How much do you really need to retire?
Page 13

The new rules of cybersecurity.
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How investors can turn the post-pandemic landscape to their advantage.
Page 24
Dear Client,

We may not be fully past the pandemic yet, but with businesses reopening and travel restrictions easing, it’s hard not to feel optimistic. Even so, the economic recovery is likely to be uneven, with some asset classes and sectors better positioned to outperform than others. On page 24, see what four Schwab experts have to say about market challenges and opportunities ahead.

Elsewhere in this issue, we look at the likelihood of tax increases on the wealthy (page 15), break down how to implement a sector rotation strategy (page 18), answer common questions about cryptocurrencies (page 32), 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
ON THE COVER: FEDERICA DEL PROPOSTO

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A Solid Foundation

We’re committed to setting up every investor for success.

There’s no shortage of stories about new investors who risked and lost it all.

It’s a time of great innovation for accessibility to the financial markets. From historically low trading and management fees to fractional stock shares and automated investing solutions, it’s never been easier or, frankly, more exciting to invest.

But all that access can come at a cost if you don’t approach it effectively. There’s no shortage of stories about new investors who risked—and lost—it all. Even experienced investors can find things quickly going sideways when they enter a new market without the proper foundation. That’s why at Schwab you don’t just get our innovative products—you also get our award-winning service and guidance.

For example, our Investing Principles (schwab.com/principles) distill decades of insights into seven essential lessons we believe every investor should know. Our robust research tools for clients—such as the ability to compare funds (schwab.com/comparefunds), screen for stocks (schwab.com/stockscreener), and build an all-fund portfolio (schwab.com/portfoliobuilder)—make it easier to identify worthy investments for your portfolio. And, for those who need a helping hand, your Schwab financial consultant is available to answer questions and strategize the best way to reach your goals.

In other words, we’re committed to setting you up for success—whichever way you choose to engage with the market.

Sincerely,

Walt Bettinger
President & CEO

See page 42 for important information.
(0821-1765)
Turning appreciated investments into charitable donations.

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Thanks to the Setting Every Community Up for Retirement Enhancement Act of 2019, older workers with earned income—including those who’ve already started taking required minimum distributions (RMDs) at age 72—can now make contributions to tax-deferred traditional IRA accounts. But does it make sense to do so?

“Under the right circumstances, contributing to an IRA as an older worker can complement your tax strategy,” says Hayden Adams, CPA, CFP®, director of tax and financial planning at the Schwab Center for Financial Research. For example, contributing could make sense if you want to:

1. **Lower your taxable income:** If you earn less than $76,000 in 2021 ($125,000 if married) or don’t have access to a workplace retirement plan, you can deduct traditional IRA contributions, thereby reducing your taxable income for the year (up to the annual contribution limit of $7,000 for those ages 50 and older).

   If your deductible contributions reduce your income to less than $25,000 ($32,000 if married), you can even avoid having your Social Security benefits taxed. (Admittedly, this is quite a low ceiling and may not be possible for retirees with significant savings.)

2. **Benefit from a lower tax bracket in retirement:** Making tax-deductible contributions to a traditional IRA now, if eligible, allows you to defer paying taxes until you’re in a potentially lower tax bracket in retirement. This could be especially advantageous for workers who expect to retire in the next few years and want to beef up their savings before they leave the workforce.

3. **Perform a backdoor Roth conversion:** If your income exceeds Roth IRA contribution limits—$140,000 for individuals in 2021, $208,000 if married—you may be able to make after-tax contributions to a traditional...
IRAs and then convert the funds to a Roth IRA.1 “Once you’re 59½ or older and have held the account for five years, you can withdraw contributions and earnings from a Roth totally tax-free,” Hayden says. “Plus, such accounts aren’t subject to RMDs.” (For more, see “Tax Efficiency Times 3,” below)

**THE BOTTOM LINE**

“Older workers have a fair number of saving options now,” Hayden continues, “so it’s wise to work with a financial planner or tax professional to determine how best to achieve your retirement goals.”

1 Those who turned 70 before 07/01/2019 were required to take RMDs starting at age 70½. 1 The IRS’ pro rata rule requires that you include all your IRA assets—meaning those funded with pretax (deductible) contributions and those funded with after-tax (nondeductible) contributions—when calculating the conversion’s taxes.

**NEXT STEPS**

Contribute to your Schwab IRA at schwab.com/contribute.

**Tax Efficiency Times 3**

How to make the most of a Roth IRA conversion.

A Roth IRA conversion may be right for you if your income is too high to contribute to a Roth IRA outright ($140,000 and up for individuals in 2021; $208,000 and up for married couples filing jointly). With this strategy, you convert all or part of your traditional IRA to a Roth IRA and pay regular income taxes on the converted amount.

It may seem counterintuitive to pay taxes now that you could put off until later, but doing so will allow you to take advantage of a Roth IRA’s main benefit: tax-free withdrawals of contributions and earnings in retirement (so long as you’re age 59½ or older and have held the account for at least five years).

“It’s an attractive option for individuals who believe their tax rate may be higher in retirement, or for those who just want the flexibility that tax-free income provides,” says Rob Williams, managing director of financial planning at the Schwab Center for Financial Research. “And, unlike tax-deferred retirement accounts, Roth IRAs are not subject to required minimum distributions beginning at age 72.”

If you think a Roth IRA conversion might be right for you, Rob points to three tax-efficient strategies:

1. **Max out your bracket:** Let’s say you’re single and make $145,000 a year, which puts you in the 24% tax bracket. The next bracket doesn’t kick in until your income exceeds $164,925, so you could convert $19,925 ($164,925 – $145,000) and still stay within your current bracket.

1. **Spread it out:** Breaking up the conversion across multiple years can make the tax hit easier to manage—and could, when combined with the strategy above, reduce the overall tax you pay on the conversion.1

1. **Get ahead of tax changes:** If upcoming changes to tax law will adversely affect future taxes, converting some or all of your traditional IRA in the year preceding the change could help you avoid paying more tax on the conversion than necessary.

In any case, you may want to wait until the end of the year to perform the conversion. “That way, you can account for any year-end changes to your total taxable income,” Rob says.

1. For savers younger than 59½, each conversion must be held for at least five years to be eligible for penalty-free withdrawals of the conversion principal.

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Kid Stuff
What to know before opening a brokerage account for a child.

When it comes to teaching kids about investing, a custodial brokerage account can be a great way to go. “Gifting kids investments or cash via custodial accounts—and then teaching them how to research and manage those assets—can lead to better investing habits in adulthood,” says Chris Kawashima, CFP®, a senior research analyst at the Schwab Center for Financial Research.

