Dear Client,

The pandemic has prompted a record number of Americans to upsize, downsize, or otherwise relocate—and millions more could follow suit this year, especially if the trend toward working remotely continues. If you’re contemplating a move—whether across town or between states—be sure to avoid the four common financial mistakes outlined on page 24.

Elsewhere in this issue you’ll find a breakdown of the financial implications of owning an RV (page 13), a status report on the post-pandemic municipal bond market (page 18), tips for responding to inflation concerns (page 30), and much more.

If you have questions about how these topics apply to your own finances, 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
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Newsletter News

Schwab Investing Insights is getting a whole new look.

Schwab Investing Insights, Schwab’s monthly email newsletter, is relaunching this summer.

Why it’s happening

- The new Schwab Investing Insights will deliver more in-depth news and commentary tailored to your needs, interests, and goals—with a user-friendly new look.

What you can do

- Log in to your account at schwab.com to confirm the email address we have on file for you.

- Look for the revamped Schwab Investing Insights in your email inbox this summer.
It’s difficult to reckon with the magnitude of the COVID-19 pandemic: millions of cases, hundreds of thousands of deaths, tens of millions of job losses, hundreds of millions of vaccine doses, trillions of dollars of federal relief. Yet even these unfathomable numbers fail to adequately capture the challenges we’ve all faced.

It’s hard to look at the painfully lonely deaths, the missed moments with family members and friends, and the many shuttered businesses and see a silver lining. Perhaps the best we can do is take heart that the worst appears to be behind us and look forward to the future.

As our country and the world continue to reopen and life returns to something resembling normal, we all have an opportunity to take a fresh look at our priorities and decide anew what’s most important to us.

For me, it is a sense of gratitude for my family, friends, and colleagues—and a deep appreciation for all the clients who stood with us as we endeavored to deliver our historically award-winning service in the face of unprecedented volume and our employees working from home.

I have no profound words to share, nothing to ask of you. I simply want to say, from the bottom of my heart: Thank you.

Sincerely,

Walt Bettinger
President & CEO
It’s good to be back.

Schwab branches have reopened with new lobby protocols and sanitation measures, social distancing markings, and contactless service options.

Go to schwab.com/reopening to learn about how we’re keeping visitors and employees safe, what to expect when you visit a branch, and more.
Next-Level Grad Gifts

Presents with the potential to keep on giving.

With graduation season upon us, you may be thinking of rewarding your new grad with a fancy keepsake or even a check—but why not consider something more purposeful?

“Cash, gift cards, or personal items are certainly fine gifts,” says Susan Bober, a Schwab wealth strategist based in Indianapolis, “but if you really want to help your grad get off to a good start, you might consider these gift alternatives that have the potential to last.”

1. **Help establish a Roth IRA**: A jump-start on retirement savings can help pave the way for financial well-being down the road. “A Roth IRA, in particular, is a great way to go because the money can grow tax-deferred during their working years, and withdrawals in retirement could be tax-free,” says Chris Kawashima, CFP®, a senior research analyst at the Schwab Center for Financial Research.

Note that your contribution toward a Roth IRA will be limited to your grad’s total earned income or the annual maximum ($6,000 in 2021 for individuals younger than 50)—whichever is less.

2. **Help them buy stock**: Introducing young people to the inner workings of the stock market is a lesson in financial
THE BOTTOM LINE

literacy. “Helping them invest a cash gift allows you to teach them important concepts, such as research, diversification, and rebalancing to maintain their ideal asset allocation,” Susan says.

Lighten their student loan load: Federal loan forgiveness measures may be on the horizon, but for now the average student loan debt is $37,693, according to Educationdata.org. Instead of contributing a lump sum, however, you might match their student loan payments for a specified period. “That way, they’re still on the hook for practicing good money habits like paying their bills on time,” Susan says.

Monetary gifts aside, one of the best things you can give a new grad is the benefit of insight. “Imparting some of your own hard-earned wisdom—including your mistakes—can help them make smarter financial decisions in their own lives,” Chris says.

NEXT STEPS

With Schwab Stock Slices™, your new grad can buy a fractional share of any company in the S&P 500® Index for as little as $5. Learn more at schwab.com/stockslices.

Understanding the Kiddie Tax

What to know if your child has unearned income.

Do your children have income-generating assets in a custodial account? If so, be sure you understand the so-called kiddie tax.

This law was passed to discourage wealthier individuals from transferring assets to their children to take advantage of their lower tax rates. The kiddie tax has seen many iterations (see “Refund, anyone?” at right), but current rules tax a minor child’s unearned income—including capital gains distributions, dividends, and interest income—at the parents’ tax rate if it exceeds the annual limit ($2,200 in 2021).

The tax applies to dependent children under the age of 18 at the end of the tax year (or full-time students younger than 24) and works like this:

- The first $1,100 of unearned income is covered by the kiddie tax’s standard deduction, so it isn’t taxed.
- The next $1,100 is taxed at the child’s marginal tax rate.
- Anything above $2,200 is taxed at the parents’ marginal tax rate.

If your child also has earned income, say from a summer job, the rules become more complicated. To learn more, see IRS Publication 929 (irs.gov/pub/irs-pdf/p929.pdf) or consult a tax advisor.

To qualify for tax-free withdrawals of earnings, account holder must be 59½ or older and have owned the account for at least five years.

Find more tax planning insights at schwab.com/taxes.
Making the Delist

What to do if a stock you own is delisted from a U.S. exchange.

A stock can be delisted—or removed from a major stock exchange—for a variety of reasons, including for failing to meet market-capitalization or share-price minimums. However, the issue made headlines late last year when the Holding Foreign Companies Accountable Act (HFCAA) required foreign companies to submit their financial audits to U.S. regulators—or face being delisted.¹

The law puts investors in the more than 200 U.S.-listed Chinese companies in a particularly precarious position because the Chinese government doesn’t allow outside oversight into its auditing processes.

So, what happens when a stock you own is in danger of being delisted—and what can you do in response? That depends on the reason for the delisting.

1. The company fails to meet listing requirements: You generally have a few options:
   - Hold and trade the shares via a dealer network—also known as over-the-counter trading (OTC)—rather than on a centralized exchange. That said, “Be aware that failing to meet minimum listing requirements may indicate a company is struggling, so reassess your reasons for holding the shares before going the OTC route,” says Randy Frederick, vice president of trading and derivatives at the Schwab Center for Financial Research.
   - If you’re holding delisted American depositary receipts or American depositary shares—which represent foreign ordinary shares (ORDs) owned by a sponsoring bank—you could either sell them back to the bank or ask the bank to convert the shares to ORDs, likely for a fee. ORDs can then be traded on a foreign exchange (if available) or OTC through your brokerage.
   - Sell your shares before the stock is delisted. (This is your only option if your shares are being delisted as a result of the HFCAA.)

2. The company files for bankruptcy: Bankruptcy commonly wipes out a company’s original shares, and usually shareholders aren’t entitled to newly issued stock as a replacement if the company emerges from bankruptcy. “You could see some cash from the liquidation of the company once creditors, bondholders, and preferred shareholders are paid out, but it’s likely to be only cents on the dollar,” Randy says. “A better approach is to keep close tabs on your holdings so you aren’t blindsided.”

