto-populate usernames and password fields.

3. Stay alert

It’s important to stay engaged with all of your financial accounts, even those you don’t use regularly. “It’s good practice to periodically check in on all your accounts so you can more easily detect fraudulent activity,” Nicole says.

What to do:

- **Set up alerts:** In addition to fraud alerts, many credit card issuers can notify you when they process online or over-the-phone transactions that don’t require a physical card. In 2018, such transactions accounted for 54% of all fraudulent activity worldwide involving credit, debit, and prepaid cards.1 Bank and brokerage accounts also offer alerts and notifications for certain types of transactions.

- **Keep tabs on your accounts:** Regularly review your statements and credit card report to ensure no fraudulent activity flies under the radar. Each of the three major credit reporting agencies (Equifax, Experian, and TransUnion) is required to provide one free credit report annually, so consider requesting a report from one of the agencies every four months.

- **Freeze your credit:** Placing a security freeze with Experian (experian.com/freezecenter.html), TransUnion (transunion.com/credit-freeze), or Equifax (equifax.com/personal/credit-report-services) can prevent others from opening a new credit card or loan in your name.

   Better yet, place a freeze with all three agencies to ensure maximum protection. If you need to apply for credit in the future, you can temporarily lift the freeze using a password or PIN.

4. Double up

You can stay one step ahead of fraudsters by adding extra layers of security to your accounts and the devices through which you access them. “Security features offered with your accounts can make it considerably harder for criminals to access them,” Nicole says.

What to do:

- **Enable biometric recognition:** Biometrics let you unlock a device or log in to an account with your finger, fingerprint, or voice. Unlike passwords, biometrics can’t be written down (or lost) and are much harder for criminals to replicate.

Going the extra mile

In addition to these four steps, consider reporting your experience to the Federal Trade Commission at ftc.gov/complaint. The agency’s reporting process isn’t designed to resolve individual incidents or recover funds, but your report helps them track trends in fraud and better understand the methods criminals are using, which may help financial firms improve their defenses.

It’s also a good idea to file an Identity Theft Report at identitytheft.gov. This entitles you to extra protections, such as placing an extended fraud alert on your credit report and preventing companies from collecting debts that result from identity theft.

See page 42 for important information.

---

The Schwab Security Guarantee

You should have the utmost confidence in the financial firms you do business with. That’s why Schwab will cover 100% of losses in any of your Schwab accounts due to unauthorized activity. Read the full terms of the Security Guarantee at schwab.com/guarantee—and see all the ways Schwab helps keep your personal information safe at schwab.com/schwabsafe.

---

All in the Family

Three ways to help finance a loved one’s business.
Raising capital is often the biggest barrier to launching a new business, so it’s not uncommon for budding entrepreneurs to turn to their families and friends for help. If you’re approached with such a request, your first instinct may be to lend a hand, no questions asked—especially if it’s your child who’s doing the asking. But such assistance should be viewed as a financial transaction like any other, and you should make sure the recipient understands that, as well. "Don’t just think, ‘This is my child and therefore it’ll work out fine,’” says Marianne Hayes, a CPA and wealth strategist with Schwab Private Client. “You need answers to all your financial questions up front, even if that means consulting an attorney or a tax specialist.”

To keep the personal from bleeding into the professional, try to firmly separate the two from the start. “Make it clear that all questions and feedback are coming from you as a business associate rather than as a family member,” Marianne says. “That should pave the way for more productive discussions and help ease any tensions.”

Once you’ve set the terms of engagement, have your loved one walk you through the business plan, including short- and long-term goals and the outlook for turning a profit. “You want to see passion and preparation in equal measure,” Marianne says. “They need to show they’ve thought through this and anticipated potential roadblocks.”

How to say “no” Be compassionate but firm when declining to fund a family member’s business.

Saying “no” is rarely easy, especially when it comes to family. “I would start by thanking them for thinking of you as a potential investor,” says Marianne Hayes, a CPA and wealth strategist with Schwab Private Client. “But don’t beat around the bush. If it’s not a good fit, tell them as soon as possible so they have time to change gears.”

Don’t be surprised if your loved one wants to know why you won’t help—which can be a delicate situation to navigate. “If you decide to pass for purely financial reasons, that’s easy feedback to give,” Marianne says. “But if your decision has something to do with the viability of the company or the trustworthiness of the person asking for help, your answer may require a combination of honesty and compassion.”

Of course, if you see holes in the business strategy and are comfortable providing feedback, it could help your loved one succeed. “Constructive criticism can be hugely helpful when delivered the right way,” Marianne says. “You might even invite them to come back to you once they’ve addressed your concerns.”

Be aware, however, that a gift doesn’t entitle you to say how the money is spent. “Many gift-givers feel it’s their right to be involved in business decisions, but that’s not the case,” Marianne says. “If you want a role in the company, a gift may not be the best funding option for you.”