Once children reach the “age of majority”—typically 18 or 21, depending on the state—they gain control over the account and can use the funds however they see fit. “You can’t control what they ultimately do with the funds,” cautions Chris, “but if you communicate your values along the way, your child may be more likely to follow the path you intended.”

If this route sounds right for you, here are three things to know before opening an account:

1. **Gifts are irrevocable:** Contributions to a custodial account are considered irrevocable—meaning you can’t get that money back—and funds can be withdrawn by the custodian only to pay for expenses that would directly benefit the child before the age of majority. Note, too, that contributions that exceed the annual gift tax exclusion—$15,000 for individuals, or $30,000 for married couples—may be subject to gift tax.

2. **Investment gains may be subject to the so-called kiddie tax:** If any of the investments generate dividends or interest or are sold for a gain while the child is a minor, the first $1,100 of that income is exempt from tax, the next $1,100 is taxed at the child’s single-filer rate, and anything beyond $2,200 is taxed at the parents’ rate.

3. **The funds can decrease financial aid eligibility:** Federal financial aid formulas—which determine eligibility for federal loans, grants, and even some scholarships—consider 20% of a student’s assets, including the custodial account’s value, as available for educational purposes, whereas only 5.6% of parental assets (including 529 college savings accounts) are considered in the calculations.

What’s more, it’s important to consider your ultimate goals for the money. If you’re hoping to help your child or grandchild save for college or get a head start on retirement, for example, funding a special-purpose account such as a 529 or a Roth IRA may be a better way to go.

“Those accounts provide unique tax advantages that a custodial account doesn’t,” Chris says. “But if you’re looking to instill an enthusiasm for and appreciation of investing, custodial accounts are a great place to start.”

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SPAC Attack

Special purpose acquisition companies are making noise. Here’s what to know.

Special purpose acquisition companies (SPACs) have become a popular alternative to traditional initial public offerings (IPOs), which are typically reserved for high-net-worth and institutional investors. “SPACs allow regular folks to get in on the ground floor of private equity investments they might otherwise be shut out of,” says Kevin Gordon, a senior investment research specialist at Schwab.

How do they work?
A SPAC raises capital through an IPO for the express purpose of merging with an existing company in order to take it public. With a traditional IPO, a company typically has to jump through numerous regulatory hoops and demonstrate past performance, and it’s constrained in what it can claim about its future prospects. A SPAC IPO, on the other hand, isn’t subject to the same requirements, making it easier and faster for fledgling companies—including startups and others with limited operating experience—to enter the market.

What are the risks?
There are several:

- Because a SPAC issues shares before it identifies an acquisition target, investors don’t know what company they’re actually investing in.
- The lack of regulatory oversight can lead to problems down the road. For example, in January the Russian founder and CEO of Momentus Space resigned after potential foreign ownership and national security concerns threatened the company’s attempt to go public through a SPAC.
- A SPAC must find a merger candidate within two years of going public or return the money raised to investors, incentivizing its sponsors to get a deal done regardless of its terms or quality.
- Because of their popularity—these so-called blank-check companies raised $83.3 billion from 248 IPOs in 2020, up from $13.6 billion from 59 IPOs just a year earlier—there may be too many SPACs hunting for too few acquisition targets, driving up prices and/or driving down the likelihood of striking a high-quality deal.

What should investors do?
If you’re willing to accept the risks of investing in a SPAC, Kevin says to look for one with a proven management team sponsoring the deal.

However, Kevin’s also quick to note that the risks associated with individual SPACs may not be appropriate for most investors. “It might be best to wait and see how the market evolves over the next few years,” he says. “In the meantime, investors may want to look into diversified SPAC exchange-traded funds and mutual funds that are less reliant on individual blank-check companies.”

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. ◆ Whether you are investing in a SPAC by participating in its IPO or by purchasing its securities on the open market following an IPO, you should carefully read the SPAC’s IPO prospectus as well as its periodic and current reports filed with the SEC pursuant to its ongoing reporting obligations. ◆ Investing involves risk, including loss of principal. (0821-1G05)
Moving in Retirement

It’s about more than money.

For those on the cusp of retirement, nothing says fresh start like the prospect of a new home—be it across town or across state lines. But without proper planning, the fantasy and the reality can sometimes be at odds.

Kathy Cashatt, a Phoenix-based senior financial planning specialist with Schwab, saw this with her own parents when they decided to relocate to the Ozarks from Iowa after they stopped working. “It seemed to fulfill their dream,” she says, “Then the problems began.”

While Kathy’s parents found a community where they developed great friendships, their location—far from major hospitals and airports—made it difficult to access health care specialists when medical issues arose, or for the kids to support them with their day-to-day needs. In the end, her parents relocated again—this time to Arizona.

Moving in Retirement

It’s about more than money.

If you’re thinking about moving once you retire, Kathy has a few other factors for you to consider:

■ Assess the scene: Restaurants, the arts, access to an airport—there’s a long list of factors that fall outside traditional financial considerations. “For many retirees, their day-to-day quality of life is going to be more important than, say, state tax rates,” Kathy says. Plus, if you’re having to travel farther for those services, it can add unanticipated expenses to your budget and limit your choices when it comes to price and quality.

■ Hedge your bets: Before putting up the for-sale sign, consider renting out your former home on the off chance you may want to return to it. Similarly, renting in your new locale can give you the flexibility to test it out before committing. “As I learned from my parents, relocating twice—especially when it involves buying and selling multiple homes—can wreak havoc on both your finances and your psyche,” Kathy says.

■ Jump the gun: With a growing number of companies now embracing permanent work-from-home policies, you might consider making the move before you retire. “Generally, it’s easier to qualify for a mortgage with a favorable rate when you still have a steady paycheck coming in,” Kathy says.

None of this is meant to diminish the bigger cost considerations of moving in retirement—from cheaper housing to lower taxes. “But with so many places to choose from,” Kathy says, “you want to make sure not only that you can afford to live in a desired destination—but also that you actually want to.”

See page 42 for important information.

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hen the federal estate tax exemption doubled in 2017—it’s now $11.7 million per person ($23.4 million per married couple)—the number of tax-paying estates fell from 5,500 annually to just 1,900. “As a result, most people haven’t had to worry about estate taxes,” says Bob Barth, a Schwab wealth strategist based in Orlando, Florida. But looming tax changes could alter that:

- A Biden administration proposal could cut the federal estate tax exemption to its 2009 levels of $3.5 million per person and $7 million per married couple. (If adopted, those exemption levels may or may not be adjusted annually to offset the effects of inflation.)

- Even if that proposal doesn’t make it into law, the current estate tax

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**Gimme Shelter**

Three trust types that can help guard against future estate tax changes.

[Image of an elderly man sitting at a table, possibly engaged in an activity involving nets or fishing]

[Text area for the illustration]
exemption is set to revert to pre-2017 levels of $5 million per person and $10 million per married couple starting in 2026 (though both of those figures will be adjusted upward to account for inflation).