Investing in stocks via an exchange-traded fund or mutual fund can help mitigate these and other risks by spreading your investment dollars across dozens or even hundreds of companies. “Plus, it’s the fund manager’s job to stay on top of important developments—including potential delistings,” Randy says.

¹As things stand now, securities regulators could bar trading in a company’s stock—including trading over the counter—if the company fails to provide the required documents for three consecutive years.

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.  †Investing involves risk, including loss of principal.  (0621-17GP)
The Other Roth

Three reasons you might want to consider a Roth 401(k).

According to the Plan Sponsor Council of America, two-thirds of employers now offer Roth 401(k)s as part of their retirement plans. If your employer is among them, you may be wondering how a Roth 401(k) differs from a Roth IRA.

“Both Roth IRAs and Roth 401(k)s are funded with after-tax dollars—meaning there’s no upfront tax benefit for contributing—but once you get to retirement, you can withdraw the contributions and earnings totally tax-free,” says Hayden Adams, CPA, CFP®, director of tax and financial planning at the Schwab Center for Financial Research. “However, Roth 401(k)s offer additional benefits that should not be overlooked.” Chief among them:

- **No income limits:** Anyone can contribute to a Roth 401(k), if available, regardless of income level. In contrast, only individuals earning less than $140,000 in 2021—$208,000 for married couples—can contribute to a Roth IRA. “Higher earners often access Roth IRAs by converting their traditional IRAs, but doing so can trigger a big tax bill,” Hayden says. “Saving in a Roth 401(k) could be a better way to go if the taxes on a Roth IRA conversion are prohibitive.”

- **Higher contribution limits:** In 2021, you can stash away up to $19,500 in a Roth 401(k)—$26,000 if you’re age 50 or older.² Roth IRA contributions, by comparison, are capped at $6,000—$7,000 if you’re 50 or older.

- **Matching contributions:** Roth 401(k)s are eligible for matching contributions from your employer, if offered. That said, your employer’s matching contributions are pretax and will be placed in a regular, tax-deferred 401(k) account, which means you’ll be taxed once you start taking distributions.

One disadvantage in choosing a Roth 401(k) is that you’ll have to take IRS-mandated required minimum distributions (RMDs) starting at age 72. To avoid these mandatory distributions and keep your money invested, once you leave your job you can roll over your Roth 401(k) into a Roth IRA, which is not subject to RMDs.³ Another drawback is that you’ll be limited to the investments offered by your company’s plan instead of the variety available with a Roth IRA from a brokerage. Investment fees may also be higher.

“Nevertheless, Roth 401(k)s can still be a great tool—especially for high-wage earners and/or those who anticipate higher taxes in retirement,” Hayden says.

³Account holder must be 59½ or older and have owned the account for at least five years. ⁴You may choose to split your contributions between Roth and traditional 401(k)s, but your combined contributions can’t exceed $19,500 ($26,000 if you’re age 50 or older). ⁵Be aware that the five-year rule applies to the length of time the Roth IRA has been open, regardless of how long the Roth 401(k) was open.
The way information is presented can influence our decision-making—sometimes to our detriment—thanks to a cognitive tic psychologists call the framing effect.

“Research has repeatedly shown that whether an investment’s performance is framed as a gain or a loss can push investors to buy or sell—irrespective of its objective merits,” says Mark Riepe, head of the Schwab Center for Financial Research.

One way to counter the framing effect is to use appropriate benchmarks. “For example, investors often judge assets by comparing their performance to that of a broad market index,” Mark says. “But using a broad market index won’t tell you how an asset performs relative to its peers or within its sector—a stock that has outperformed the S&P 500® Index may still be a laggard within its industry, for instance—or does it speak to the riskiness of the asset.”

Another strategy is to get back to basics. Say you’re interested in buying a stock that’s down 20% year to date but has recently enjoyed a strong run. Some investors might call that a loser. Others might see a winner. Both could be right depending on their time horizon.

A better approach is to ask whether the stock’s current market price accurately reflects the company’s earnings, growth potential, riskiness, and other fundamentals. Then look for counterarguments that might cause you to reconsider your conclusions, such as news that could alter the company’s growth trajectory.

Finally, it helps to judge every potential investment in the context of your other holdings. Will it add to areas of your portfolio that are already overweight? Or will it complement the finely tuned asset allocation you’ve assembled?

“Ultimately you want to focus on what really matters—and that’s whether an investment is a good fit for your long-term goals,” Mark says. “If you’re not sure, a financial advisor can help you zoom out and make clear-headed decisions.”

See page 42 for important information. • 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. (0621-1UPM)
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hen it comes to estate planning, a family home can be among the most valuable—and complicated—assets to pass down.

“It’s perfectly natural to want to see a cherished home stay within the family,” says George Pennock, director of trust services consulting at Charles Schwab Trust Company. “But you need to think about not only your own needs and wishes but also those of your heirs.”

For example, your child may love the family home and all the memories that go with it, but does he or she actually want to live there? If you have multiple heirs, is it realistic for them to co-own the property or will such an arrangement create conflict?

You also need to consider the role the house will play in your later years.

No Place Like Home
How best to pass on real estate to your kids.
“Do you plan to stay in the home, or is it possible you may need or want to move at some point?” George asks. “All of this factors into how—and whether—you transfer the property to your kids.”

With that in mind, here are three ways to pass along a home to your heirs—both during and after your lifetime.

1 **Sell it:** If you’re looking to move or put your home’s equity to use elsewhere, selling the home to a child or other heir could be a good option. Doing so removes the property from your taxable estate and establishes a new cost basis—meaning the capital gains on any future sale will be calculated using the value of the home on the date of the transfer rather than your original purchase price. “Be aware, however, that if you sell the home for less than its fair market value, the difference between the sale price and the market value could be subject to gift taxes,” says Marianne Hayes, CPA, a senior wealth strategist at Schwab.

2 **Gift it:** As generous as it is to gift a home to an heir during your lifetime, it could have negative tax repercussions. That’s because such a gift counts toward your lifetime gift tax exemption. That might not seem like an issue now that the combined gift and estate tax exemption is $11.7 million for individuals ($23.4 million for married couples) in 2021, but that number is set to come down by half starting in 2026, if not sooner. If that happens, such a gift could result in a federal estate tax of up to 40%, depending on the size of your estate. State-level gift, estate, and inheritance taxes could also be a factor, depending on where you live.

3 **Pass it down:** Generally speaking, there are three methods for leaving a home to your heirs:

- **Last will and testament:** You can use your will to designate to whom the home should go and in what proportions. That said, wills are required to go through probate—the sometimes lengthy and often costly legal process of validating your will—which can slow down the transfer of ownership to your heirs.

- **Transfer-on-death deed:** If probate is a concern, you may be able to sign a transfer-on-death deed—available in 29 states and the District of Columbia—which allows you to pass the property to your heirs outside probate upon your death.

