Q2 | 2020

Parsec Financial

GRADUATIONS

*"You're off to great places!
Today is your day!
Your mountain is waiting.
So... get on your way!"*

- Dr. Seuss
Oh, the Places You'll Go!

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GRADUATIONS

A NOTE FROM THE CEO

We started working on this publication long before the coronavirus hit U.S. soil. The stock market was at an all-time high and the 2020 outlook looked promising. Now, sadly, as we go to print we are in the midst of a pandemic with extreme market turbulence and sky-rocketing unemployment rates. The collective happiness and optimism that we all started 2020 with has turned into fear and trepidation. While it might be hard to focus on the future and brighter days ahead, I urge us to do so because I am certain that one day it will come. Even though graduations will look remarkably different this year with remote celebrations and speakers via teleconference, our graduates still deserve to be celebrated nonetheless. And we still have to think about the financial needs and preparations for pursuing an education. So with that, we delicately and mindfully forge ahead.

Whether it is for you or a loved one, a graduation is a truly special moment to celebrate the accomplishment at hand and look forward to the future. Life is full of such moments. Most graduations are found along the educational path — most notably, high school and college. Graduations are also celebrated at other milestones. As you'll read in this newsletter, graduations are just as much for parents who are graduating from one spending level to another and adjusting to the new financial demands of the next advancements along the educational path.

> "Taking on goals with the same zeal as a student striving for their diploma is an admirable way to learn new things wherever we are in our lifetime."

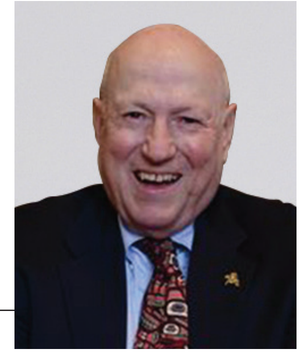
Graduation can also be thought of a little less traditionally. For example, one might graduate from employment and enter the ranks of the retired. We will discuss the financial, emotional and psychological aspects that impact new retirees as they adjust to newfound freedom. Or a parent may graduate from the time of having children at home to an empty nest.

The importance of graduation is not only found in the accomplishment, but also in the stage to come. Learning and progress help us to have a purposeful, satisfied life. Taking on goals with the same zeal as a student striving for their diploma is an admirable way to learn new things wherever we are in our lifetime. Recognizing that our time is something we cannot get more of is important when choosing how to allocate it. Forming goals that are in alignment with our values increases the chances of attaining a meaningful life. Using the graduation season as inspiration for our own lives is a useful comparison. Celebrating the accomplishments of others allows us all to center ourselves amid life's greatest moments.

Within this newsletter, we hope to acknowledge both the traditional and nontraditional graduation moments that we all celebrate this time of year. But we also hope that you will reflect on your life's goals and think about what you can do to accomplish those milestones. Quantify what it will take to attain the next level and then commit to taking a step in that direction, whether it be in the realm of finances, wellness, family or otherwise.

Personally, I will be dropping my second of three children off at college this fall. Understandably I am very proud of all of them. The empty nest period is looming large, but not for another four years. Thus, I'll take my cues from my colleagues who have already gone through this transition when the time comes. Or I'll go on a much-deserved, long-awaited vacation with just my wife. That sounds like a pretty great celebration to me!

- Rick Manske, CFP®, BFA™



“Don’t Be a Fool, Stay in School”

Dr. James F. Smith | Chief Economist

This pithy aphorism, whose origin cannot be definitively traced, is frequently used by the Rev. Jesse Jackson, himself a graduate of North Carolina Agricultural and Technical State University in Greensboro. Regardless of its origin, the phrase contains a ton of wisdom in just seven words.

