



Four Truths All Investors Should Know About Risk

Risk, and the role it plays in a portfolio, can be one of the most difficult concepts for investors to grasp. To help clear things up, we outline four important risk-related insights every investor should know.

1. Risk has many faces. When people talk about risk, they're usually referring to investment risk: the idea that you could purchase stock at \$50 a share and it could potentially be worth \$25 a year later. This kind of risk is relatively easy to understand, and it's measureable based on the ups and downs in an investment's price. The more volatile the price has been, the more risky the investment is considered to be.

Unfortunately, investment risk is only one of the risks investors can face. There are plenty of others that aren't as easy to understand or measure. These include:

Market risk. This is the risk that the entire market will decline and pull your investment down with it. Remember what happened to stocks during the Great Recession? That's an example of market risk.

Inflation risk. Inflation is the overall increase in prices in an economy. There's a risk that an investment's return won't be enough to overcome inflation's impact. For example, if inflation runs 2% a year and your investment returns only 1%, you lose "purchasing power." As a result, your investment buys less at the end of the year than at the beginning.

Opportunity risk. Some investors believe you can avoid risk by investing conservatively. Opportunity risk is the possibility of missing out on the chance to earn *better* returns because you aren't being more aggressive.

There are many more types of risks, too, including some specific to certain investment categories. For example, bond investors face default risk—the risk that the issuer will fail to make interest payments or repay the bond's par value at maturity.

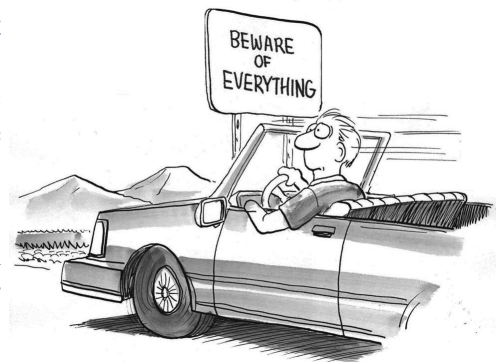


"I need someone inside the financial jungle."

2. Risk is usually linked with expected return. This is possibly the most important thing to understand about risk. Risk and return generally go hand-in-hand: If you put money into a low-risk investment, you should probably expect lower returns. If you choose a higher-risk investment, you're seeking higher potential returns.

Of course, things don't always work out that way. A high-risk investment may not get better returns (in fact, you could lose your entire investment). But many investors continue to include riskier investments in their portfolios, often for higher return potential.

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Team Updates

We appreciate all that you share with us about your family, goals, and life changes. We would like to take this opportunity to give you a little update about our lives outside the office.



*“Monica and I took our second trip to Europe visiting the French Riviera, Italy, and other fun locations. We stopped to snap this picture in front of the Ponte Vecchio or ‘Old Bridge’ in Florence Italy where we were able to enjoy the medieval architecture and the various shops in the city.”
~Jack.*

“Florida State was the college choice for our oldest daughter, Madison. It was an exciting time for her and an anxious time for us as parents as we dropped her off at school. Not only has she become a Seminole, she has made our whole family Seminole fans! Here Madison, Jason, and I are enjoying the parents weekend football game as a family. Together we now yell, ‘Go Noles!’” ~Sarah



“Lindsey and I enjoyed celebrating our five year wedding anniversary in Nashville, aka Music City.” ~Mike.



“My husband, John, and I were able to take a cruise to Hawaii and found a wonderful time underneath the rainbow. It was an enjoyable time for us both and it holds a special place in my heart as I used to visit the islands when my Grandmother lived there. I was able to bring a little bit of that aloha magic back to Orlando.” ~Donna



“For Halloween this year, my pet, Mr. Mickey, got a new haircut. This year he is going as Rolling Stones guitarist Keith Richards” ~Lindsey.

“This summer I was able to take a trip to the White Mountains National Park in New Hampshire. Here I am with Keith discovering one of the many beautiful waterfalls that span the approximately 148,000 acres of Congressional-designated Wilderness across eastern New Hampshire through western Maine.” ~Patty



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3. You should determine your risk tolerance. Your risk tolerance is how much risk you can comfortably live with in your portfolio. Determining your risk tolerance can be challenging. There are tools, including questionnaires,* that can help. One indicator that you've exceeded your investment risk tolerance: when your investments' performance keeps you awake at night—especially when there's market volatility.