- **Trust:** Another way to avoid probate is to transfer the property into a living trust, which has the benefit of allowing you greater control over how the property is managed and under what conditions it can be sold. The home would remain part of your estate until your death, at which time it would pass to your heirs outside probate.

However generous your intent, George warns that the bequest of a home can be an albatross if not accompanied by additional funds to help cover improvements, insurance, maintenance, and taxes—particularly if you plan to leave it to multiple heirs. “You don’t want to make your kids house rich and cash poor,” George says. “Nor do you want them fighting about the costs of ongoing maintenance and upkeep.” In such cases, setting aside funds in a trust dedicated for this purpose can help ensure the home is well maintained for years to come.

Regardless of the method you use to pass down the home, it will receive a new cost basis upon your death, meaning any capital gains taxes resulting from a future sale would be calculated using the fair market value at the time of the transfer.

**Talk it out**

Whether you sell, gift, or pass down your property, the transfer could trigger a reassessment of the home’s property taxes, so be sure to factor that into your plan—ideally with the help of an attorney or a tax advisor.

In addition to consulting financial professionals who can help you put your plan in place, “the most important thing you can do is to make sure all family members are part of the conversation,” George says. “That way, everyone has the chance to see their needs and wishes reflected in the plan for your home, which can avoid unnecessary conflict down the road.”

**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. Schwab & Co., Inc. (“Schwab”) is affiliated with Charles Schwab Trust Company (CSTC), the corporate trustee for Schwab Personal Trust Services (SPTS). (0621-1HJS)
Dear Reader,
If months of being cooped up at home have you dreaming of the open road, you’re not alone. Sales of recreational vehicles jumped 6% in 2020, with suppliers hustling to keep up with an even greater demand for 2021.

Interestingly, owners are getting younger, with the under-45 crowd representing the fastest-growing segment of RV owners. Indeed, we’ve come a long way from tossing a cooler and a couple of sleeping bags in a VW bus (as a colleague of mine nostalgically recalls

**Q**
Dear Carrie,
We’re a young family that wants to travel safely and cost-effectively. Is buying an RV a good idea? And where should we start?

**A**
Dear Reader,
If months of being cooped up at home have you dreaming of the open road, you’re not alone. Sales of recreational vehicles jumped 6% in 2020, with suppliers hustling to keep up with an even greater demand for 2021.

Interestingly, owners are getting younger, with the under-45 crowd representing the fastest-growing segment of RV owners. Indeed, we’ve come a long way from tossing a cooler and a couple of sleeping bags in a VW bus (as a colleague of mine nostalgically recalls

**Q**
Shopping for an RV?
Tap the brakes before you buy.

**A**
BY CARRIE SCHWAB-POMERANTZ
doing with her young family in the ’70s. Now we want a place to sleep in the wilderness and a modern office to take on the road.

But as much as you might love the idea of “RVing,” the reality of owning and maintaining an RV could become a bit of a financial headache if you’re not careful. Here are a few things to consider before buying an RV.

Be realistic about what you want
Understanding how—and how often—you’ll use the RV will help you determine the type to buy. Are you looking for basic amenities or deluxe features? Do you need space for an office or additional guests? Most important, how much RV can you afford? From a used camper van to a state-of-the-art motor home, the differences in features and cost can be staggering; prices can range from several thousand dollars to well over $500,000.

When you step aboard one of the new, completely decked-out models, you’ll be wowed. But remember: A brand-new RV, like any other vehicle, will likely lose a significant chunk of its value as soon as you drive it off the lot. So, before you open your wallet, take a deep breath and carefully evaluate your priorities.

Don’t underestimate ongoing costs
Let’s say you find the RV you want at a price you can handle. Have you thought about expenses beyond the purchase price? For example, the usual expenses that come with owning and driving a vehicle—gas, insurance, maintenance, registration, and repairs—could cost a lot more for an RV than they do a regular car or truck. Plus, having a large RV parked in your driveway may not sit well with the neighbors—and could even be against the rules in your neighborhood or city—so you may need to factor in storage costs, as well.

You may think that what you’ll save on typical vacation expenses like airfare, hotel bills, and restaurants will balance out these additional costs, and that’s a good point. But be sure to also factor in campsite fees and related charges like propane. And with the recent popularity of RV travel, you may have to reserve your campsites well in advance—which can undercut the thrill of spontaneously hitting the road.

If you plan to finance the purchase, also think about how much that loan will cost you over the long haul. Recent statistics show the average amount financed for an RV is $45,000, with terms typically ranging from five to 10 years—or as long as 20 years if your loan is in the hundreds of thousands of dollars. Choosing a longer-term loan can make the monthly payments more manageable, but it also means you’ll be paying more interest (see “Loan ranger,” above)—and rates for RV loans tend to be higher than those for auto loans.

Don’t let your other goals take a back seat
While I totally understand the allure of an RV, especially after the cabin fever we’ve all been experiencing, you should approach such a purchase as a financial decision like any other. Start by looking at your budget to see if and how it fits in—and remember, this is a want, not a need, and belongs on your nonessentials list.

Next, ask yourself what short-term trade-offs you’ll have to make to handle this new expense. If you finance the vehicle, will it increase your debt load beyond a manageable level? More important, are there any long-term consequences to consider? If the cost of buying and maintaining an RV will leave your savings for other goals running low—especially when the goal is retirement—it may be best to hit the brakes.

Try before you buy
You don’t have to own an RV to experience life on the road. National rental companies and marketplaces (similar to Airbnb) can point you to a range of RVs for hire in your area. Renting could mean the trip of a lifetime and convince you that buying an RV is right for you. Or it may help you avoid a major case of buyer’s remorse down the road.

Carrie Schwab-Pomerantz (@carrieschwab), CFP®, is president of Charles Schwab Foundation and senior vice president of Schwab Community Services at Charles Schwab & Co., Inc.

See page 42 for important information.

(0621-119E)
Most of us have an age at which we’d like to stop working—but what if circumstances change and retirement comes early? According to a 2020 survey conducted by the Employee Benefit Research Institute, nearly half of retirees reported leaving the workforce earlier than anticipated.
That said, just because early retirement isn’t part of your plan doesn’t mean it isn’t doable. So, how do you know if you’re adequately prepared for early retirement? Follow these steps to find out.

**Step 1**
**Review your finances**

To begin, ask yourself four questions:

- **What are my expenses now?** It can be helpful to split your current expenses into two categories: must-haves like groceries and housing, and nice-to-haves like eating out and travel.

- **How will my expenses change in retirement?** While some costs, such as payroll taxes and retirement contributions, will go away, others, particularly health care, are likely to increase. Also factor in the potential for major one-time expenses, such as a child’s wedding, a new car, or a roof replacement. And don’t overlook the cost of long-term care—which roughly 70% of retirees will require at some point in their lives, according to longtermcare.gov.