And if you live in one of the 12 states (or the District of Columbia) that levies taxes on estates—the lowest of which kicks in at $1 million—you could face such taxes regardless of what happens with the federal exemption.

“With all the what-ifs around estate taxes, it’s important to have a plan in place that will protect your heirs, come what may,” says George Pennock, director of trust planning services at Charles Schwab Trust Company in Henderson, Nevada. Here, Bob and George highlight three trust types that can help.

1. A-B Trust

How it works: When one member of a married couple passes away, the couple’s assets are separated into two trusts:

1. A survivor’s or “A” trust, which is revocable (meaning it can be changed) and belongs to the surviving spouse.

2. A bypass or “B” trust, which is irrevocable (meaning it can’t be changed) but can provide income to the surviving spouse before being passed down to the trust’s beneficiaries tax-free upon the surviving spouse’s death.

Who it’s for: Spouses don’t pay estate tax on assets inherited from each other thanks to the unlimited marital deduction, which allows an individual to transfer an unrestricted amount of assets tax-free to their spouse at any time, including at her or his death. “However, over time, appreciation alone can easily push a sizable estate over the estate tax exemption for your heirs,” Bob says. “By moving some of those assets into a bypass trust at the time of the first spouse’s death, they’re excluded from the surviving spouse’s estate even as he or she derives income from it.”

2. Grantor Retained Annuity Trust (GRAT)

How it works: The GRAT’s creator transfers assets into a fixed-term, irrevocable trust. During the term (of at least two years), the creator receives annuity payments that pay the value of the assets back to them in their entirety—plus a fixed interest (or “hurdle”) rate set by the IRS. When the term expires, any growth in the invested assets over and above the hurdle rate passes to the trust’s beneficiaries tax-free. If the creator passes away before the term ends, however, the value of the remaining assets, including earnings, will be included in her or his taxable estate.

Who it’s for: A GRAT is most useful for those with assets that are likely to appreciate substantially during their lifetimes, such as a closely held business, real estate, or stocks. “A GRAT allows you to move some of that appreciation out of your estate, thereby reducing its overall size,” George says. “And if the assets don’t appreciate as expected, the GRAT’s substitution transaction provision allows you to, during the annuity term, swap them out for assets of equal value that may appreciate more.”

3. Charitable Remainder Trust (CRT)

How it works: This irrevocable trust distributes a portion of the donated assets—at least 5% annually but no more than 50%—to its creator or another beneficiary for a specified term (or life). At the end of the term or the creator’s death, the remainder goes to one or more designated charities. There are two main types of CRTs:

- Charitable remainder unitrust (CRUT), which distributes a fixed percentage of the trust assets annually and does allow additional contributions.

Who it’s for: Those who want to reduce the eventual size of their taxable estate while receiving an immediate partial tax deduction on the value of the assets transferred into the trust. “The beauty of charitable gifts is that they don’t eat into your estate tax exemption,” Bob says. “And with a CRT, you can receive an immediate partial tax deduction on the portion of the assets earmarked for charity, which must be at least 10%.” What’s more, putting highly appreciated assets into a CRT preserves their full fair market value because the trust is not required to pay capital gains taxes on the sale of those assets.

Keep in mind

Estate taxes are always a moving target, so it’s important to revisit your estate plan—including your trust provisions—regularly. “With so many changes on the horizon, it’s wise to keep in close contact with your team—accountant, attorney, financial planner, etc.—who can help you think through your options and keep your overall planning on track,” George says.

See page 42 for important information.

See how a corporate trustee can help plan for taxes and protect your financial legacy at personaltrust.schwab.com.
Dear Carrie,
My 32-year-old daughter is saving consistently for retirement, but she recently confessed her discouragement at hearing you need at least $1 million to retire comfortably. Is that truly how much she’ll need?

Dear Reader,
With some financial experts saying you’ll need a million dollars—or more—to retire, I don’t blame your daughter for feeling discouraged. Throwing around big numbers is easy, but saving that much can definitely be a challenge.

The good news is that saving consistently when you’re young gives you a much better chance of reaching your goal, thanks to the effects of compound growth—and your daughter still has plenty of time on her side.

But more to your point: Does everybody need $1 million or more to retire comfortably? No—some will need less, some will need more. Indeed, being a millionaire is no longer the measure of wealth it once was, especially in areas with high housing and living costs. It all depends on when she wants to retire, where she’ll live and under what circumstances, and what other income sources might be available to her. In short, your daughter’s retirement savings goal should be based on her personal situation rather than a rule of thumb.

Let’s take a look at how much your daughter might need to save—and what it will take for her to get there.

Finding her number
It’s hard to think so far ahead when you’re young—and there are a lot of variables that can change in the intervening years—but planning now will help her get a realistic handle on how much she should save for the future.

Conservatively, she might want to assume she’ll need to spend about as much in retirement as she does today to maintain her current standard.
of living—less certain expenses like retirement contributions and payroll taxes that she likely won’t have when she’s retired.

That said, retirement is dynamic, and everyone’s situation is different, so it may help for her to dig into the details of her expenses and use a monthly budget planner to determine her specific income needs. From there, a useful guideline is to aim for a portfolio that’s 25 times the amount she’d like to withdraw during her first year of retirement, after accounting for potential guaranteed income sources like Social Security, pensions, and annuities.

So let’s say she currently earns $60,000 and expects to receive $20,000 in annual Social Security benefits. That means she’ll need to withdraw $40,000 from her savings in her first year of retirement. Using the calculation above, she would need to save $1 million ($40,000 × 25) to support her income needs for a 30-year retirement. Fortunately, saving that much may not be as difficult as it seems.

**Reaching her number**

So, what does it take to save a million dollars? When you’re young, not as much as you might think.

If you were to start saving at age 25, for example, you’d need to sock away about $508 per month (and earn a 6% average annual return) to reach $1 million by age 65. If you were to start saving at age 35, on the other hand, you’d need to save $995 per month, or almost twice as much (see “Time is of the essence,” above right).

If that number feels unrealistic given her current income, talk about reasonable steps she can take to make it work for her. For example, is she contributing at least enough to her retirement plan to capture any employer match? If not, encourage her to do so—it’s effectively free money! If she isn’t able to save any more right now, can she commit to increasing her contributions at the start of every year or each time she gets a raise? And finally, is her portfolio invested for long-term growth—meaning with a healthy allocation to equities, which tend to have a higher rate of return than, say, bonds?

The good news is that she has time to make up for any shortfalls in her nest egg—so long as she commits to saving and investing consistently. Reaching a financial goal is a confluence of making large and small positive changes that can add up over time.