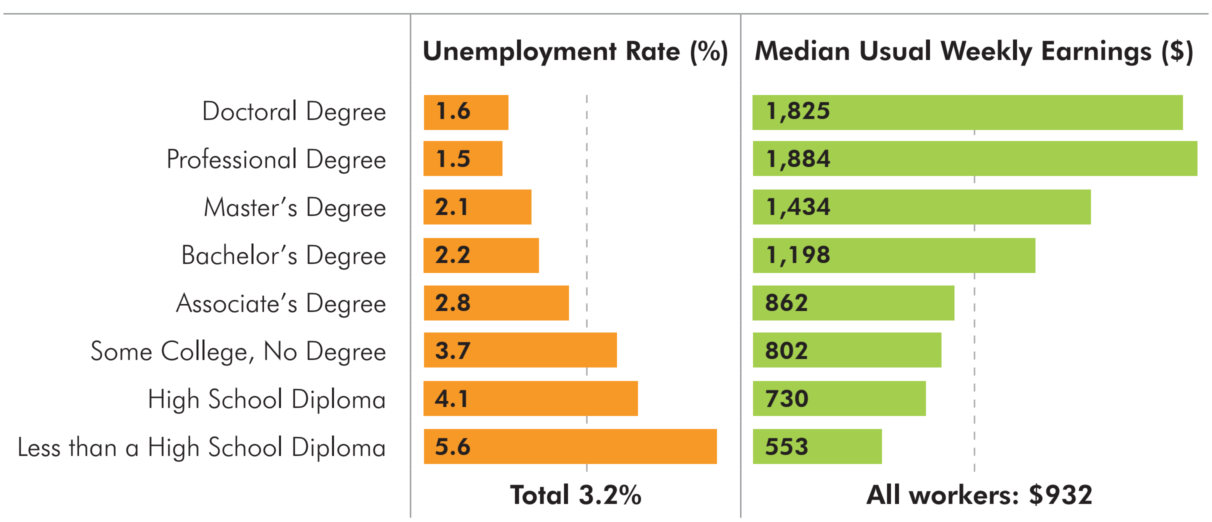
Professor George Psacharopoulos of Georgetown University and Dr. Harry Patrinos, an education expert at the World Bank, have published several articles on the return on investment for each additional year of education. They surveyed 1,120 studies across 139 countries over the period 1950-2014. They concluded that the investment by an individual in each additional year of education (whether from third grade to fourth grade or from college sophomore to junior) has an annual return to that person of 8.8% a year for life. That is a very impressive result.

A frequently quoted November 2015 publication from the Social Security Administration contains eye-catching information on the differences in lifetime earnings between high school graduates and those with a bachelor’s degree or higher. Key findings are as follows:

- Men with bachelor’s degrees earn approximately $900,000 more in median lifetime earnings than high school graduates. Women with bachelor’s degrees earn $630,000 more.
- Men with graduate degrees earn $1.5 million more in median lifetime earnings than high school graduates. Women with graduate degrees earn $1.1 million more.
- Applying a 4% annual real discount rate, the net present lifetime value at age 20 of a bachelor’s degree relative to a high school diploma is $260,000 for men and $180,000 for women. A graduate degree is worth $400,000 for men and $310,000 for women.

The U.S. Bureau of Labor Statistics (BLS) publishes annual data on unemployment rates and earnings by educational attainment. The most recent data on median weekly earnings (half the people in each category are above and half are below the median) for 2018 were released on September 4, 2019. Refer to the bar chart below for a graphic presentation of this data:

Unemployment Rates and Earnings by Educational Attainment, 2018



Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.

Source: BLS, Current Population Survey

Every month in its publication The Employment Situation, the BLS provides data on employment and unemployment by educational attainment. The results for December 2019 are shown here:

Employment Status of the Civilian Population Age 25 and Over by Educational Attainment
(seasonally adjusted; numbers in thousands)

	Civilian Labor Force	Employed	Unemployed	Unemployed Rate (Percent)
Less than High School	9,985	9,379	516	5.2
High School Graduate, No College	36,094	34,764	1,330	3.7
Some College or Associate Degree	37,509	36,491	1,018	2.7
Bachelor's Degree or Higher	59,398	58,778	1,160	1.9

Source: BLS, The Employment Situation release, February 7, 2020

The overall unemployment rate was 3.5% in December. That was the lowest since the same rate in November and December 1969. Of course, the unemployment rate will shoot up in the next few months as a result of the COVID-19 pandemic, but the relative differences shown in this table should remain true.

According to the Census Bureau, the proportion of people in the U.S. aged 25 and over with a high school degree or higher was 87.7% in 2018. The proportion with a bachelor's degree or more was 31.5%.