2. Loans

Like a gift, a loan won’t grow in value should your family member’s business take off. But unlike a gift, a loan involves an obligation—ideally one documented as a promissory note with the relevant terms established.

- Will the loan be secured (i.e., backed by collateral) or unsecured?
- Will the borrower pay interest? If so, how much and on what schedule?
- Will the borrower make principal payments? If so, how often and on what schedule?
- Will the loan need to be repaid in full by a certain date? If so, when—and what, if any, grace period will there be?

Documenting the loan can also avoid issues with the IRS, which imposes penalties on zero- or minimal-interest loans. The IRS sets a minimum rate for loans, called the applicable federal rate (AFR), which changes each month but generally approximates the rate paid by certificates of deposit and savings accounts. If your loan’s rate is below the AFR or the IRS determines that the loan wasn’t really a loan at all, it may treat it as a gift for tax purposes, even if there’s a promissory note. (You can find the current AFR at apps.irs.gov/app/picklist/list/federalRates.html.)

As for the loan’s repayment structure, you can choose a term loan, which has specified repayment dates, or a demand loan, which can call due at any time. The AFR may vary depending on which kind of loan you opt for, so it’s wise to work out the details with an accountant. You can also report any interest from such loans as taxable income. By the same token, if the borrower defaults on the loan, you may be eligible for a tax deduction. "Defaults are particularly tricky," Marianne says. “You have every right to try to collect, but you might decide that preserving the relationship is more important than recouping the funds.”

One way around such fraught situations is to treat a default as an advance on the heirs’ inheritance. “That way you don’t have to deal with the headache or heartache of trying to collect, but your heir is still held accountable for the loan,” Marianne says. Make sure these details are stipulated in the loan document to help avoid conflict down the road.

3. Investments

Unlike gifts and loans, this funding method gives you an equity stake in the company. If your loved one finds the next Amazon, for example, you’ll share in its success, but you also can lose your investment should the enterprise fail.

- What are you getting in return for your investment?
- Will you receive dividends, an increase in the value of your investment, or both?
- What happens to your stake if the company raises capital from new investors in the future?

If you want to be involved in the running of the business, a direct investment is probably the best way to go about it. “Make sure you nail down your role in the company before you hand over any funds,” Marianne says. “Your loved one may be looking for a silent investor, not a partner, and unwanted input on how to best run the business could lead to family strife.”

Call your Schwab financial consultant to discuss how helping fund a family business fits into your financial plan.
Pay Yourself From Your Portfolio With Schwab Intelligent Income™

How it works

- We help you figure out how much you could withdraw each month
  Tell us how much you have in your portfolio and how long you need it to last, and we’ll help you gain clarity on how much you could withdraw each month according to your expected time frame. You decide how much you actually want distributed and when—monthly, quarterly, biannually, or annually.
- We build and manage a diversified portfolio across your enrolled accounts
  You can enroll a variety of different Schwab Intelligent Portfolios accounts in Schwab Intelligent Income, including taxable brokerage accounts, Roth IRAs, and traditional IRAs. Then we:
  • Build a diversified portfolio of ETFs across your enrolled accounts.
- Offset taxes on investment gains in your taxable accounts whenever possible if you enroll in automatic tax-loss harvesting.
- We handle the complexity of making tax-smart withdrawals for you
  We use algorithms to find tax-smart ways to generate a paycheck from across your enrolled accounts.
- Schwab Intelligent Income is designed to:
  • Take into account required minimum distributions (RMDs) from enrolled tax-deferred accounts.
  • Take proportional withdrawals from both your taxable brokerage accounts and traditional IRAs to help extend the life of your savings.
  • Avoid tapping Roth IRAs until you need them.
- You get the flexibility and visibility to spend with confidence
  You can start, stop, or adjust your paycheck at any time without penalty. Our dashboard and projection tools will tell you how any changes could affect your savings and income. You’ll be notified when you go off course and get ideas about how to get back on track.
- If you have questions, you can access U.S.-based Schwab professionals 24/7.

What you pay

Schwab Intelligent Income is a fee of Schwab Intelligent Portfolios, available for no additional fee. The minimum investment is only $5,000.

Just as if you’d invested on your own, you will pay the operating expenses on the ETFs in your portfolio, which includes Schwab ETFs™. The portfolios also include a cash allocation to FDIC-insured Deposit Accounts at Charles Schwab Bank. Schwab Bank earns income on these deposits, commensurate with the size of the cash allocation. Some alternatives outside of Schwab Intelligent Portfolios Solutions pay a higher yield.

Next steps
To learn more about Schwab Intelligent Income, visit schwab.com/intelligentincome.

Generate a predictable, tax-smart monthly paycheck based on your needs and goals.
With thousands of fund choices available, building a diversified portfolio can be challenging. Schwab’s Personalized Portfolio Builder simplifies the selection process by helping you find the mutual funds or ETFs that meet your needs.