**Making a plan**

Help her create a list of goals (big and small) and when she’d like to reach them. Then establish a baseline that includes her net worth, current expenses, and sources of income. This will show her where she is right now and what steps she needs to take next, as well as identify gaps in her strategy.

These ideas may be commonplace to you, but they may be eye-opening to your daughter and help her feel more in control. SchwabMoneyWise.com contains great information for beginners of all ages. If you’re comfortable, you could even share your own retirement strategy—or take it a step further and encourage her to talk to an advisor. Just as it’s never too early to start saving, it’s never too early to start planning. A financial planner can help her strategize the best way to reach her aspirations—not just for retirement but for other goals, as well.

To me, saving can be liberating when it’s on your terms. Your good counsel—and a personalized financial plan—can help free her from other people’s financial expectations and set her on a positive course toward the retirement that’s right for her.

**Carrie Schwab-Pomerantz**, CFP®, is president of Charles Schwab Foundation and managing director of Schwab Community Services at Charles Schwab & Co., Inc.

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he latest major initiative from the White House—a package of social measures known as the American Families Plan, comprising expanded child care assistance, two years of free community college, universal prekindergarten, and more—includes proposed tax increases on the wealthy to help fund the plan.

Will Taxes Rise for the Wealthy?

What you should know.
By Mike Townsend and Hayden Adams
Among other things, the Biden administration’s proposal would:

- Raise the top individual tax rate back to 39.6%—after previously being reduced to 37% by the Tax Cuts and Jobs Act of 2017.
- Tax long-term capital gains and dividend income at ordinary income tax rates for individuals earning more than $1 million annually.
- End the step-up in cost basis at death, which adjusts the cost basis of inherited assets to the fair market value at the time of inheritance when calculating capital gains taxes.

The plan also includes $80 billion for the IRS to help improve the tax-collecting process. (According to the Treasury Department, every dollar spent on tax enforcement by the IRS generates about $6 in revenue.) Such efforts are likely to affect the top 5% of taxpayers, including business owners, corporations, and the wealthy.

Of course, the president’s proposal is just that—a proposal. It will take an act of Congress to turn the White House’s proposed American Families Plan into legislation—and there’s a good chance that what emerges, if anything, will look very different from what the White House has initially outlined. That said, our view is:

- The increase in the top individual tax rate has the broadest support among Democrats—and therefore the best chance of being approved.
- Changes to the capital gains tax rate and basis step-up rule, which are not yet universally embraced by all Democrats on Capitol Hill, will be subject to considerable intraparty negotiations.

The increase in the top individual tax rate has the best chance of being approved. Changes to the capital gains tax rate and basis step-up rule, on the other hand, will be subject to considerable intraparty negotiations.

Importantly, we believe it’s unlikely that any tax increases passed in 2021 will be retroactive to the beginning of the year—meaning taxpayers will likely have time to consider what, if any, strategies are appropriate for their situation prior to any new rules going into effect.

Planning for transactions that could result in large capital gains, in particular, could become more important than ever for wealthier households. While we generally recommend a wait-and-see attitude, here are two ways those concerned about possible changes could potentially mitigate their impact should this become law:

1. **Tax-gain harvesting:** Investors often focus on selling losing investments and hanging on to winning ones. However, from a tax-planning perspective, it might be preferable to sell a winner now to lock in a lower tax rate. Realizing at least a portion of your capital gains before any new laws go into effect could help you avoid a higher tax bill and create an opportunity to rebalance your portfolio back to its target allocation.

2. **Tax-loss harvesting:** Investors can realize a loss on one investment to offset a gain on another. Should current capital gains tax rates rise for individuals earning more than $1 million annually, recognized losses could bring your net income to just below the $1 million mark—so long as you don’t run afoul of the IRS’ wash-sale rule, which disallows the loss if you purchase the same or a “substantially identical” security within 30 days before or after the sale date.

Because the changes to inherited assets seem far less certain, it’s probably too soon to make any major adjustments to your estate plan. Even so, if you’re concerned about what the potential changes could mean for your estate, your financial planner or estate-planning attorney can help you think through your options.

**The bottom line**
Taxes affect almost every aspect of investing and planning, but they shouldn’t take priority over your broader goals and risk tolerance. Before implementing any tax-planning strategies, we recommend meeting with professionals who can help you thoroughly analyze your particular situation.

See page 42 for important information.

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In his Washington-focused podcast, host Mike Townsend focuses a nonpartisan eye on how policy can affect everything from the taxes we pay to how our portfolios may perform. Listen now at schwab.com/washingtonwise.
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A rollover of retirement plan assets to an IRA is not your only option. Carefully consider all of your available options, which may include but not be limited to keeping your assets in your former employer’s plan; rolling over assets to a new employer’s plan; or taking a cash distribution (taxes and possible withdrawal penalties may apply). Prior to a decision, be sure to understand the benefits and limitations of your available options and consider factors such as differences in investment-related expenses, plan or account fees, available investment options, distribution options, legal and creditor protections, the availability of loan provisions, tax treatment, and other concerns specific to your individual circumstances.

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As the World Turns

How to take a more active approach to stock diversification with sector rotation.

By David Kastner

When the economy booms, some industries are riding the bull market, while others struggle. When the market is struggling, some sectors can be performing strongly. But who can keep track of the winning sectors in the ever-changing landscape of the economy?

A different way to diversify

For the past 30 years, Charles Schwab has been tracking the business cycle to help investors better understand the current market situation and plan for the future.

1. Secular trends

These trends typically take 10 years or more to unfold and can have wide-ranging implications for the economy. Examples include:

- **Demographic trends** that affect the economy, such as the long-term decline in interest rates and dwindling homeownership.
- **The effect of new technologies on businesses and consumers**, such as the rise of e-commerce.
- **Changes in social behaviors that can disrupt legacy industries**, such as the growing interest in green energy.

2. The business cycle

Every three to seven years, on average, the economy rotates through a four-stage business cycle:

- **Recovery**, in which the economy is rapidly rebounding from a recession.
- **Expansion**, in which the economy is growing at a moderate rate.
- **Slowdown**, in which economic growth has peaked and then slows.
- **Recession**, in which economic output is declining.

While no two business cycles are precisely alike, certain sectors tend to consistently outperform during particular stages of the cycle (see “Business cycles and sectors,” below).

3. Market cycles

While the equity market tends to rise during the growth stages of the business cycle and fall during the contractions, shorter-term ups and downs in the market cycle can be the result of a wide range of inputs, from changes in Federal Reserve policy and geopolitical events to surprising economic reports and swings in investor sentiment. When assessing the impact of the overall market’s direction on certain sectors, it helps to group them into two categories:

- **Cyclical sectors** tend to outperform when the market is rising. These include Communication Services, Consumer Discretionary, Energy, Financials, Industrials, Information Technology, and Materials.
- **Defensive sectors** tend to outperform when the market is falling. These include Consumer Staples, Health Care, and Utilities.