Clearly, there can be no argument about the economic value of a college education.

As Rev. Jesse Jackson noted, it is supremely foolish to drop out of school, especially prior to earning a high school degree. It is also extremely advantageous for lifetime earnings if further schooling is attained. The facts are clear.

"According to the Census Bureau, the proportion of people in the U.S. aged 25 and over with a high school degree or higher was **87.7%** in 2018. The proportion with a bachelor's degree or more was **31.5%**."

Graduating Day Care Bills, Hooray! Errr, I Mean … My Baby Is Graduating!

Ashley Gragtmans, CFP®, BFA™ | Financial Advisor

Full transparency: Before I had kids, I looked at day care graduation photos with a certain level of judgment and cynicism.

It seemed silly to me, like participation trophies. I liked the idea of celebrating just one major graduation, which represented the culmination of all a child's academic achievements over the years. But then I had kids, and a realization hit … the graduation is not for the child. It's for the parents! With two kids, day care is our largest monthly expenditure. Coming in well over our mortgage, we often feel the strain of juggling the cost of day care, our daily expenses, and savings for family vacations and retirement. So, I assure you that when it's time for my children to graduate day care, I will be celebrating with the rest of those parents I used to silently judge!

In the meantime, I'm taking advantage of any and all opportunities to reduce the financial sting and plan for the much-anticipated moment when this monthly expense drops from our household profit and loss statement.

What I'm doing now

If your employer offers a dependent care FSA, take advantage of it! This type of account allows you to set aside pre-tax money for eligible dependent day care expenses. Essentially, money is withheld from your paycheck and goes into an account (before tax) to be used for day care, summer camp, nursery school, preschool, etc. You simply pay out of pocket, then submit claims to reimburse yourself. This is free money and a no-brainer. Note – these accounts do not roll over from year to year. Use it or lose it.

What I plan to do

It's never too early to start saving to a 529 plan! Just like any investment account, compounding returns mean that the earlier you start, the more your investment will work for you, even if it's only $25 per month at first. I get it: It's hard. But it is very important to have accounts open and a funding strategy in mind by the time your kids are wrapping up day care. My personal goal is to divert the day care expenses that I am currently paying directly to our daughters' 529 plans. I'm already accustomed to spending that money, so it should be painless to switch it over to savings. Otherwise, I risk lifestyle creep, and the money is consumed in any number of other ways. And since I intend to send my kids to public school, I will still have 13 years to grow and build their 529 plans. If you decide to take the private route, the 529 plan may still be a good option since $10,000 per year in private school tuition can be paid out of it. My colleague Ben Blake goes into more detail on 529 plans on the next page.

What you should always be doing

This accumulation phase of life can be hard. How do you save for education and retirement, get away once in a while, and not take a vow of poverty? It is doable, but not without a meaningful understanding of your monthly budget and some real discipline. If you are struggling to save and pay bills, my recommendation is to start budgeting! It is empowering to be fully informed and able to hold yourself accountable for your day-to-day financial choices. Talk to your Parsec advisor about setting you up with a budgeting tool to help you get on track!

Of course, strategies vary depending on your own situation and goals. No doubt this can be a challenging phase of life, but your Parsec advisor is available to help you stay on track!

Is a 529 Plan Right for Your Family?

Ben Blake | Portfolio Manager

The Parsec family has been experiencing a baby boom recently, with the addition of nine new baby boys and girls added to the ranks in 2019. My wife and I have been fortunate to be part of this expansion with the birth of a baby girl. Now that the initial excitement has somewhat subsided and I have adjusted to a new sleep pattern, I've begun to think about our daughter's future — a common topic around the office these days.

It's eye-opening to think that this wiggly little baby is closer to her freshman year of college than I am! Time to start saving! But how? What if the grandparents have offered to help?

