

## Consider This Program

Episode Date:

**January 25<sup>th</sup>, 2020 Episode**

On This Show:

**Big Joe Clark, CFP®:** Managing Partner and Lead Advisor of Financial Enhancement Group

**Ken Dilger:** Former Tight End at Indianapolis Colts, Senior Loan Officer at Milestone

**Angi Kinser:** Event Coordinator at Financial Enhancement Group

### Show Notes:

#### Topics Include:

- Precious Metals & Gold in Your Portfolio
- 529 Plans with the New Tax Code
- Market Misbehavior with Dave Keller

#### Precious Metals & Gold in Your Portfolio

Should you buy gold?

Are we in an economic downturn? The stock market's at about a record all time high. The economy's doing splendidly well, although people are concerned about some of the growth rates.

Why can somebody have a TV commercial that says, "We're in a bad economic time. You should buy gold." The gold people are pure marketing people. Gold always does well during inflationary periods of time. I think they play on the fears of everyone, with the headlines in the news: Trade Wars, the Iran and Iraq situation, the Impeachment Elections, etc.

If you should own it in your portfolio, how much should you own? What percentage of my portfolio should be precious?

There are people who looked at last year and didn't think the market was going to have near the growth that it did. The S&P 500 had a stellar year last year. The indices were up more than 25% for the year.



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People asked, “Should I own gold?” We buy gold in portfolios when it's time. We use exchange traded funds. SLV is silver, GLD is gold and we're able to put it into some of our portfolios, when it's time. We do not think you should own it all of the time.

### **529 Plans with the New Tax Code**

What is a 529 Plan? It's a college savings plan. The one in the state of Indiana is called CollegeChoice. But if we call it the college choice program. When I say 529, that is a federal statute. When I say CollegeChoice, I'm talking about Indiana. If you live in Indiana, you should be using the CollegeChoice program. If you file a state tax return, you pay state income tax and you can get up to \$1,000 state tax credit for contributing. If you put in \$5,000, you get a 20% tax credit. That's a dollar for dollar reduction in \$1,000 that you owe the state of Indiana.

One of our big issues is student debt. The Secure Act made it so you can use up to \$10,000 per student. If you have two kids, that means you could \$20,000.

Is the \$10,000 limit per owner of the 529 or for the beneficiary? It is per beneficiary. I can switch beneficiaries, right? As long as they're in your bloodline. Is there a yearly limit on what you can put in? There's not a yearly limit. There's a yearly limit to the tax credit (20%). You can put in more than \$5,000, but you don't get the tax credit. It's not the greatest investment vehicle in my opinion.

“I have a parent plus loan that I still have a balance on.” (That means she's taken out debt for one of her kids to go to college and the debt is not in the kid's name.) “I was actually getting ready to pay it off. Since I'm getting ready to pay off a chunk of that, would it make sense for me to deposit money into a 529 first and then pay off that parent plus loan?”

It's \$10,000 per educational beneficiary, though the 529 Parent Plus Loan is in your name. You are the owner of the 529 plan for your son. He was the educational beneficiary. You don't need to open up a new plan. You need to go in and change the beneficiary to yourself, so you are now the owner and you're the beneficiary. Then make the deposit because you'll get the \$1,000 tax credit. You put in up to \$5,000 and you would get \$1,000 state tax credit. Then you can withdraw up to \$10,000 to pay on the student loan. You got \$1,000 tax break.

### **Market Misbehavior with Dave Keller**

Dave is the author of a blog called Market Misbehavior and was previously a Managing Director for Research for Fidelity Investments in Boston.



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When did you get into the industry, Dave? How long have you been doing this?

I started in June of 2000. I've always told people that my introduction to investing was seeing the complete unwind of the tech bubble and seeing people deal with the negativity that came out of nowhere. Then I spent eight years at Bloomberg in New York. It was a fantastic learning experience.

What is behavioral finance? How would you define that and why is it relevant to investors?

Behavioral finance is all about how we think about our money and really, our relationship with our money. I've spent my career working with financial advisors, institutional investors, big money managers, active investors, and individual investors, trying to have a better relationship with their finances. With the investment side of what they're doing, it's evolved over the last 20, 30 years. It's formalized a set of structures instead of behavioral biases -- a set of definitions that describe how we think, not just about money but about decision making in general.

It's often been said that the markets are driven by fear and greed. What I've found, especially more recently, is that it is almost a hundred percent driven by fear. Stock and asset prices are driven by supply and demand. That demand is driven by fear, on the downside: the fear of losing everything. It's panic; it's desperation. That's when you sell something. But on the upside, it's also fear of missing out.

Dave Keller is the President and Chief Strategist at Sierra Alpha Research. How can an investor, especially somebody doing this on their own, use technical analysis and behavioral finance to manage the risk in their portfolio?

We've talked so far about, not necessarily the negativity, but the emotional baggage that a lot of investors bring to the table. We have those challenges of seeing clearly and making a good systematic discipline decision in an environment that feels chaotic. I've found, when I'm working with clients, the first step is to admit you have a problem, which is recognizing that you're imperfect and that you have these emotional challenges and behavioral challenges for making good decisions. Technical analysis is a practical toolkit with which you can help minimize the impact of some of those behavioral biases.

#### **Continued Conversation with Dave Keller**

When you talk to somebody for the first time about your craft, Dave, about looking at technical analysis through your lens, do you have any challenges with people saying, "Well, I've never heard of it or I've never thought of it that way before." How do you make people feel comfortable about it?





Technical analysis was designed in a lot of different ways. The beginning of the 20th century is when it really started to proliferate and it was driven by individual investors' need to have a capability of understanding stock prices because companies didn't have to report with what they were doing. The only toolkit you had as an individual investor was looking at the price of the asset and trying to make some assumptions on it.

Have I gotten pushback or do I have trouble making that relevant with people? I've spent most of my career working with fundamentally-oriented investors. At Bloomberg, I spent a lot of time visiting large institutions, buy-side from sell-side firms. Frequently we would have to help them understand how to chart their investment process.

Then for about eight and a half years, I was in Boston at Stability as a Managing Director of Research. Part of my main role there was to work with the Equity Portfolio Managers and help them to think about how to incorporate charts into what they were doing. A lot of it was thinking about how you don't just look at charts in a vacuum. Technical analysis and looking at trends and momentum are part of a holistic investment process. There's an appropriate time and place to be incorporating the visualization of what's happening to understand the investor psychology.

What do you find are the three most common behavioral biases that we have as people?

The first one is what we call confirmation bias. This is widespread, not just with individual industries. The best thing you can do with these behavioral biases is be aware of them and put systems in place to help you get unplugged from those as much as possible. A confirmation bias is basically when every piece of data that you collect, confirms what you're already thinking. Anything that's negative or conflicts with your preconceived notion, you mentally push away. Don't approach your process with what you want to do. Start with gathering the evidence. Start with looking at the data. The second one would be what I call endowment bias or the endowment effect. It's essentially: things that you own, you attribute greater value to.

*Disclaimer: Joseph Clark is a Certified Financial Planner™ and the Managing Partner of Financial Enhancement Group, LLC an SEC Registered Investment Advisor. He is the host of "Consider This" found on WIBC Saturday mornings from 6-7a.m. as well as three other Indiana-based radio stations. Joe has served as an Adjunct Assistant Professor at Purdue University where he taught the capstone course for a degree in Financial Counseling and Planning.*

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