4. Sector-specific features

It’s important to scrutinize any investment’s underlying financial strength, as well as its performance relative to the market. At Schwab, we evaluate sectors using the following features:

- **Fundamentals**: A sector’s fundamentals, such as earnings expectations and return on equity, can provide insight into its relative health.
- **Valuations**: Comparing a sector’s current valuation against its historical average can provide insight into its relative worth.
- **Relative strength**: A sector’s recent performance can provide insight into its price momentum compared with the overall market.
- **Evaluating the sector’s specific features**, log in to schwab.com/sectors, select a sector, and explore the various tabs.

Implementing sector rotation

Once you’ve evaluated secular trends, the business and market cycles, and the sector-specific features currently at play, you can look for opportunities and compare your allocations to those of a broad-market benchmark.

For example, say you’ve determined that we’re in the expansion phase of the business cycle—which historically favors Consumer Discretionary, Financials, Industrials, and Information Technology—and that the other macroeconomic and sector-specific features are making Financials and Information Technology stocks particularly attractive. Now it’s time to adjust your portfolio’s sector allocations accordingly.

Whichever method you choose, consider transaction costs and taxes, as well as fees if you’re using index funds to implement your strategy. Additionally, make sure that upping your exposure to more-volatile sectors, such as Energy and Financials, doesn’t increase your risk beyond what you can comfortably tolerate.

Evaluating the Financials sector

Earlier this summer we downgraded our rating on the Financials sector to “market perform” from the previous “outperform” rating that had been in place since June 2020. The sector still has many favorable attributes, but several red flags have emerged:

- **The trend toward fintech could create long-term challenges for more-traditional financial firms, and tougher regulations could affect the sector at large.**
- **Macroeconomic conditions remain favorable, but that’s largely been priced in.**
- **The sector has strongly outperformed the market over the past year and now appears to be overbought.**
- **Valuations remain attractive relative to other sectors, but forward earnings expectations have flattened out.**

Schwab Sector Views can help you determine which sectors may outperform and underperform in the coming months. View the current analysis at schwab.com/sectorviews.

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. • This 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. (0821-1K09)

Source: Charles Schwab. For illustrative purposes only. “There are no stages in the business cycle during which Real Estate or Communication Services tend to outperform.”
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When it comes to choosing between fundamental and technical analysis, many traders tend to go with the style that plays to their strengths. While fundamentals-focused traders relish poring over balance sheets and income statements, technical analysts may be particularly attuned to the buy/sell signals they spot on stock charts.

Of course, sticking to one style can involve trade-offs. Traders who look only at fundamentals could
miss out on metrics that could help
time their trades, while technical traders
could be overlooking warning
signals about a company’s financial
health.

But why not combine them? The
key is learning when to deploy a par-
ticular method to make the most of its
strengths: fundamentals for deciding
what to trade and technicals for de-
ciding when to trade it.

What to trade

Determining which stocks are worth
trading can be challenging. A trader
looking for appealing opportuni-
ties on, say, the tech-focused Nasdaq
Composite Index might need to sort
through some 2,500 stocks. Even
narrowing the list to health care stocks
would leave hundreds of candidates
to consider.

Confronted with so many choices,
it can be tempting to zero in on the
hottest performer, perhaps one that
beat its expectations or is riding a
crest of positive news. The problem,
of course, is that whatever factor has
driven the stock’s outperformance has
probably already been priced in.

A more cool-headed approach
would be to identify companies that
stand out because of their underlying
financial health using fundamental
indicators. Many trading platforms
offer fundamental screening tools you
can use to isolate the top performers
among those with strong financials—but
between what factors to screen against:
whether you’re looking to capitalize on short-
or long-term trends.

You could also look to trading vol-
ume as another indicator of support
or resistance. When a stock price
breaks above its moving average, it
may signal the start of an uptrend,
whereas when a stock breaks below
its moving average, it could indicate
the start of a downtrend (see “A tale
of two averages,” right). Whether you
use a five-day moving average, a 200-
year moving average, or somewhere
between depends on whether you’re
looking to capitalize on short- or
long-term trends.

The power of two

Fundamental analysis is a great way
to narrow down the universe of stocks
to those with strong financials—but
only technical analysis can tell you
whether they’re in a solid uptrend.

Certainly, combining fundamen-
tal and technical research won’t
take all the risk out of investing—no
approach can guarantee that—but it
can help you steer clear of relatively
weak candidates or avoid entering
positions at an inopportune time.

A tale of two averages

After trading above its
200-day moving average
(orange line) for much of 2020,
Company A’s stock price pulled back in mid-
January 2021, signaling the
start of a falling trend. In
such cases, traders might
wait for the price to break
below its 200-day moving average
before buying.

Company B’s 200-day
moving average, on the
other hand, remained in
a solid uptrend starting in
June 2020, making it
a far more attractive
selection. Even so, traders
might consider selling all
or part of their positions if
and when the stock price
breaks back below its 200-
day moving average.

Examples provided are for
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Kevin Horner is a
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Schwab & Co., Inc.
Your Post-Pandemic Action Plan

How to navigate the potential pitfalls and opportunities after one of the biggest global market disrupters of modern times.
U.S. STOCKS

We’ve never seen the stock market fall and recover in such a short span as it did in the spring of 2020. With stocks pushing fresh records for much of this year, how should investors position themselves for what comes next? “We’re entering an environment in which we could see one of two extreme outcomes,” says David Kastner, senior investment strategist at the Schwab Center for Financial Research. Among them:

> The building products, construction machinery, and construction materials subsectors have already advanced significantly thanks to the pandemic. David says there would likely stand to benefit further from additional government infrastructure spending. “Utilities that have made a big push into green energy also could see a boost from new forms of support for addressing climate change; however, it’s a defensive sector that tends to underperform when the markets rise,” he says.

> Energy stocks are benefiting from the continued expansion of global growth. “Oil prices are up, and energy companies are being more disciplined when it comes to their expenses and investments—resulting in more attractive valuations,” says David, but keep an eye on oversupply risks to oil prices.

> REITs are catching investors’ attention for several reasons:

  > \* Relaxed COVID-related restrictions and money in consumers’ pockets may be reducing investors’ pessimism toward REITs—such as commercial office real estate (office REITs), which are benefiting from a surge in demand for workspaces as employees return to the office and businesses see the need for more space. “The current environment may see one of two extreme outcomes,” he says. “Either prices rise dramatically, or they decline sharply.”

  > \* Falling unemployment and higher housing prices may filter through to REITs, which tend to own multifamily occupancy rates and rents—a positive for residential REITs.