For educational expenses, we decided that the 529 plan was the best option for us. Updated tax law allows for the use of 529 funds for private K-12 tuition, up to $10,000 annually. These plans are no longer used only for postsecondary expenses, and there is no annual spending limit for qualified postsecondary education expenses. One upside is that there is no limit to the number of plans that can be opened for a single beneficiary. My wife and I can open one plan, and the grandparents can open a plan as well. If they prefer, the grandparents – or anyone else for that matter – can contribute to the parent-owned plan as there are no limits on the number of contributors. Contributions do count as gifts to the beneficiary, so staying below the current $15,000 per person gift tax exclusion is an important consideration. However, it is permissible for an individual to gift up to $75,000 in one year to a 529 plan. This is a strategy called forward gifting, which allows a person to contribute five times as much money to a 529 plan in a single year, providing no other gifts are made during that time period. Combined, grandma and grandpa could gift $150,000 in 2020 for the benefit of their grandchild.

Two of the major benefits of a 529 plan are the tax-free growth and tax-free withdrawals for qualified expenses. Even if you are spending along the way, you could have quite the nest egg for college. For example: If the new grandchild goes to private school for K-12 using the full $10,000 allowed tuition expense each year, and the 529 plan earns an average return of 6%, the $150,000 plan balance started at birth will still be worth approximately $240,000 when college rolls around. For the 2018-19 school year, according to CNBC, the average cost of tuition, room and board for one year at a public university for an in-state student was approximately $21,370, increasing at a rate of approximately 5%. This means that in 18 years, annual expenses at a public university could grow to be more than $51,000.

Many grandparents considering gifting to a 529 plan wonder what happens in the scenario where funds remain after all educational expenses have been paid. Fortunately, the 529 plan beneficiary can be changed to another member of the family and even passed through the generations. So remaining funds could become the start of a 529 plan for a great-grandchild. The worst-case scenario sees the owner of the plan withdrawing funds to pay for noneducational expenses, in which case earnings growth above the original contribution would be taxed as ordinary income plus a 10% penalty rate. Clearly the better scenario is to continue to change beneficiaries until educational expenses have fully depleted the plan.

If you are interested in funding a 529 plan for a child or grandchild, reach out to your Parsec advisor. You can also do your own research at www.savingforcollege.com. The website even has an information section specifically for grandparents. 529 plans are not the only option for saving for college tuition, so talk to your advisor to learn about all of your options.

You Have a High School Senior – Now What?

Bill Hansen, CFA | President, Chief Investment Officer

The last years of high school are an exciting, stressful and scary time for students, from academic pressure to social and behavioral issues. They are adults in many ways, but still little kids in other ways.

Having never parented a child through this stage before, my wife and I learned a lot in the process.

Standardized tests

This really starts junior year, but the principles still apply. Test early and often. Don't be afraid to reach out and get help for your student. Our son has always struggled with standardized tests, and he knows it, so taking these just stressed him out further. The good news is that it doesn't count against your student to take an exam multiple times, which was frowned upon many years ago.

We used both a study skills tutor and an academic tutor, both one day a week. Our son did this for several months and was able to raise his ACT composite score by seven points, which really opened some doors for him regarding admissions.

Test optional? Not really

While I have read that many schools are de-emphasizing standardized tests, we did not find that to be the case. I found information on lists of test-optional schools that was often inaccurate, and there were other catches. For example, NYU is test optional, but if your student doesn't provide an ACT or SAT score, they must submit three AP exam scores, including one in math or science. Our son had two AP scores and was taking his third AP course, but none were in math or science. Since he is already a senior and his courses set in place, there was no way for him to qualify. Had we known this during his junior year, he could have adjusted his course schedule accordingly.

Deadlines, deadlines, deadlines

Here's an area where you can really help your child. There are so many deadlines, it's hard to keep them all straight. Every school's application deadline is different. Some also have separate deadlines for scholarship applications. For example, Virginia Tech (his leading choice) has a huge number of scholarships that you must apply for individually, all with different deadlines. Other institutions just let you know of a scholarship as part of their application process.

We had him apply early action for all schools; to us it seemed like the regular deadlines were too late to give him a good selection for housing. The early action application deadlines were generally between November and January. Many applications require essays; some may be reused but others are unique to the institution. Make sure your student knows which schools require essays and help keep them on top of the deadlines.

Don't nag them — just make a master list and follow up with them from time to time to keep things moving and make sure they don't miss anything.

