

Beyond the Basics

Customized Wealth Strategies



Mark Baniszewski, and Caitlin Falenski
Oppenheimer & Co. Inc.

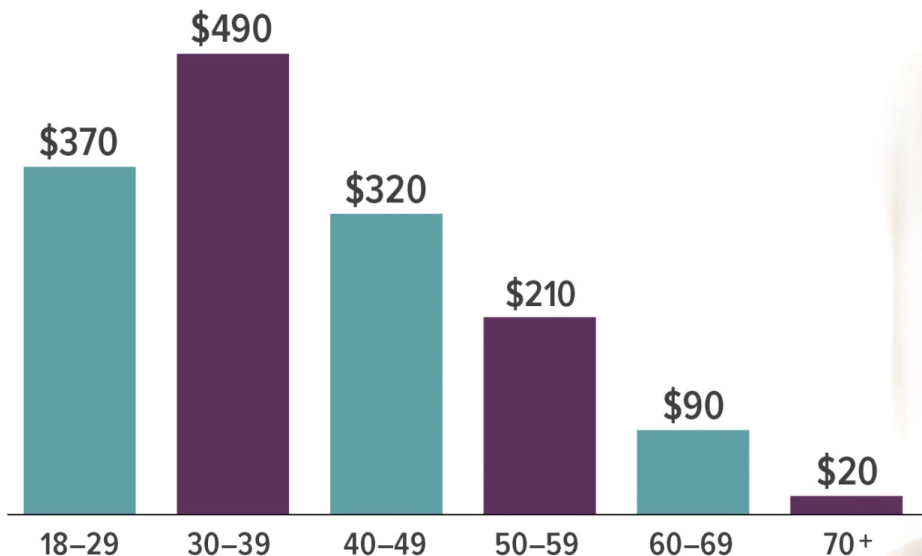
385 S. Eton • Birmingham • MI • 48009
248-593-3727 • 248-593-3712
mark.baniszewski@opco.com • caitlin.falenski@opco.com



Student Debt: It's Not Just for Young Adults

Recent college graduates aren't the only ones carrying student loan debt. A significant number of older Americans have student debt, too. In fact, student loan debt is the second-highest consumer debt category after mortgage debt. In total, outstanding student loan debt in the United States now stands at approximately \$1.5 trillion, with the age 30 to 39 group carrying the highest load.

Student loan debt by age, in billions



Source: New York Fed Consumer Credit Panel/Equifax (Q3 2019 data)

Investor Psychology: Behavioral Biases That Can Lead to Costly Mistakes

The field of behavioral finance focuses on the emotional and cognitive aspects of investing. In recent decades, well-known economists have advanced the theory that investors' decisions can be driven by human emotions such as greed and fear, which helps explain why asset prices sometimes fluctuate erratically.¹

It can be difficult to act rationally when your financial future is at stake, especially when unexpected events upset the markets. But understanding certain aspects of human nature, and your own vulnerabilities, might help you stay levelheaded in the heat of the moment.

Every investment decision should take your financial goals, time horizon, and risk tolerance into account. That's why it's important to slow down and try to consider all relevant factors and possible outcomes.

Here are six behavioral biases, which could also be called mental shortcuts or blind spots, that might lead you to make regrettable portfolio decisions.

1. Herd mentality. Many people can be convinced by their peers to follow trends, even if it's not in their own best interests. When investors chase returns and follow the herd into "hot" investments, it can drive up prices to unsustainable levels and create asset bubbles that eventually burst. Joining the crowd and fleeing the stock market after it falls, and/or waiting too long (until prices have already risen) to reinvest, could harm your long-term portfolio returns.

2. Availability bias. People tend to base their judgments on information that immediately comes to mind. This could cause you to miscalculate risks or expected returns. In the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean, a recent news article can shape how you perceive the quality of an investment opportunity.

3. Confirmation bias. People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be more likely to ignore critical facts and focus on data that supports your opinion.

4. Overconfidence. Some individuals overestimate their skills, knowledge, and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

5. Loss aversion. Many investors dislike losses much more than they enjoy gains. Because it actually feels bad to experience a financial loss, you might avoid selling an investment that would realize a loss, even though it might be an appropriate course of action. An intense fear of losing money may even be paralyzing.

Market Moods

Retirees and higher-net-worth investors were more likely than other groups to say that their daily mood is sensitive to changes in their investment portfolios. The following chart illustrates the percentage of U.S. investors who say the performance of their investments affects their daily mood (a little or a lot).



Source: Gallup, 2019

6. Anchoring effect. When making decisions, people often depend heavily on the first information they receive, then adjust from that starting point based on new data. For investors, this translates into placing too much emphasis on an initial value (or purchase price) or on recent market performance. Investors who were "anchored" to the financial crisis may still be fearful of the stock market, even after years of strong returns. Another investor who has only experienced years of gains might be inclined to take on too much risk.