How does it work?
The tool helps you create a portfolio of funds using Schwab’s asset-allocation models. These models help you determine an appropriate allocation across various asset classes, based on your financial goals, risk tolerance, and time horizon.

How do I get started?

Log in to schwab.com/portfoliobuilder to build a portfolio in five easy steps:

**Step 1**
Choose the account in which you want to build your portfolio.

**Step 2**
Select your fund preference. You can build an all-ETF portfolio or all-mutual-fund portfolio—and choose taxable-bond funds or municipal-bond funds.

**Step 3**
Select your risk tolerance, ranging from conservative to aggressive.

**Step 4**
Specify your initial investment. There is no minimum, but we suggest at least $5,000 to ensure proper diversification.

**Step 5**
Choose from a selection of funds within each asset class and click “Trade” to complete your portfolio.

Create a customized portfolio of mutual funds or exchange-traded funds (ETFs) in just a few clicks.
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.

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.

Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve.

Pg. 6: Past performance is no guarantee of future results.

Pg. 8, 9, 13–14, 16, 18–19, 20–23, 24–29: The Schwab Center for Financial Research is a division of Charles Schwab & Co., Inc.

Pg. 13–14: All corporate names shown above are for illustrative purposes only and are not a recommendation, offer to sell, or a solicitation of an offer to buy any security. Supporting documentation for any claims or statistical information is available upon request.

◆ Annuity guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company. ◆ Charles Schwab & Co., Inc., a licensed insurance agency, distributes certain life insurance and annuity contracts that are issued by nonaffiliated insurance companies. Not all products are available in all states.

Pg. 20–23: Roth contributions are made with after-tax dollars and qualified withdrawals of income are tax-free for those 59 ½ or older for accounts that have been open for five or more years.

Pg. 24–29: Schwab Equity Ratings and the general buy/hold/sell guidance are not personal recommendations for any particular investor or client and do not take into account the financial, investment or other objectives or needs of, and may not be suitable for, any particular investor or client. Investors and clients should consider Schwab Equity Ratings as only a single factor in making their investment decision while taking into account the current market environment. ◆ Investing involves risk, including loss of principal.

©2020 Charles Schwab & Co., Inc. All rights reserved. Member SIPC. (0520-0EB9)
With the foundation you leave them, imagine what they’ll build.

Whatever they decide to build, we’ll be here as a corporate trustee to administer your trust according to your terms. We’ll help you put everything in place so that your interests and beneficiaries are taken care of—so your legacy lives on the way you planned it.

Call your financial consultant or visit personaltrust.schwab.com to learn more about Schwab Personal Trust Services.

Charles Schwab & Co., Inc. (“Schwab”) is affiliated with Charles Schwab Trust Company (“CSTC”), the corporate trustee for Schwab Personal Trust Services (“SPTS”). Neither Schwab nor CSTC provides legal or tax advice. Consult with your legal counsel and tax advisors about your particular circumstances.

©2020 Charles Schwab Trust Company. All rights reserved.

CC3814092 (1119-9TWB)  ADP110128-00 (01/20)  00241798
In my 50-plus years in this business, I’ve seen all manner of market conditions—and the most important lesson I’ve learned is to ignore the short-term noise and stay focused on the future. Yet with so much uncertainty in financial markets due to COVID-19, staying invested for the long haul is a test even for those with nerves of steel. I understand how deep emotions can run when it’s your money on the line.

But despite the difficulty, my best advice is to remain committed to time-tested strategies such as diversification and the right asset allocation model for you—based on your long- and short-term goals, the number of years you have to invest, and your tolerance for risk. This approach can help you weather all kinds of markets. And if your goals or financial situation have changed, we can help review your portfolio, revisit your plan, or create a new one.

I’ve always believed that investing is, at its core, an act of optimism. That belief has not changed, nor has our focus on helping you “Own Your Tomorrow.” If you need to reach us, you can do so at schwab.com, through our Schwab Mobile app, or by calling our experienced representatives at 800-435-4000.

Charles R. Schwab
Founder & Chairman

See page 42 for important information. ◆ Diversification and asset allocation strategies do not ensure a profit and cannot protect against losses in a declining market. ◆ Investing involves risk, including loss of principal. (0520-06A9)
Maximize your charitable giving impact with a Schwab Charitable™ donor-advised fund account. To learn more or to open an account, call us at 800-746-6216 or visit www.schwabcharitable.org.

Giving is good. Giving wisely is great.
SCHWAB INTELLIGENT PORTFOLIOS PREMIUM™
Meet subscription-based financial planning.

Welcome to automated investing with unlimited financial planning help from a CERTIFIED FINANCIAL PLANNER™ professional for a monthly subscription fee.

Learn more at schwab.com/portfoliospremium.