Financial aid

Eligibility for financial aid is a calculation with several moving parts, and there is no set level of assets or income that would preclude you from receiving financial aid.

The first step in the process is to complete the Free Application for Federal Student Aid (FAFSA). Applications open on October 1 each year and must be received by June 30 the following year. However, you should complete this as soon as possible to ensure maximum eligibility for scholarships. Many schools require this information by March 1 for them to prepare a financial aid offer before national decision day on May 1.

The income and asset values submitted on the FAFSA are used to compute your Expected Family Contribution (EFC). This is the amount you are expected to pay toward your student's education. Potential financial aid is calculated as the estimated cost of attendance minus the EFC. If you don't qualify for need-based aid, the school still requires this information for merit-based scholarship eligibility. You should fill out the FAFSA in subsequent years even if you don't qualify for any aid in a particular year, since there are many financial circumstances that may have changed.

There is another form called the CSS Profile that some private schools require. It is even more time-consuming than the FAFSA in that it asks for more detailed information and lacks a data retrieval tool for getting information directly from the IRS. However, it is necessary for your student to qualify for scholarships at certain schools, so be sure and check with each one. Just be sure to allow yourself enough time.

Be aware of the differences between subsidized versus unsubsidized loans. Subsidized loans have a lower interest rate, so unsubsidized are less desirable.

Now what?

How will we adjust when our oldest leaves? Well, we have another boy who is a freshman, so we'll do it all over again in a few years. He'll have a head start on the college tours, although his interests are totally different than his brother's. It will be bittersweet for us; we will miss our oldest, and the house won't be the same. But we're happy that he's entering a different phase of life and are excited to see where he ends up. And our youngest will enjoy being an only child for a while.

Good luck, and as our son's guidance counselor said, "It will all work out!"

Tax Savings Associated With College Expenses

Larry Harris, CPA, CFP®, PFS | Director of Tax Services

As Parsec COO Harli Palme originally shared with our clients last year, the 2018 tax law changes eliminated the tuition and fees deduction for college expenses. However, there are still several ways to save on taxes when saving and paying for college so we have updated her original piece below with the latest guidelines.

For those who qualify (i.e., income is below limitations), there are education-related tax benefits. If you take out student loans for your education, the annual interest expense may be deductible up to $2,500. In 2019 for taxpayers who file married-filing-jointly, the modified adjusted gross income (MAGI) phaseout begins at $140,000 and ends at $170,000. For single taxpayers, the phaseout is $70,000 to $85,000.

There are also credits for education expenses, such as the American opportunity tax credit (AOTC), where a qualifying taxpayer can receive a credit up to $2,500 per student for qualifying education expenses at colleges, universities and trade schools. This is a direct credit against your taxes owed, rather than just a deduction on taxable income, and is therefore more valuable. A taxpayer can claim this credit for only the first four years of postsecondary education, and it can be used for expenses associated with tuition, books and other equipment needed for school. Even if you don't have a tax liability in a given year, the credit is refundable up to 40% of what is owed to you. The AOTC is completely phased out for married-filing-jointly taxpayers with a MAGI over $180,000, or $90,000 for single taxpayers.

The lifetime learning credit (LLC) is another education expense credit, although it is slightly less favorable than the AOTC in any given year, as it maxes out at a $2,000 credit. However, unlike the AOTC, there is no limit to how many years you can claim it, making it a good option once AOTC has been used up. You can't claim both the LLC and AOTC in the same year. The LLC is completely phased out at $68,000 for a single taxpayer and $136,000 for married-filing-jointly.

What if you are paying school tuition for someone other than yourself or your dependent? If you are a grandparent who'd like to help your grandchild, you can consider funding a 529 plan for your grandchild. If the account is in your name, it is not considered part of your grandchild's assets for qualifying for financial aid. However, any distributions used to fund the child's tuition would be counted as income for the child and so should be delayed until the student's junior and senior year if qualifying for financial aid is a concern (FAFSA uses prior-year tax data).

Additionally, a grandparent could use his or her own funds to send the tuition payment directly to the school. This has the benefit of not counting as a gift for your lifetime and annual gift exclusion and would not require a gift form on your taxes.