Even the most experienced investors can fall into these psychological traps. Having a long-term perspective and a thoughtfully crafted investing strategy may help you avoid expensive, emotion-driven mistakes. It might also be wise to consult an objective third party, such as a qualified financial professional, who can help you detect any biases that may be clouding your judgment.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Although there is no assurance that working with a financial professional will improve investment results, a financial professional can provide education, identify strategies, and help you consider options that could have a substantial effect on your long-term financial prospects.

1) "From Efficient Markets Theory to Behavioral Finance," *Journal of Economic Perspectives*, Winter 2003

Four Questions on the Roth Five-Year Rule

The Roth "five-year rule" typically refers to when you can take tax-free distributions of earnings from your Roth IRA, Roth 401(k), or other work-based Roth account. The rule states that you must wait five years after making your first contribution, and the distribution must take place after age 59½, when you become disabled, or when your beneficiaries inherit the assets after your death. Roth IRAs (but not workplace plans) also permit up to a \$10,000 tax-free withdrawal of earnings after five years for a first-time home purchase.

While this seems straightforward, several nuances may affect your distribution's tax status. Here are four questions that examine some of them.

1. When does the clock start ticking?

"Five-year rule" is a bit misleading; in some cases, the waiting period may be shorter. The countdown begins on January 1 of the tax year for which you make your first contribution.

For example, if you open a Roth IRA on December 31, 2020, the clock starts on January 1, 2020, and ends on January 1, 2025 — four years and one day after making your first contribution. Even if you wait until April 15, 2021, to make your contribution for tax year 2020, the clock starts on January 1, 2020.

2. Does the five-year rule apply to every account?

For Roth IRAs, the five-year clock starts ticking when you make your first contribution to any Roth IRA.

With employer plans, each account you own is subject to a separate five-year rule. However, if you roll assets from a former employer's 401(k) plan into your current Roth 401(k), the clock depends on when you made the first contribution to your former account. For instance, if you first contributed to your former Roth 401(k) in 2014, and in 2020 you rolled those assets into your new plan, the new account meets the five-year requirement.

Roth by the Numbers

19%

U.S. households who owned Roth IRAs in 2019



36%

Roth IRA-owning households who contributed to them for tax year 2018



69%

Employers that offered a Roth 401(k) plan in 2018



23%

Eligible employees who contributed to a Roth 401(k) in 2018



3. What if you roll over from a Roth 401(k) to a Roth IRA?

Proceed with caution here. If you have never previously contributed to a Roth IRA, the clock resets when you roll money into the Roth IRA, regardless of how long the money has been in your Roth 401(k). Therefore, if you think you might enact a Roth 401(k) rollover sometime in the future, consider opening a Roth IRA as soon as possible. The five-year clock starts ticking as soon as you make your first contribution, even if it's just the minimum amount and you don't contribute again until you roll over the assets.¹

4. What if you convert from a traditional IRA to a Roth IRA?

In this case, a different five-year rule applies. When you convert funds in a traditional IRA to a Roth IRA, you'll have to pay income taxes on deductible contributions and tax-deferred earnings in the year of the conversion. If you withdraw any of the converted assets within five years, a 10% early-distribution penalty may apply, unless you have reached age 59½ or qualify for another exception. This rule also applies to conversions from employer plans.²

¹ You may also leave the money in your former employer's plan, roll the money into another employer's Roth account, or receive a lump-sum distribution. Income taxes and a 10% penalty tax may apply to the taxable portion of the distribution if it is not qualified.

² Withdrawals that meet the definition of a "coronavirus-related distribution" during 2020 are exempt from the 10% penalty.

Telemedicine: The Virtual Doctor Will See You Now

Widespread smartphone use, loosening regulations, and employers seeking health cost savings are three trends that have been driving the rapid expansion of telemedicine. And that was before social distancing guidelines to help control the spread of COVID-19 made the availability of remote medical care more vital than anyone anticipated.

Easy Interaction with Health Professionals

Telemedicine offers a way for patients to interact with doctors or nurses through a website or mobile app using a secure audio or video connection.

Patients have immediate access to advice and treatment any time of the day or night, while avoiding unnecessary and costly emergency room visits. And health providers have the ability to bill for consultations and other services provided from a distance.

Telemedicine can be used to treat minor health problems such as allergies and rashes, or for an urgent condition such as a high fever. It also makes it easier to access therapy for mental health issues such as depression and anxiety.

In other cases, doctors can remotely monitor the vital signs of patients with chronic conditions, or follow up with patients after a hospital discharge. Telemedicine can also fill gaps in the availability of specialty care, especially in rural areas.

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Offered by Many Health Plans

In 2019, nearly nine out of 10 large employers (500 or more employees) offered telemedicine programs in their benefit packages, but many workers had not tried them out.

Only 9% of eligible employees utilized telemedicine services in 2018 (the most recent year for which data is available), even though virtual consultations often have lower copays and are generally less expensive than in-person office visits, especially for those with high deductibles.¹

If your health plan includes telemedicine services, you might take a closer look at the details, download the app, and/or register for an online account. This way, you'll be ready to log in quickly the next time your family faces a medical problem.

1) Mercer National Survey of Employer-Sponsored Health Plans, 2019

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