- **What’s my potential income?** Tally up income from pensions, Social Security, and any other nonportfolio sources. Subtract that number from your target annual income to determine how much money you’ll need to generate from your portfolio. For example, if you need $90,000 a year in income and expect to receive $40,000 from nonportfolio sources, you’ll need $50,000 from your portfolio to meet your spending needs.

- **What about health care?** If you’re no longer covered by your employer-sponsored health insurance, you’ll need coverage until you become eligible for Medicare at age 65. Health care can take a big bite out of your income, so make sure to compare all available options, including COBRA, private insurance, and your spouse’s plan, if available. You may also be eligible for discounted coverage through organizations such as AARP.

**Step 2**
**Assess your portfolio**

Now that you have a clear picture of your income needs, ask yourself three questions to help determine the overall strength of your portfolio:

- **Am I prepared to weather a downturn?** Having adequate short-term reserves can help you avoid having to make a portfolio withdrawal during a bear market. We suggest having enough cash on hand to cover a year’s worth of retirement expenses, plus another two to four years’ worth of spending needs in short-term investments such as certificates of deposit and Treasury bills.

- **Is my withdrawal rate sustainable?** Keep in mind the 4% rule, which says that withdrawing 4% of your portfolio in your first year of retirement—and adjusting that number annually for inflation—will give your portfolio a high probability of lasting 30 years. Thus, if you want to withdraw $50,000 in your first year, a $1.25 million portfolio ($50,000/0.04) has a good chance of seeing you through retirement. Be aware, however, that this rule is conservative and doesn’t account for fluctuations in spending or market performance. A financial planner can help you develop a retirement plan, including a personalized spending rate based on your needs and time frame.

- **Is my asset allocation in line with my time horizon, risk capacity, and risk tolerance?** Maintaining a diversified, balanced portfolio becomes even more important in retirement to help prevent taking on too much—or too little—risk. For example, if you’re facing a retirement that could last a decade longer than planned, holding more stocks in the early years will help guard against the risk of outliving your savings. Just be sure you take a more conservative approach with the money you’ll need to tap in the next few years. Striking a balance between short-term income needs and longer-term growth is critical in retirement.

**Step 3**
**Dig into the details**

Making the shift from saving to spending can be challenging under the best of circumstances. The key is to plan your retirement with as much detail as possible.

Making the shift from saving to spending can be challenging under the best of circumstances. The key is to plan your retirement with as much detail as possible—as well as with the understanding that you can’t predict everything and will likely need to make changes as your needs come into focus. A planner can help you take a hard look at your finances and make the necessary adjustments to keep your retirement on track—no matter when it hits.
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The State of Munis

Why local governments are proving more resilient than expected.

By Cooper Howard

When the COVID-19 pandemic struck in early 2020, state and local officials braced for the worst. With tens of thousands of businesses shuttered nearly overnight, millions of Americans out of work, and concerns that tax revenues would soon be in steep decline, many analysts feared the municipal bond market could face a tsunami of defaults.

But as 2020 wore on, state and local governments appeared to be holding up better than expected, due in part to Congress’ quick action to blunt the economic impact of the crisis. In particular, the Coronavirus Aid, Relief, and Economic Security (CARES) Act established a $1.9 trillion Coronavirus Relief Fund to help state and local governments pay for expenses incurred due to COVID-19. The CARES Act also provided small-business grants, temporary medical facilities, and unemployment benefits, which further softened the economic blow.

What’s more, higher-earning individuals remained disproportionately employed, and real estate and equity markers bounced back fairly quickly—all of which helped buoy tax revenues in certain states (see “Glass half full,” right).

As a result, the municipal bonds issued by state and local governments proved similarly resilient, with defaults in 2020 tracking well below the totals realized in the wake of the Great Recession.

The worst may be behind us

Indeed, credit risks in the muni market are waning, largely due to the recently passed $1.9 trillion relief package, which provided substantial direct aid to many muni issuers. It also contained a number of provisions to help support economic growth, which should eventually flow to many municipalities via higher income, sales, and other tax revenues.

However, if state and local governments do struggle, we’re likely to see an increase in rating downgrades rather than defaults: 49 out of 50 states are legally required to balance their operating budgets—Vermont being the lone exception—and spending cuts aren’t likely to affect debt payments, which often have strong legal protections. Which is to say that a downgrade isn’t a problem—it signals that an issuer’s ability to meet its debt service has weakened in the opinion of the ratings agencies, possibly to the point that its bonds are no longer suitable for your situation.

And, despite an improving credit outlook for many issuers, it’s important not to paint the whole muni market with the same broad brush. Indeed, credit risks in the muni market prove similarly resilient, with defaults in 2020 tracking well below the totals realized in the wake of the Great Recession.

Glass half full

Despite the economic crisis brought on by COVID-19, nearly half of all states saw year-over-year increases in tax revenues from April through December 2020.

in sectors that already had a fair amount of risk before the pandemic, such as those issued by unrated health care and hospital issuers. Going forward, bonds backed by tax revenues that were significantly impacted by the pandemic—such as hotel occupancy taxes—may put such bonds at higher risk, at least in the short term.

For the time being, it may make sense to stay away from issuers whose risks are similar to those faced by the private sector or those that have such narrow tax pledges behind them. You can find the revenue sources for a given muni bond in its official statement.

Mind your risk

Although credit risks are lower now, it’s wise to focus the bulk of your portfolio on issuers rated A/AA and higher, with some exposure to issuers at the lower end of the investment-grade spectrum (BBB/Baa) if your risk tolerance allows it.

Brace yourself

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It can be difficult to keep our emotions from upending our decision-making—especially when we have money on the line. The problem is particularly acute for stock traders, who can often find themselves in emotionally charged situations with considerable sums at stake.

Here's how to take a clear-headed, more-considered approach to four potentially fraught trading situations.

**You’re holding on to a loser**

Research has shown that losing money is roughly twice as painful, emotionally speaking, as gaining it is pleasurable—a psychological effect known as loss aversion.

**The fix:** A common trading maxim applies here—cut your losses short and let your winners run. The best way to do so is to create an exit...
strategy *before* you place a trade, such as setting a stop-limit order to automatically sell if the stock drops to or beyond the limit price—say, 5% or 10% below what you paid. (Note there is no guarantee that a stop-limit order, once triggered, will result in an order execution.)

Making this kind of upfront commitment can help remove your emotions from the selling process. (For more on commitment devices, see “Impulse Control,” page 28.)

For positions you already hold, ask yourself: Would you buy the stock at its current price if you didn’t already own it? If the answer is no, it’s probably time to sell.

- Learn more about stop and stop-limit orders at schwab.com/stoporders.

### You’ve had a string of losses

Losing streaks can happen to the best of us, but sometimes a bout of bad luck can actually be a problem with our trading strategy. Attributing successes to our own skills but failures to uncontrollable outside forces is known as self-attribution bias.

**The fix:** To begin, make sure you know whether you’re losing or making money on a net basis, then look for patterns in your wins and losses.

For example, if your winning trades employ fundamental analysis and your losing trades are based on technicals, you might want to focus more on fundamentals for a while.

As you work to figure out what needs fixing, there’s no harm in reducing the size of your trades. Once your results get back on track, you can increase your risk-taking.