Please reach out to your Parsec advisor to discuss your specific situation so that we can determine the best plan for you.

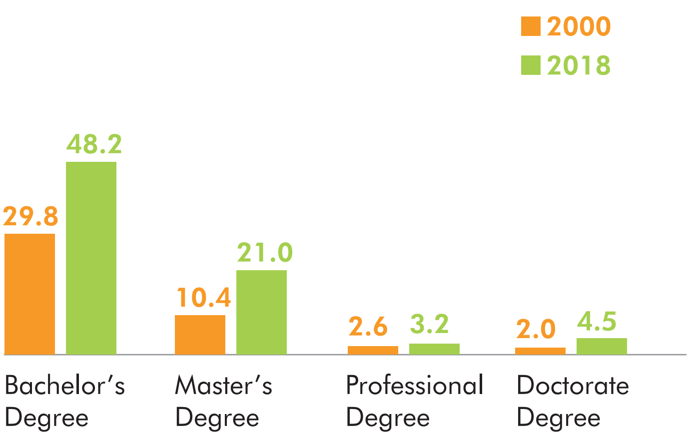
Is Graduate School Worth It?

Roger A. James Jr., J.D., CTFA | Partner, Director of Trust

For some, this question is easy to answer. For others, not so much. After graduating with my B.A. in English and Literature from Baylor University, I always knew that I wanted to go on to law school. I ultimately got my J.D. from Samford University's Cumberland School of Law and practiced law for quite some time before landing at Parsec in 2007.

According to the U.S. Census Bureau, approximately 13.1% of Americans have a master's, professional degree or doctorate degree in 2018, up from 8.6% in 2000.

Number of Degree Holders: 2000 and 2018 (in millions)



Source: U.S. Census Bureau, Annual Social and Economic Supplement to the Current Population Survey, 2000 and 2018.

As Dr. Smith mentioned earlier in this newsletter, according to the Social Security Administration, men with graduate degrees earn $1.5 million more in median lifetime earnings than high school graduates, and women with graduate degrees earn $1.1 million more. So yes, financially it is worth it. But what about all the other emotional, logistical and personal considerations that go along with the decision-making process?

Some may have considerable loans from undergraduate school that weigh on them and make it difficult to grapple with adding more debt to that pile. Others have a comfortable job with benefits and struggle with the notion of letting go of that security blanket to go back to school. And yet others have a young family and simply don't have the time, flexibility or freedom to prioritize graduate school in the foreseeable future. Some are deciding on graduate school not for themselves, but for their children. If their saving plan didn't compensate for that additional educational expense upfront and they want to financially support their child, they are figuring out how to factor that in while still supporting their other personal financial goals, including that long-awaited retirement!

Whatever your situation may be, talk to your Parsec advisor about your family's educational goals, and we will help you sort through the various pros and cons. We can run pro forma calculations to determine what your income situation would look like if you (or one of your loved ones) went back to graduate school. There are countless what-ifs to run depending on the program, school, duration, etc. This is what we excel at, so let the fun begin!

Or you can always be like my colleague Charles Thompson who is wicked smart as evidenced by his Morehead-Cain scholarship from UNC-Chapel Hill. Instead of going back to graduate school, while servicing all of his clients he is conquering what seems like every professional certification possible, currently at five and counting: CFP®, CTFA, CEBS, RPA and CRPC®. I'll leave that alphabet soup as is for the puzzle aficionados out there!

Graduating From the Workforce – Are You Emotionally Prepared?

Michael E. Bruder, CFP®, CTFA | Partner

Everyone at Parsec works diligently to prepare you financially for retirement by guiding you to financial security. This is our mission, and our success can only be measured in seeing you achieve that security. Most importantly, you have walked with us each step of the way as we explained and implemented the financial concepts needed to achieve that success. Your retirement is now financially set; you are ready to retire!

Are you ready emotionally? Wait … what? Did you spend as much time preparing yourself emotionally as you did financially? I've heard some married folks say, "I married you for better or for worse, not for lunch!" That can get a chuckle, yet there is a glaring element of truth to it.