  > \* More workers than expected may be headed back to the office, opening the potential for office REITs to make up lost ground—though hotel REITs may not see business travel fully recover for quite some time.

  > \* Health care stocks are often profit generators and are likely to do well as the population continues to age. “Current valuations are still relatively low, and balance sheets are pretty solid, with plenty of cash for dividends and value-adding deals,” he says.

  > \* Wireless-service companies, which reside in the Communication Services sector, were essentially equal to the S&P 500 in 2019. The plan is to expand access to broadband and accelerates the rollout of fifth-generation (5G) cellular technology. “The telecomm sector is expected to benefit from the pandemic as more people work and study from home,” he says.

  > \* The technology sector is well positioned to benefit from the increasing use of technology in society, from telework to e-commerce to social services. “The tech sector has been one of the bright spots in the current cycle,” he says.

  > \* Cultivate a laddered approach, or a portfolio of individual high-quality credits that are considered an individualized recommendation or personalized investment advice. The information provided here is for general informational purposes only and should not be considered a 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. • Diversification, asset allocation, and rebalancing strategies do not ensure a profit and do not protect against losses in declining markets. Rebalancing may require investors to incur transaction costs, and when a rebalancing is performed, taxable events may be triggered that may affect your tax liability. • Risks of the REITs are similar to those associated with direct ownership of real estate, such as changes in real estate values and property tax rates, interest rates, cash flow from underlining real estate assets, supply and demand, and the management skill and credit worthiness of the issuer. • International investments involve additional risks, which include: currency fluctuations, geopolitical risk, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accumulate these risks. • Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, and local government or agency failures. • Investors should consider their investment objective, risk tolerance, and financial circumstances. (0221-11T9)
The New Rules of Cybersecurity

Ten tips for staying ahead of increasingly sophisticated scams.
Cyber fraud may be as old as the internet itself, but it’s also a growth industry. In 2020, the FBI recorded 792,000 cybercrime complaints in the U.S. alone—a 69% increase over 2019. Losses from those frauds totaled $4.2 billion.

The pandemic has given bad actors a lot of new opportunities, says Peter Campbell, a managing director in Schwab’s Financial Crimes Risk Management division. “More of our lives are being conducted online than ever before, without our having thought through the security implications of that change.”

While the best practices for keeping your accounts safe are ever evolving, they boil down to common sense and a healthy dose of suspicion when living and working online. With that in mind, here are 10 tips for keeping cyber criminals at bay.

1. Think before you click

More than 3 billion emails pretending to be from financial firms, in particular, have implemented security features aimed at preventing cybercrime. Chief among them:

- Security alerts via email or text that can notify you of everything from individual transactions to changes to your password and other vital information.
- Two-factor authentication, which typically involves sending a randomly generated number to your phone or email, which you must enter before you can access the account. “That extra step alone can be critical to preventing unauthorized access to your accounts,” Peter says.
- Double-check the email address, which can differ by just a single character from an account you know.
- Hover your cursor over any links—without clicking—which will reveal the underlying URL (that may or may not jibe with the one it’s purporting to be).
- Activate your email program’s spam filters, which have become adept at separating out suspicious and unsolicited emails.
- “Above all, call the company back at a known or publicly listed number rather than risk responding directly to a fraudster,” Joel says. Beyond email, be aware of other forms of attack—including fraudulent SMS texts (a.k.a. “smishing”), voice calls (“vishing”), and “spear phishing,” or the practice of mining social media posts for personal information to create more targeted and potentially convincing emails.
- If you suspect an email that appears to be from Schwab is a phishing email, forward it to phishing@schwab.com.

2. Step up your security

Financial firms, in particular, have implemented security features aimed at preventing cybercrime. Chief among them:

- Voice identification, which allows you to access your account securely by speaking a simple phrase—such as, “At Schwab my voice is my password.”
- Enroll in Schwab’s voice ID service by calling 800-435-4000.

3. Be password smart

“The first rule of passwords is: Never share passwords,” says Joel. And while most people know not to use simple passwords like "1234" or their birthday, consider creating strong, hard-to-guess passwords. “Instead of remembering a single word or personal information, use a combination of letters, symbols, and numbers,” Joel says. If you’re having trouble remembering your passwords, consider using a password manager or not, be aware of the tradeoffs. Password managers can create, store, and even autofill unique passwords for as many sites as you choose. Whether you opt for a password manager or not, be sure to password-protect your laptop, phone, and tablet, as well. “These days, there is no greater repository of personal information than our devices,” Joel says.

4. Keep your devices up to date

Most desktop and mobile operating systems—as well as individual applications—offer periodic updates, which frequently include security patches as new vulnerabilities are discovered.

“Your router, too, should be secured and updated. Often, companies will push auto updates, which manufacturers and suppliers of smart devices—such as thermostats, and other smart devices, will typically involve sending a randomly generated number to your device to factory settings in order to securely remove all personal data.”

5. Fortify your home network

Don’t overlook the internet connection that powers your home. Newer routers/devices that stream data from your internet provider to your various devices—tend to have stronger encryption settings and offer automatic updates, which minimum requirements may discontinue for older models. Your router, too, should be secured with a strong password—as should internet-enabled doorbells, speakers, thermostats, and other smart devices, whose default passwords are often as simple as “password.”

6. Protect yourself in public

Cyber criminals can easily set up a decoy Wi-Fi network containing the name of the airport, hotel, or restaurant from which you’re trying to connect. “That’s one sure way to avoid falling victim to fraudsters when accessing the internet in public,” Joel says. In a pinch, you can safely use public Wi-Fi for innocuous tasks like checking email. “But be wary of electronically to request sensitive personal information online,” Peter says. “It’s purporting to be from Schwab is a phishing email, forward it to phishing@schwab.com.”

7. Talk with your children...

While most children grow up with the convenience of electronic banking, there are important security concerns. “The key is to remain vigilant so all this wonderful innovation can form an emotional attachment over time. But not so much so that they connect it to the steps you take, not the steps they should take,” he says. Above all, offer a helping hand. “Everyone needs a family member, a friend, or even a trusted financial advisor they can call with questions,” he says.

What’s more, most financial institutions encourage all clients to establish a “trusted contact”—someone with whom your financial institution can discuss any signs of financial exploitation. “Even if you have a spouse listed on the account, a trusted contact can provide additional personal information to take action in case of suspicious activity,” Joel says.

8. ... and elderly relatives, too

Cognitive decline and social isolation, in particular, can leave the elderly susceptible to scams. “Many people were more isolated during the pandemic than ever before,” Joel says. “As a result, they were that much more vulnerable to scammers trying to form an emotional attachment over the phone or online.”