- If you have a Schwab Trading Services™ account, you can track your ratio of gains to losses using the Gain/Loss Analyzer tool. Log in to schwab.com, click the Trade tab, then the Trade Source tab.

### The market is tanking

Few scenarios trigger hasty or irrational decisions quite like a massive market decline. As panic sets in, greed, loss aversion, and wishful thinking can all collide. Instead of performing our usual due diligence, we allow price alone to dictate our trade decisions, believing it’s an opportunity for quick and easy gains. At the same time, we may double down on losing positions in the hope that the market will rebound quickly—and our trades along with it.

**The fix:** First, don’t overlook the possibility that the downtrend could continue. Rather than getting into a trade while the market is falling, consider waiting for a few consecutive positive days before opening a new position. And be sure to do your usual homework on any stock you’re considering—bargain-basement prices alone aren’t reason enough to buy a stock.

- Schwab Equity Ratings® can help you identify stocks that have the potential to outperform or underperform the market. To view a stock’s Schwab Equity Rating, log in to schwab.com and enter its ticker symbol.

### The market is soaring

Biases don’t just rear their heads when we’re under stress—strong bull markets, too, can trigger a host of suboptimal responses, including over-confidence, self-attribution, and herd mentality. In such cases, many traders let positions stay open too long, even when they’ve surpassed their profit targets. Some even cash out long-term positions to free up more funds to trade, potentially exposing themselves to unwanted risk.

**The fix:** Above all, remember that gains aren’t gains until you’ve sold the position at a profit, so don’t let a trade stay open too long.

Also keep an eye out for red flags that might lead to a reversal. It can be tempting to take on more risk when prices are rising, but doing so can leave you overexposed if an unexpected correction occurs.

And finally, be sure you’re not risking too much of your investment capital in your trading portfolio. Many traders like to set a limit, such as not taking positions that represent more than 20% of their overall taxable portfolio.

- To determine what percentage of your portfolio a single stock represents, log in to schwab.com/positions.

### Wait and deescalate

The point here is not to become a robot but rather to be on the lookout for those times when emotions can get the best of us.

If you have trouble distancing your emotions from your trading decisions, it’s never a bad idea to slow down or even take a break. Cooler heads usually prevail, and trading is no exception.

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Americans are on the move. Beware these four common mistakes before you follow in their footsteps.

Migration Nation

Americans are pulling up stakes—motivated in part by the shift to remote work, which went from the exception to the rule over the past year. Indeed, some 14 million to 23 million people are expected to move this year to take advantage of new work-from-home opportunities. Add to that the rising cost of living in many major cities and the heightened risk of climate disaster threatening others, and moving may become relatively commonplace in the coming years.

Regardless of your reasons for moving, it pays to do some financial and tax planning long before you start packing. “Moving is stressful enough without encountering hidden costs,” says Hayden Adams, CPA, CFP®, director of tax and financial planning at...
Underestimating housing costs

"Housing costs are going to be the core component of anyone’s budget," says John Byers, CFP®, a financial planner at Charles Schwab. “It’s easy enough to plan for your monthly mortgage or rent payment, which is generally fixed, but smaller, more variable housing expenses can really add up.”

By the Numbers

| 11.7 | Number of times the average American moves in her or his lifetime. |

19.7% | Porcentage of people who move who do so for job-related reasons. |

$4,900 | Average cost of an interstate move. |

By the Schwab Center for Financial Research. “So, it’s really important to do your due diligence, or you’ll spend wind up in a position that throws your finances out of whack.”

With that in mind, here are four common mistakes to avoid when making your next big move.

Mistake No. 1: Underestimating housing costs

"Underestimating housing costs is a mistake many make," says John. “You should typically plan to pay more than 28% of your pretax income for half or more of your total housing budget, so be particularly mindful of how cooling or heating could affect your overall costs, such as trash, water—such costs can add up quickly and vary based on your location and other considerations.”

Mistake No. 2: Underestimating taxes

It’s also important to consider a state’s total tax structure. "For instance, a state with no income tax may compensate with higher estate, property, and/or sales taxes," Hayden says. Also look at how your potential new state taxes things like dividends, investment income, and stock options.

New York, for one, requires remote workers of companies based in the state to pay income taxes, even if the employee lives elsewhere. Work with a tax advisor to determine whether you need to withhold taxes and to pay estimated taxes in multiple states, as well as with your employer’s payroll office to handle any necessary paperwork.

It’s also important to consider the tax consequences of moving. For a more realistic estimate, example, a state with no income tax may be more affordable than a full-service preschool—and both may be less expensive than a nanny.

New Mexico, North Dakota, Rhode Island, Utah, Vermont, and West Virginia.

You should also look into estate taxes. While the federal exemption is currently $11.7 million ($23.4 million for married couples), that number is set to come down by half starting in 2026, if not sooner. What’s more, some states have estate taxes starting at $1 million.

Mistake No. 3: Underestimating the cost of living

A lot of people assume their everyday expenses will last the same when they relocate to a new area, but that’s not always the case. John says, “I’ve lived in several states where it became clear that the differences in cost of living across state lines can be quite staggering.”

Depending on your needs, consider the cost of:

■ Child care: For working parents, the cost of full-time day care or mortgage payment. That said, you’ve got options: An in-home day care could be more affordable than a full-service preschool—and both may be less expensive than a nanny.

■ Health care: If your employer offers health insurance, medical expenses may be less of a consideration for you—though, like everything else, costs vary widely by area and provider. Retirees will want to pay particular attention to the cost and quality of medical care, as well as options for assisted living and nursing care.

■ Transportation: Beyond the cost of gasoline, which can vary by dollar or more per gallon, consider the price of car insurance and registration. Some states, such as California, may also require you to pay a one-time sales tax on vehicles purchased out of state within a year of your move. Also, if you’re moving into an area without ample public transit, don’t forget to factor in the cost of more regular maintenance on your vehicle.

■ Food: It may sound incidental, but the cost of groceries, too, can vary widely by location. For example, costs may such as $4.69 in Hawaii and as little as $0.93 in Illinois. And if you’ll be living in an area with limited agriculture, expect to pay more for fresh fruits and vegetables, in particular.

Also consider cost and access to non-essential expenses that can enrich your quality of life, such as entertainment and especially travel. For example, how much does it cost to fly from your new home to Eight Flags, Baptist, or St. Andrews? Do you want to see your family in another state? All of these costs should play a part in your decision-making.

And one that your combined living expenses don’t undermine your ability to save for the future. “For example, a good rule of thumb is to set aside at least 10% to 15% of your income for retirement,” John says. “Not even moving should get in the way of that goal.”

Mistake No. 4: Overestimating job prospects

Many people have a job lined up before they move, but you should still do a thorough assessment of the employment market in your area of expertise. “What happens if your company downsizes or you want to change your employer or career path?” John asks. “It’s always good to plan for change.”

Also be sure to educate yourself about your new state’s employment laws—including dependent benefits, discrimination prohibitions, and labor protections. “These can have a significant impact on your employ- ment situation, so it’s good to know your rights before you make a move,” John says.