In full disclosure, I am six years away from my planned retirement (and time flies), yet I already have conflicting emotions. How do I leave a profession I've dedicated my life to and absolutely cherish? How much of my self-concept is tied to my profession? What should/will I do to occupy my time? Yes, I've done my best to prepare financially, but what will it feel like when I no longer have a paycheck coming in? Does my wife really want me around for lunch every day?

Seriously, all of these conflicting emotions should be welcomed as they help us begin shaping our retirement years. Just as any other change in our lives causes uncertainty — graduating high school or college, getting married or divorced, having children or grandchildren, changing jobs voluntarily or involuntarily, moving — we take stock of ourselves at each juncture, step out into the unknown and grow. Approaching retirement is no different. We start our path knowing that it can (and will) change, and most importantly, we are able to change and adapt to it. After all, how many years have we already been planning, adapting and changing? We have a successful history!

Here are three tips I give my clients:

1. Write down your list of passions. Write as many as come to mind, and then work to refine and prioritize those into a final list of five. For each of those five passions, write beside it a weekly activity to support it. For example, if a passion is working out, then playing golf or tennis or attending a gym class should be on your weekly calendar in retirement. If your passion is giving back, then find a nonprofit that you respect where you can volunteer weekly.

2. Write down your list of fears. Again, write as many as you can, and then refine them. Write out an action you will take to overcome those fears. Do you fear losing intellectual stimuli? Then challenge yourself daily in retirement to brain games such as chess, crossword puzzles or another activity to keep your brain sharp. Do you fear a potential awkwardness reconnecting with your spouse with so much newfound time together? Then discuss together the "nice-to-dos" you always joked about wanting to do in your earlier years despite being swamped with the "must-dos," and keep the checklist on your fridge to mark off together. Remember that you now have the financial security to take those trips or splurge on what makes you happiest! (If it's a big splurge, please consult your financial advisor first!)

3. Write down three adjectives that you would most associate with yourself as a working professional. These are likely the traits that you will miss most in retirement, so figure out how to get them elsewhere. For instance, if leadership comes to mind, then you likely should find a board seat. A delegator should go volunteer somewhere like Habitat for Humanity where that role is always needed on the job site. A multitasker can easily accomplish that desire with odd jobs around the house.

Sometimes as a financial planner I feel more like a counselor, and that is more than OK! I do have my master's in counseling, so perhaps it's the best of both worlds. And in six years, if my wife isn't interested in daily lunches, know that my calendar is open and I'm buying!

How To Create a Retirement Paycheck – The 3-Bucket Strategy

Rick Manske, CFP®, BFA™ | Chief Executive Officer

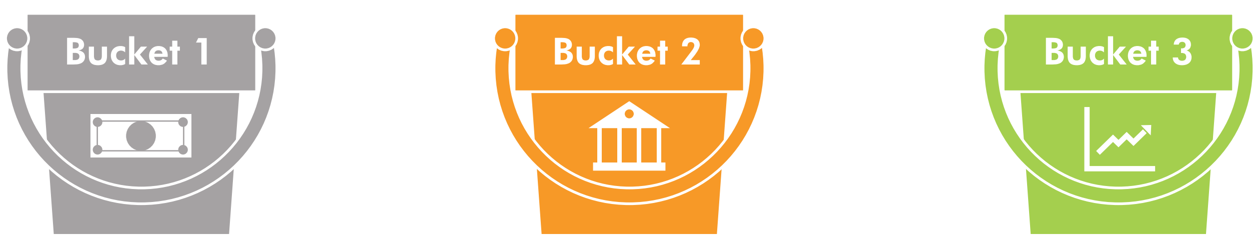
For all workers, payday is one of the most glorious days. Thus, once you graduate into retirement, how can you generate a new type of consistent and ongoing paycheck?

Parsec believes that a sustainable withdrawal rate (SWR) is 4% for most retirement time frames. Factors that can impact this rate include your length of retirement, when you retire, your life expectancy and your desire to leave a legacy to others.

The objective is to withdraw 4% from a balanced portfolio of 60%-80% stocks and 20%-40% bonds. You can expect a 6%-8% long-term total return and a 2%-4% long-term portfolio growth rate.*

For your retirement paycheck, decide the frequency of your distributions, such as the first of the month, so that you know when to expect it. Then, decide which types of accounts you are going to withdraw from and know the tax implications.