9. Stay informed

Sign up for the latest consumer-fraud alerts from the Federal Trade Commission at consumer.ftc.gov/features/scam-alerts. It’s also a good idea to check your credit report for suspicious activity at least annually.” Peter says. You are entitled to a free annual credit report from each of the three credit reporting agencies—Equifax, Experian, and TransUnion—with whom you can dispute any errors or unauthorized activity.

You might also consider instituting a “credit freeze” for you and your family members with each of the three agencies, which can prevent new accounts that require a credit check from being opened in your name without your express permission (learn more at consumer.ftc.gov/articles/0497-credit-freeze-faqs).

10. Follow your instincts

“If an offer seems too good to be true, it probably is,” Peter says. And no reputable company will reach out electronically to request sensitive personal information, so that’s another red flag.

“To my mind, you have to do all you can to prevent fraud—but you also have to be ready to mitigate the consequences,” Joel adds (see “Fighting back,” left). “The key is to remain vigilant so all this wonderful new access and technology isn’t used against you.”

See page 42 for important information. (0821-13EF)

Joel recommends framing conversations about cyber fraud in ways that don’t question a loved one’s judgment. “Talk about the steps you take, not the steps they should take,” he says. Above all, offer a helping hand. “Everyone needs a family member, a friend, or even a trusted financial advisor they can call with questions,” he says.

What’s more, most financial institutions encourage all clients to establish a “trusted contact”—someone with whom your financial institution can discuss any signs of financial exploitation. “Even if you have a spouse listed on the account, a trusted contact can provide additional personal information to take action in case of suspicious activity,” Joel says.

Add or change a trusted contact for your Schwab accounts at schwab.com/trustedcontact.

Fighting back

What to do if you’re a victim of cybercrime

- Lock down the threat by reporting suspicious activity to all your financial institutions, Victoria says—including banks, brokerages, credit card companies, and the Social Security Administration if you suspect your Social Security number has been compromised.
- To report suspicious activity in your Schwab account, call 800-435-4000.
- Change the password on all compromised accounts and any accounts that share those passwords.
- Report the crime to your local police, whose report may be helpful in recouping any losses, as well as to the FBI’s Internet Crime Complaint Center (ic3.gov/Home/FileComplaint).
- Request fraud alerts—as well as a credit freeze to prevent further fraud—from all three credit reporting agencies.
- Remain vigilant by reviewing account statements, scanning your devices for malware, and monitoring your credit reports, possibly with the help of a credit-monitoring service, which can help detect instances of identity theft.
Cryptocurrencies have been getting a lot of attention lately. One could get whiplash from the tales of overnight millionaires who lost fortunes as quickly as they gained them. And no wonder: A single bitcoin ranged in price from $1,000 in early 2017 to more than $63,000 in April 2021—before plunging to $34,000 in late May.

While Bitcoin is perhaps the best-known cryptocurrency, it has competition in Dogecoin, Ethereum, XRP, and many others (see “Crypto king,” far right). Understandably, investors have questions about this emerging asset class. Here are answers to five of the most common.

How do cryptocurrencies work?

Cryptocurrencies let users store money and make and receive secure payments outside the traditional financial system while remaining anonymous. Cryptocurrencies run on a decentralized public ledger called a blockchain—a database of every transaction maintained by all of that currency’s users.

Are cryptocurrencies a legitimate asset class?

Bitcoin and other cryptocurrencies are highly speculative investments, since supply and demand drive their volatility—not intrinsic value. That said, the cryptocurrency market has matured from its experimental phase into a unique and sizable asset class with a global market capitalization of some $1.5 trillion (see “Crypto roller coaster,” below). As a result, several established corporations and institutional investors have begun investing in Bitcoin.

What are the risks and drawbacks?

As you might expect with a highly speculative investment, cryptocurrencies carry notable risks, including:

- Volatility: Cryptocurrency prices historically have been highly volatile, and fluctuations could result in significant financial losses.
- Fraud: According to the Federal Trade Commission, “Many people have reported being lured to websites that look like opportunities for investing in or mining cryptocurrencies, but are bogus.” And while login credentials are typically required to access a cryptocurrency exchange, these can be stolen or lost.
- Lack of recoverability: With conventional financial accounts, there’s normally a recovery process if you forget or misplace your login credentials. If you lose your cryptocurrency “key,” however, you cannot retrieve your cryptocurrency. Similarly, if you lose access to the place where you store your key, you will effectively lose possession of your cryptocurrency.

Should I invest in cryptocurrencies?

Whether cryptocurrencies are right for you depends on your goals and risk tolerance. While some traders have made money on the dramatic swings in the price of Bitcoin or other cryptocurrencies, others have found out the hard way that what goes up can most definitely come down. Thus, investors in this speculative asset should never venture more than they can afford to lose.

How are cryptocurrencies managed?

Unlike so-called fiat currencies such as the U.S. dollar and the euro, which are managed and backed by central banks, cryptocurrencies are decentralized, meaning no single entity has control over how they’re governed. Instead, they’re driven by consensus and the peculiarities of the cryptocurrency itself. For example, bitcoins are “mined” using high-powered computers that solve exceedingly complex math problems. However, by design only 21 million bitcoins can ever be mined, making them a finite resource more akin to certain commodities than a printed currency.

Global cryptocurrencies by total market capitalization (in trillions)

The crypto market climbed from $370 billion in August 2020 to $2.2 trillion in April 2021—before losing $700 billion in value by June.

Crypto roller coaster

The crypto market climbed from $370 billion in August 2020 to $2.2 trillion in April 2021—before losing $700 billion in value by June.

For 2021, total crypto market capitalization is expected to exceed $1 trillion, up from $1.5 trillion in 2020.

Are Cryptocurrencies for Real?

The emerging asset class is edging toward the mainstream, but is it right for you?

Cryptocurrencies at Schwab

There are several ways to access cryptocurrency markets through Schwab:

- “Over-the-counter” cryptocurrency trusts—such as Grayscale® Bitcoin Trusts (GBTC and BCHG) and Grayscale Ethereum Trusts (ETHE and ETGC)—allow investors to trade shares in trusts holding large pools of a cryptocurrency, although these can involve high volatility, hefty fees, and other risks.
- Research and compare cryptocurrency trusts at schwab.com/comparetrusts.
- Clients with a futures account can also trade Bitcoin futures (BTC).
- To learn more about Bitcoin futures trading at Schwab, log in to schwab.com/futures.

Cryptocurrency

Bitcoin’s market capitalization equals that of nearly all other top cryptocurrencies combined.