More than money

If your due diligence has you questioning if a move is, in fact, reasonably to stay put—or to reassess your goals. “As with so many things in life, you have to weigh the trade-offs,” John says. “Maybe you wait to move until your kids go to college, or you settle for a different city or neighborhood. It doesn’t have to be all or nothing.”

Equally by choosing a move that increases your taxes or overall cost of living can still be worthwhile if it offers a better quality of life. After all, moving isn’t just about money.”

"Many Americans equate relocation with moving forward in life," John says. "And with the right foresight and plan- ning, want to pay your mortgage, there should be the case with your next move."
Impulse Control

How to curb the self-defeating behaviors that can get in the way of your goals.

In 2002, Omar Andaya was the president of Green Bank, one of the largest retail banks in the Philippines. And he faced a challenge common to banking executives: how to boost his customers’ saving rate in an 填充空格 style account. This bothered Omar immensely for two reasons. First, he recognized that undersaving exposes customers to dire consequences. Second, customers with meager savings were bad for his bank’s finances. Fixing the problem would help both his customers and his business.

But the thing is, getting people to save more money is really hard. Even in the United States, which is much wealthier than the Philippines, one in three families in 2014 had no money saved whatsoever, and 41% of families wouldn’t have been able to cover an unexpected $2,000 expense. Around the time Omar took over Green Bank, about 31% of all families in the Philippines fell below the poverty line.

So he was excited when in 2002 a friend put him in touch with three topflight academics from North America who studied consumers in developing economies. They had a proposal for how to increase Green Bank’s customers’ savings rates. There was just one small problem. A lot of people who heard their pitch thought it was crazy.

The academics told Omar that he should give customers the opportunity to put their savings in a ‘locked’ bank account—an idea that had been refined through extensive focus groupings. This kind of account would be the same as other savings accounts Green Bank offered, earning the same interest rate. But it would come with an important twist: customers who chose it would be forbidden from taking money out of the account until a future date they selected or until they reached a self-selected balance. The accounts would be like financial chastity belts.

Omar decided to take a calculated risk on locked accounts. He let the academics who’d pitched the new savings product offer it to a few hundred Green Bank customers as an experiment, and they’d see what happened. When the results came back, Dean Karlan, one of the study’s leaders, told me he was floored. Compared with the control group, those offered access to locked accounts saved 80% more over the next year. In other words, if a customer in the control group saved $100, a comparable customer with access to a locked account saved $180. That’s a really big difference! The numbers are even more impressive when you consider that only 28% of customers offered access to locked accounts actually opened one. That means a relatively small number of people in the group offered locked accounts saved so much money that they vastly boosted the savings of the whole population.

The idea for Green Bank’s locked accounts didn’t come out of nowhere. History is littered with stories of people (mythical and real) who relied on similar techniques to resist temptation. Behavioral scientists call these techniques ‘commitment devices.’ Anytime you do something that reduces your own freedoms in the service of a greater goal, you’re using a commitment device.

The data are clear—commitment devices that help you put teeth behind a goal, like Green Bank’s locked savings accounts, can be something of a godsend. They help us change our behavior for the better by locking us into choices we make when we’re clearer headed about what’s good for us, not when we’re hot-headedly reacting to an imminent temptation, and they keep us from indulging in the temptation to misbehave later on.

Check out the Choiceology episode “The Price of Your Vice” to learn more about the science behind commitment devices. Find it along with the rest of Seasons 1–7 at schwab.com/choiceology.

As this example illustrates, commitment devices are a proven way to make meaningful progress toward your savings goals. So, what sorts of commitment devices can you deploy in your own finances?

Mark Riepe, head of the Schwab Center for Financial Research, says any type of commitment device can help boost your savings. “The consequences of breaching a commitment need to be pretty severe,” he says. “That’s why 401(k)s and IRAs are such effective savings vehicles—the 10% early-withdrawal penalty helps deter people from tapping the funds before retirement.”

Health savings accounts and 529 college savings plans are two other types of special-purpose vehicles that can help lock up your savings for specific goals.

Another strategy is to set up automatic, recurring contributions to your savings accounts. “When you combine automatic contributions with locked accounts, you’re doubling down on the commitment,” Mark says. “Sure, you could turn off the contributions at any time, but it’s easier to stay committed when it just happens automatically.”

Whatever methods you choose, Mark says you can further raise the stakes by sharing your intentions with family friends, or even a financial planner. “No one wants to admit that they didn’t achieve what they set out to do, and that little added pressure could be all it takes to get the commitment to stick,” he says.

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The Inflation Effect

Why an uptick in prices could be good for investors.

Illustration by Klaus Kremmerz
If you’ve been paying attention to market chatter, you’ve probably noticed that inflation concerns are picking up. Should you be worried?

Kathy Jones, Schwab’s chief fixed income strategist, doesn’t think so. “The COVID-19 vaccine rollout and $1.9 trillion relief package are fueling economic activity, which is by all means a great thing,” she says. “Yes, we may see a slight uptick in inflation, but we believe it’ll be mild and temporary.”

That’s because demand for goods and services needs to exceed the economy’s ability to produce them before prices will truly tick up and stay there. And with millions of Americans still out of work, demand isn’t likely to reach pre-pandemic levels anytime soon.

In fact, inflation has remained stubbornly below the Federal Reserve’s 2% target for nearly a decade, even as unemployment fell to a 50-year low in the months leading up to the pandemic (see “Keeping the economy aloft,” far right). “As a result, a sustained move back to the 2% to 4% range would actually be a welcome development,” Kathy says, “not just for the Fed but for investors, as well.”

How so?

According to an analysis by Charles Schwab Investment Advisory (CSIA), inflation in the 0% to 2% range tends to erode stock and bond returns, whereas both asset classes perform best when inflation is in the “normal” range of 2% to 4% (see “The sweet spot,” right). It’s not until inflation moves beyond 4% that stock and bond returns suffer.

However, with inflation at just 1.3% as of January 2021, prices would need to increase at more than double the current rate before we would begin to see negative effects in the stock and bond markets. Even if the average rate of inflation remains below the Fed’s target rate, the prices of particular goods or services could swing in different directions.

In August 2020 alone, for example, the cost of health insurance jumped 17.4% from a year earlier, according to the U.S. Bureau of Labor Statistics’ Consumer Price Index—compared with 11% for major appliances and just 4% for used cars and trucks. On the flip side, the cost of fuel oil fell 23.6% and apparel was down 5.9%. These disparities were masked by the modest 1.3% increase in all prices covered by the index that month.

The sweet spot

Since 1976, stocks and bonds have fared best when inflation was between 2% and 4%.

- When inflation was low (0%–2%)
- When inflation was normal (2%–4%)
- When inflation was high (4%+)

What you can do

Uncertainty about the future and the asymmetries of inflation in the present highlight just how important it is to have a plan in place for whichever way inflation goes. While it would be difficult, if not impossible, to try to adjust your portfolio to match every shift in economic conditions, maintaining a diversified portfolio could be a strong defense.