Because portfolio income is lower than 4%, the investor will have to plan for periodic principal liquidations. Estimating the size and frequency of these forced liquidations is very important so that you do not get forced to sell stocks when they are at a low point. To help guard against this, I encourage Parsec clients to follow the three-bucket strategy:



Cash and short-term bonds in an amount sufficient to cover two to three years of anticipated cash flow needs

Investments in various fixed-income asset classes (should approximate three to nine years of spending)

Funds not needed for 10+ years should be invested in dividend-paying stocks

Bucket 1 is having cash and short-term bonds in an amount sufficient to cover two to three years of anticipated cash flow needs.

Try to map out the next 36 months of your expenses. Be sure to look at expenses that are irregular in amount and frequency such as travel, car replacement, home maintenance and taxes.

Bucket 2 should be invested in various fixed-income asset classes and should approximate three to nine years of spending.

(continued)
It is important to diversify among account types. When you have taxable accounts and cash, you are likely to pay less income tax in early retirement. Without careful monitoring, you could be left with a portfolio that only consists of IRAs toward the end of retirement, which could mean years of unpleasant tax bills or a faster drawdown rate later in retirement. Estimating taxes in November of each year gives investors a chance to decide whether they would like to do partial Roth IRA conversions in the years after retirement but before age 70.5.

If you do have to sell principal, I recommend the following strategy:

Stock market up 3% or more

Take from equity allocation

Stock market down 3% or more

Take from bond allocation

Stock market up 10% or more

Replenish bonds and bring forward discretionary spending

Bucket 3 is for funds not needed for 10 years that should be invested in dividend-paying stocks.

Some stocks have very consistent dividends. Parsec founder and chairman Bart Boyer calls them "go fishing" stocks because you can go fishing and not worry about the dividend changing or going away. But do not just prioritize stocks that have dividends — you need to diversify.

It's not the size of the dividend that matters, but rather look at the dividend payout policy. Find a dividend payout policy that is small enough that a company can hold the dividend during periods of economic weakness or bad company performance, but large enough for shareholders to benefit by a stout dividend. As a result of the market love affair with the dividend, company management is reluctant to do anything that might jeopardize it.

***Source:** 2019 Morningstar/Ibbotson. Long-term total returns are based on a blended portfolio of large-cap stocks, small-cap stocks and U.S. investment-grade bonds. Long-term portfolio growth rate refers to the long-term total returns after 4% annual withdrawals.

Helping Our Clients and Communities Navigate the Financial World Amidst the Coronavirus

Let us help guide you through this unprecedented time.

This isn't the first time that volatility has roiled the stock market and sadly it won't be the last. The coronavirus and its impact on our way of life is certainly creating fear, uncertainty and disruption. This is not only because of the economic and financial turmoil, but also the health and safety of loved ones affected and those on the front line of the pandemic.

No one can reliably predict the arrival, depth, or duration of bear markets, but that is not an excuse for us all to bury our heads in the sand. Patience can be the most prudent and most profitable response during a downturn, but patience doesn't have to be passive. In fact, many investment and financial planning techniques are actually more meaningful during a bear market. That is why our financial advisors, portfolio managers, financial planners, investment analysts and support staff are all working diligently, actively, and opportunistically to protect and improve your long-term financial security.

Rest assured that Parsec remains diligent in exploring every opportunity that emerges amid the market turmoil. We will work hard in the days and weeks ahead to make sure your portfolios remain well diversified so that we can navigate the near-term turbulence and remain in position for the recovery when it comes.

Parsec employees are dedicated to helping our communities through this difficult time. To that effect, we have donated $15,000 to helping the following non-profits that are actively and efficiently responding to the dire needs of those around us:

- The Community Foundation of Western North Carolina
- United Way of Asheville and Buncombe County
- Manna Food Bank
- Second Harvest Food Bank of Metrolina
- Second Harvest Food Bank of Northwest North Carolina
- Food Bank of Central & Eastern North Carolina
- MAHEC
- Asheville City Schools Foundation

Stay healthy and safe everyone!
- The Parsec team

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