It's okay to have a relatively low risk tolerance. However, focusing on lower-risk strategies may mean you need to adjust your objectives (for example, having \$750,000 at retirement instead of \$1 million). Or, you may need to lengthen your time horizon, which is how long you have until you tap into your investments. For example, you may decide to work until age 68 instead of 65 so you have more time to invest.

4. Help is available. Because risk is complicated—and only one aspect of investing—look to our team of financial advisor for help with building your portfolio. Our team will take the time to get to know you, including your risk tolerance, before recommending an investment plan.

*<https://www.wellsfargo.com/investing/retirement/tools/risk-tolerance-quiz/>

All investing involves risk, including the possible loss of principal. IHA-6571502-A2 / CAR-0119-04493

Tax Reform: This Year's Key Takeaways for Investors

After the sweeping changes of the Tax Cuts and Jobs Act took effect in 2018, investors may have been caught off guard when they saw the real impact on their tax returns. With those results in hand, it's a great time to consider any adjustments in preparation for tax day 2020.

Kris Gretzschel, CFP®, Wells Fargo Advisors Planning and Life Events Manager, offers four crucial points investors should consider:

1. Adjust withholdings to match your tax liability. Though some people may have been disappointed about the size of their refund for the 2018 tax year, their actual total tax burden still might have decreased.

"The IRS changed the withholding tables for the new rules. This required employers to withhold less tax from each paycheck leaving smaller refunds—or no refund—for many employees," Gretzschel says. In other words, if you paid fewer taxes from your paycheck throughout the year, it means you've seen the benefit all year long—and that likely means you won't see a big refund from your returns.

In fact, if you did get a big refund, Gretzschel says you may be better off changing your withholding amount so the savings are spread throughout the year. That gives you a chance to invest the extra cash sooner instead of later. If you have income taxes withheld from your income, use the IRS calculator* to determine what you should pay.

2. Remember that many tax law changes are temporary. While adjusting your withholding can be a smart move, Gretzschel recommends carefully considering decisions with long-lasting consequences if you're basing them on what could be only short-term changes. "Some tax law changes are permanent, but most changes to personal income tax remain in effect only through 2025," she says. As one example, she says business owners should be cautious about changing their business structure in response to the tax law and should have a plan in place if they need to undo any changes.

3. Reevaluate charitable giving. A higher standard deduction generally means charitable contributions won't count as much as in years past. That means your method of giving can have an impact on your tax bill. "If you're an annual giver to charity, think about the timing and method of making those gifts," Gretzschel recommends.

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If you have the means to double or triple your contribution in one year, a bunching strategy may provide more deductions over a period of years than continuing with your regular annual giving. Your tax advisor can help determine if this will benefit your situation.

To use this strategy, consider a donor-advised fund.** “You get the tax benefit for the year of the gift,” says Gretzschel, “but you can direct the disbursement of those funds over the coming years, just as you would with your annual giving.” A few things to remember about donor-advised funds: “It’s invested money, so its value can increase or decrease,” she explains. “Also, moving money into the fund is irrevocable.”

Gifts of securities can be a wise move in the current tax climate. Donating appreciated stock you held more than one year can get you a deduction based on its present value and saves you from paying capital gains taxes.

4. Look at loans. “If you’ve taken out a home equity line of credit for something other than your home, business, or investment use, it is likely that the interest is not deductible,” Gretzschel says. In essence, the cost of these loans just went up, if the interest is no longer deductible under the current tax rules. For Gretzschel, this raises a couple of questions: “Should you look to pay it off more quickly if the interest isn’t deductible? Is it possible to refinance at a lower rate or shorter term to reduce your interest costs?”



Byline: Michael W. Brough

*<https://www.irs.gov/individuals/irs-withholding-calculator>

**<https://www.irs.gov/charities-non-profits/charitable-organizations/donor-advised-funds>

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Continuing Relationships

We thank our investment company representatives for their ongoing relationship which continue to provide us the most up-to-date thought pieces, investment analysis, and market overview.

Since our last update we have had excellent discussions with these companies:

Absolute Investment Advisers, ACR Investments, BlackRock iShares, Invesco, Eaton Vance Funds, First Trust Portfolio, Hartford Funds, JPMorgan Funds, John Hancock, Legg Mason, Lord Abbett, Neuberger Berman, Nuveen, Thornburg Investment Management, and Wells Fargo Advisors.

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