For your stock investments, that means exposure to businesses and sectors that may shine in different economic conditions. For example, commodities, consumer discretionary stocks, and real estate tend to do well during periods of high inflation, while consumer staples and growth-oriented businesses like technology tend to outperform during periods of low inflation.

The logic of diversification also applies across countries. A lot of clients have asked me, “With the U.S. stock market doing so well, why do I even need to diversify?” says Veera Periawan, managing director of multi-asset research for CSIA. “But the fact is, exposure to a wide variety of asset classes and markets often adds up to a better risk-adjusted return.”

Looking ahead, returns from U.S. small-cap stocks, in particular, are expected to surpass those from U.S. large-cap and international stocks over the coming decade—which boosts the argument for maintaining a well-diversified portfolio (see “The new return landscape,” above right).

The new return landscape

Charles Schwab Investment Advisory predicts substantially lower returns across asset classes in the coming decade vis-à-vis the previous 50 years.

- Average annual return over the past 50 years (1970–2020)
- Projected annual return over the next 10 years (Jan. 2021–Dec. 2030)

Instead of returns to the upside, the Federal Reserve has determined that inflation of 2% is “most consistent” with its twin mandates of maximum employment and price stability. As the Fed puts it, “When households and businesses can reasonably expect inflation to remain low and stable, they are able to make sound decisions regarding saving, borrowing, and investment, which contributes to a well-functioning economy.”

Price stability is an essential part of a sound economy. When the prices of goods and services are allowed to increase at a slow and stable rate over time, businesses can invest in growth and innovation—reasonably secure in the knowledge that they can charge more tomorrow than they can today—while households can be confident that rising prices won’t blow a hole in the family budget and hinder saving.

Need help building and managing a broadly diversified portfolio? Call your Schwab financial consultant today.

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How to use the instruments of estate planning to create a more harmonious life and legacy.
Trusts

A revocable living trust allows you to retain control of your assets during your lifetime—as well as determine how the assets will be distributed after you pass. What’s more, assets placed in a trust bypass probate, the time-consuming and personally costly legal process used to validate a last will and testament (see No. 4). If you have concerns about your beneficiaries receiving money in a lump sum—which is what happens with benefi-
ciary designations (see No. 5)—you may want to create a trust, which can specify how and when assets are to be dis-
tributed,” says Shirley Raen, a financial planner for Schwab. “Particularly for minors or adult children with credit or spend-
ing issues, a trust can provide protection for your assets and your heirs.”

If you do create a trust, be sure to designate a successor trustee. It can be an individual, a professional, or a combination thereof (see “Perfect strangers,” far right)—who can step in to manage the trust’s assets if you become incapacitated and after you pass away. “When it comes to trusts, a power of attorney designation alone isn’t enough because it may be limited in scope and will end when you pass,” Benjamin says. “Naming a successor trustee ensures seamless management of your trust assets in the event you’re unable to perform the duties yourself.”

Perfect strangers

Three reasons why a corporate trustee might make sense.

People often select a family member to take on the responsibility of managing their trust and the distribution of assets after they’re gone. But there are several reasons choosing someone outside the family fold might be the wiser move.

1. To establish a backup

“The impact that COVID-19 has had on entire families has made us all think of additional contingencies when it comes to health care directives and trustees,” says Shirley Raen, a financial planner for Schwab. “Think of a corporate trustee designation as a backup to your backup.”

2. To potentially reduce taxes

“With your trustee is located can be partic-
ularly advantageous. “That’s because certain

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Wills

“If you don’t have a last will and testament, the state decides who gets what after you’ve passed,” says Bob Barth, a Schwab wealth strategist. “What’s more, a will can des-
ignate guardianship for a minor child (or other dependents, such as a special-needs-fund families, or a safeguarded taboo,” Theresa says. “But once clients go through the process, I can always sense from them an immense feeling of relief knowing that a plan is firmly in place.”

“Creating powers of attorney for financial and medical decisions is part of the basic foundation of any estate plan,” says Theresa. “If you have concerns about who’ll manage your affairs, who’ll pay your bills, or who’ll sell your house, you need a power of attorney.”

Powers of attorney

Everyone needs to consider establishing powers of attorney. For example, if you’re not able to handle your affairs, who’ll manage your investments? Who’ll pay your bills? Equally important, who will be able to make health care decisions granted to the designated person or persons should you become unable to do so?

Powers of attorney come in four principal forms—each of which gives you—designated a different level of control:

1. General, in which the designated person or persons can perform almost any act the principal can, from opening accounts to selling assets. A general power of attorney typi-
cally expires when the principal becomes incapacitated, revokes the power of attorney, or dies.

2. Limited or special, in which the designated person or persons can act on behalf of the principal in only certain areas, such as selling a home. When it comes to medical affairs, a spouse is typically able to make decisions for you without a power of attorney in place, but you may make sense to designate one. “Older couples, in particular, may want to designate an adult child who can help make tough medical decisions, either in conjunction with dad or mom or in lieu of them should both become incapacitated,” Benjamin says. “Plus, naming multiple powers of attorney can help ease the emotional burden that a sole power of attorney might other-
wise feel.”

3. Springing durable, in which the designated person or persons can perform almost any act the principal can—under specific circumstances, such as when the principal becomes incapacitated.

4. Durable, in which the powers given to the designated person or persons typically persist even if the principal becomes incapacitated. Durable powers of attorney can be general or limited in special scope.

Benjamin says, “If you do create a trust, be sure to designate a successor trustee. It can be an individual, a professional, or a combination thereof (see “Perfect strangers,” far right)—who can step in to manage the trust’s assets if you become incapacitated and after you pass away. “When it comes to trusts, a power of attorney designation alone isn’t enough because it may be limited in scope and will end when you pass,” Benjamin says. “Naming a successor trustee ensures seamless management of your trust assets in the event you’re unable to perform the duties yourself.”

4. Bank accounts (via a payable-on-death designation)

5. Certain taxable accounts (via a transfer-on-death designation)

6. Life insurance policies and retirement accounts

7. Real property in some states (via a transfer-on-death deed)

“With such designations in place, the asset can transfer to your heirs without delay,” Theresa says.

Indeed, beneficiary designa-
tions override even your will, which is one reason you’ll want to review them regularly es-
cially after a major life event. “The last thing you want is to inadvertently leave money to the wrong person, such as an ex-spouse,” Theresa says.

States for important information.

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See page 42 for important information.

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- Direct ownership of securities through a separately managed account structure.

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- Get quotes and manage investments
- Lock your debit card
- Check your personal value
- Add to your watchlist
- Find answers to common investing questions
- Access support 24/7

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BORROW AGAINST YOUR SECURITIES WHILE STAYING INVESTED

MARGIN LOAN
Borrow against your portfolio to buy securities or access cash quickly for short-term personal or business needs:

- Minimum of $2,000 in cash or marginable securities to start
- Competitive rates and a flexible repayment schedule
- No setup fees or credit checks to add a margin loan to your brokerage account

Margin loans are available through Charles Schwab & Co., Inc.