See page 42 for important information. Digital currencies, such as Bitcoin, are highly volatile and not backed by any central bank or government. Digital currencies lack many of the regulations and consumer protections that legal-tender currencies and regulated securities have. Due to the high level of risk, investors should view Bitcoin as a purely speculative investment. Futures trading involves a high level of risk and is not suitable for all investors. Currencies are speculative, volatile, and not suitable for all investors. Past performance is no guarantee of future results and the opinions presented cannot be viewed as an indicator of future performance. Investing involves risk, including risk of loss. Virtual Currency Derivatives trading involves unique and potentially significant risks. Please read IFA Investor Advisory – Futures on Virtual Currencies Including Bitcoin (ifs.futures.org/investors/investor-advisory.html) and CFTC Customer Advisory: Understand the Risk of Virtual Currency Trading (cftc.gov/learnandprotect/advisoriesandarticles/understand_risks_of_virtual_currency.html). All corporate names and market data shown above are for illustrative purposes only and are not a recommendation, offer to sell, or a solicitation or an offer to buy any security. (0821-1879)
How unmarried couples can achieve the same legal protections as those who’ve tied the knot.

No Wedding? No Problem
While more and more couples are opting to share a life together without officially getting hitched (see “Consciously uncoupled,” right), the unfortunate reality is that unwed partners have few of the rights afforded to spouses.

“Unmarried couples are little more than strangers in the eyes of the law, with no legal stake in each other’s estates, nor the right to make financial or medical decisions on each other’s behalf,” says Theresa Le, a senior trust services consultant at Charles Schwab Trust Company. “Particularly if you’ve combined your finances or have kids together, it’s urgent you make a plan to protect each other and your family.”

Even couples who eventually intend to wed should take precautions to protect each other in the interim. “I’ve met plenty of folks who think it makes sense to wait until their union is official, but you never know what life is going to throw at you,” Theresa says. “As soon as you’re committed to a future together, it’s probably time to convert to a shared estate plan.”

Here’s a look at certain rights and protections the law affords married couples—and what unmarried partners can do to create similar safeguards.

**Medical decisions**

→ The marital advantage: In most states, assets acquired during a marriage are considered jointly owned only if they are titled in both spouses’ names. “However, spouses may still have a right to claim part of the deceased’s assets through elective share statutes, which give to a surviving spouse a legal claim to the deceased’s assets through elective share statutes, which give to a surviving spouse a legal claim to the deceased’s assets,” says Benjamin Fernandez, a senior trust services consultant at Charles Schwab Trust Company. “This applies no matter how long a couple has been together.” Similarly, you’ll need a financial power of attorney in place if you need to contact your partner’s health insurer to inquire about coverage or discuss the status of a claim.

→ The workaround: Because of HIPAA rules, unmarried partners need to name each other in a legal document that allows them to share their personal health information with others without express written consent. However, spouses generally are allowed to access each other’s records and make medical decisions on each other’s behalf.

**Social Security**

→ The marital advantage: Married couples have the right to spousal benefits, meaning they’ll receive up to half their spouse’s benefit if it’s larger than their own. What’s more, a surviving spouse will receive a deceased spouse’s benefit in its entirety if it’s larger than their own, which they can start collecting as early as age 60.

→ The workaround: The loss of a partner’s Social Security benefits can be catastrophic to the survivor’s finances, Joseph says. “In such cases, unmarried partners may want to pursue life insurance policies and name each other as the beneficiaries.”

**Retirement assets**

→ The marital advantage: Retirement savings are one of the few assets that cannot be jointly owned, giving surviving spouses fewer rights if the assets are not expressly left to them via beneficiary designations. Be that as it may, if a married individual fails to designate a beneficiary of their retirement accounts, the assets will generally go to the surviving spouse via probate, the legal process used to validate a last will and testament and settle an estate—or, in the absence of a will, by intestate succession, in which a court distributes the deceased’s property according to the laws of their state, which tend to prioritize spouses in the hierarchy of potential heirs.

→ The workaround: “The only way to ensure your retirement assets go to your partner is to name that person as the account’s beneficiary. Fortunately, it’s one of the quickest and easiest tasks when it comes to estate planning,” Theresa says. “And by planning your estates together, you can ensure that never happens.”

**Anything else**

→ The marital advantage: Any assets that don’t pass directly to a surviving spouse via trusts, beneficiary designations, or joint tenants with rights of survivorship titles are subject to probate, with or without a will—though, again, even in the absence of a will, courts tend to prioritize spouses in the hierarchy of potential heirs.

→ The workaround: To ensure some of or all your remaining assets go to your partner, you must stipulate that in a last will and testament. “Otherwise, the probate court will distribute your assets according to your state’s intestate succession laws,” Benjamin says. “In most states, that means your parents, siblings, or other next of kin will inherit your assets, with no legal recourse for your partner.”

It’s also important to think about property that can’t be titled, such as artwork, jewelry, and items of sentimental value. “If you don’t account for it in your will, someone other than your partner might try to lay claim to it,” Joseph says. Finally, it’s imperative to put your final wishes in writing. “Your partner may know what you want in terms of, say, funeral arrangements, but does your partner know?” Theresa says. Typically, such arrangements fall to the surviving spouse, but unmarried partners may be left out of the process entirely, creating conflict and confusion at a time of profound grief. “The last thing you want is for the person you love to be excluded from such important decisions,” Theresa says. “And by planning your estates together, you can ensure that never happens.”

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.

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. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.*

*When using the Personalized Portfolio Builder, be aware that Schwab is not analyzing your investment portfolio; your individual circumstances; or considering or recommending what you should buy, hold, or sell in your account.*

*This is an example of a screen you might see when using the Personalized Portfolio Builder tool. This is for illustrative purposes only and does not depict actual funds or results. (0821-16ZB)*

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ON YOUR SIDE

Tax-Smart Investing

Changes to the tax code are a certainty, but so is our commitment to helping you create a tax-smart investment plan.

The tax code is always in flux, which makes it difficult to plan for tax changes with any real certainty. Still, those who’ve built up significant wealth will want to pay particular attention to a spate of recent federal tax proposals.

If passed, the American Families Plan would increase the top income tax bracket to 39.6% from 37%; treat all capital gains and investment income as ordinary income for those who earn more than $1 million; and do away with the step-up in cost basis for inherited assets that have appreciated by more than $1 million. (For more, see “Will Taxes Rise for the Wealthy?” page 15.)

At Schwab, we don’t believe taxes should be your first consideration when making financial decisions—but we do believe in following tax-efficient strategies to help ensure you and your heirs don’t pay more than your fair share. From charitable giving, to tax-loss harvesting, to the strategic use of trusts, there’s plenty you can do to minimize your tax liability without rethinking your strategy every time there’s a change in administrations or tax law.

For help creating your tax-smart investment plan, talk to your Schwab financial consultant or stop by your local branch.

Charles R. Schwab
Founder & Chairman

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More qualifying assets with Schwab may mean more savings on home loans.¹

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