PLEDGED ASSET LINE
Leverage the value of your portfolio for larger, planned expenses like a new home, purchase, college, or business needs with this flexible non-purpose line of credit from Schwab Bank:

- Line amounts from $100,000 (required minimum initial advance of $70,000)
- Competitive rates and monthly interest-only payments
- Easy online application

Entering into a Pledged Asset Line and pledging securities as collateral involve a high degree of risk. Before you decide to apply for a Pledged Asset Line, make sure you understand the risks.

BORROW FOR HOME LENDING NEEDS AND EXPLORE EXCLUSIVE DISCOUNTS

MORTGAGE
Achieve multiple financial and personal goals—such as building home equity and planning for retirement—with a mortgage provided by Schwab Bank’s home loan provider Quicken Loans

- Exclusive discounts through Schwab Bank’s Investor Advantage Pricing with increased potential savings on interest rates based on your qualifying assets with Schwab
- Access to a Schwab Bank and Quicken Loans team solely dedicated to serving Schwab clients

HOME EQUITY LINE OF CREDIT (HELOC)
Tap into your home’s equity to make home improvements, consolidate debt, supplement your emergency fund in a time of need, or achieve other financial goals with a HELOC provided by Quicken Loans:

- Competitive rates
- No prepayment penalties or balance requirements
- Convenient access to funds using HELOC account checks

See page 42 for important information.

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Next Steps
Learn more about how smart debt can be part of your financial strategy at schwab.com/strategic-borrowing.
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Pg. 40–41: Continued from disclosures on pg. 41. • 3. For home lending: in order to participate, the borrower must agree that the lender, Quicken Loans, may share their information with Charles Schwab Bank and Charles Schwab Bank will share their information with the lender Quicken Loans. Nothing herein is or should be interpreted as an obligation to lend. Loans are subject to credit and collateral approval. Other conditions and restrictions may apply. This offer is subject to change or withdraw at any time and without notice. Interest rate discounts cannot be combined with any other offers or rate discounts. Hazard insurance may be required. • 4. Investor Advantage Pricing (IAP): Loans are eligible for only one IAP discount per loan. Select mortgage loans are eligible for an interest rate discount of 0.250%–0.750% based on qualifying assets of $250,000 or greater. Discount for ARMs applies to initial fixed-rate period only. Qualifying assets are based on Schwab and Schwab Bank combined account balances, including select brokerage, bank, and retirement accounts. For more information, please visit schwab.com/IAP. • 5. Home equity lines have a 10-year draw period followed by a 20-year repayment period. During the draw period, monthly payments of accrued interest are required. Payments will increase if rates increase. At the end of the draw period, your required monthly payments will increase because you will be paying both principal and interest. You may not use this home equity line as a bridge loan, for commercial purposes, to invest in securities, or to repay a margin loan. • HELOC Terms: First lien standalone HELOCs are available. Second lien standalone or piggyback HELOCs are available with an eligible Schwab Bank first lien loan. As of 03/16/2020 the annual percentage rate (APR) for a primary residence HELOC opened simultaneously with your first mortgage loan—also known as piggyback loan—is 3.00%. Rates vary for second homes, vacation homes, or HELOCs opened as standalone accounts. The APR on your home equity line of credit is variable based upon the Wall Street Journal Prime Rate plus a margin. The maximum APR that can apply is 18% or the maximum amount permitted by state law, whichever is less. The minimum credit line amount is $50,000 or the minimum amount permitted by state law, whichever is less. The maximum credit line is $1,000,000. Additional terms and conditions apply. Please contact your Schwab Bank representative for assistance regarding eligible loan types. • HELOC Fees: The estimated range for fees you may pay is from $0.00–$29.00 for every $1,000 of your line amount and will vary based on the location of the property. The amounts provided are estimates and are not a substitute for initial disclosures of closing costs that you will receive once you apply for a home equity line of credit with Quicken Loans. Proof of proper and adequate insurance may be required prior to closing. You are responsible for paying any state, county, or local taxes imposed on a home mortgage transaction. • Quicken Loans, LLC; NMLS #3030; www.nmlsconsumeraccess.org. Equal Housing Lender. Licensed in 50 states. AL License No. MC 20979, Control No. 100152352. AR: TX: 1050 Woodward Ave., Detroit, MI 48226-1906, (888) 474-0404; AZ: 1 N. Central Ave., Ste. 2000, Phoenix, AZ 85004, Mortgage Banker License #BK-0902939; CA: Licensed by Dept. of Business Oversight, under the CA Residential Mortgage Lending Act and Finance Lenders Law; CO: Regulated by the Division of Real Estate; GA: Residential Mortgage Licensee #11704; IL: Residential Mortgage Licensee #4127 - Dept. of Financial and Professional Regulation; KS: Licensed Mortgage Company MC.0025309; MA: Mortgage Lender License #ML 3030; ME: Supervised Lender License; MN: Not an offer for a rate lock agreement; MS: Licensed by the MS Dept. of Banking and Consumer Finance; NH: Licensed by the NH Banking Dept., #6743MB; NY: License #626; NJ: New Jersey – Quicken Loans, LLC, 1050 Woodward Ave., Detroit, MI 48226, (888) 474-0404, Licensed by the N.J. Department of Banking and Insurance.; NY: Licensed Mortgage Banker – NYS Banking Dept.; OH: MB 850076; OR: License #ML-1387; PA: Licensed by the Dept. of Banking – License #21430; RI: Licensed Lender; WA: Consumer Loan Company License CL-3030. Conditions may apply. Lending services provided by e2000–2021 Quicken Loans, LLC, a subsidiary of Rock Holdings Inc. “Quicken Loans” is a registered service mark of Intuit Inc., used under license. ©2021 Charles Schwab & Co., Inc. All rights reserved. Member SIPC. (0621-16KD)
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churning market can become a breeding ground for bad decisions if investors let their emotions get the better of them. The COVID crash in early 2020—when the market fell by more than 30% in a matter of weeks—is one such example. A big drop like that often elicits panic selling, but fleeing the market when times get tough could make it harder to reach your goals.

The Schwab Center for Financial Research found that an investor who started 2020 with a $100,000 portfolio and missed the 10 best days of stock market performance would have ended the year with $51,000 less than if she’d stayed invested the entire time—despite the 30% drop.\(^1\) Indeed, five of the best days occurred alongside five of the worst—meaning those who sold to avoid further losses missed out on a meaningful recovery.

Figures like these are a good reminder that sticking to your plan, even when things look grim, is often the best course of action. Crises pass and turbulent markets eventually stabilize—and those who remain steadfastly invested are often the better for it.

\(^1\) Schwab Center for Financial Research with data from Morningstar. The year began on the first trading day in January and ended on the last trading day of December, and daily total returns were used. Returns assume reinvestment of dividends. Fees and expenses would lower returns. When out of the market, cash was not invested. Market returns are represented by the S&P 500 Index, an index of widely traded stocks. Top days are defined as the best-performing days of the S&P 500 during 2020.

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