PIMCO

INVESTOR EDUCATION

The Value of Professional Advice

A company of Allianz

Strategies to Streamline Your Financial Life

The value of partnering with a financial professional extends beyond investment performance – it includes the development of a thoughtful strategy and ongoing advice around key financial decisions.

When you partner with a financial professional, and he or she has a comprehensive picture of your investment holdings, you can eliminate conflicting advice and receive informed guidance to help you seek both your long-term and short-term investment goals. Consolidated accounts can also help a financial professional deliver this value more effectively.

Every investor wants personalized and clear financial guidance. In this guide you will find strategies that may impact your success as an investor and considerations for discussing these strategies with a professional. They include:

- Managing behavioral biases
- Simplifying retirement income
- Reviewing asset location and tax opportunities
- Easing wealth transfer and estate guidance

THE DISCONNECT IN ACTION

In 2018, nearly half of affluent investors said they would rather use one investment firm. This spanned all age brackets.[1]

Yet, a survey of 5,400 households showed that in practice many households relied on multiple firms. In almost 60% of these households the investors relied on two or more financial services firms, and among the households with $2M+ of investable assets, about 1 in 5 had six or more savings and investing relationships.[2]

1 Source: Cerulli

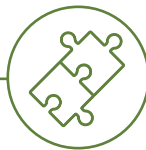
2 Source: Hearts and Wallets survey, July 2018

1. MANAGING BEHAVIORAL BIASES

The study of behavioral science, which incorporates cognitive and behavioral psychology, recognizes that investors are emotional and have biases that may lead to erroneous conclusions and suboptimal investing decisions. From **home country bias** (over-investing in one's own country) to **recency bias** (chasing after recent trends instead of using longer-term performance data to inform decisions), investors face a rash of behavioral biases when it comes to investing. Professional advice can help mitigate the negative outcomes and help manage investor emotions.

Mental accounting bias is another common consideration; it can occur when you spread investment assets across several accounts. If investors put money in different buckets or similar accounts, oftentimes those dollars are not invested properly to meet long-term goals. As a result, investors may miss out on returns they may have otherwise achieved if the money had been properly invested according to time horizon and risk tolerance strategies.

If money is invested in different buckets, then it may lead to suboptimal returns.

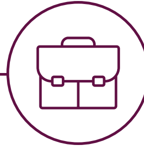


2. SIMPLIFYING RETIREMENT INCOME

Greater control and simplicity are arguably most crucial for retirees, yet **investors can easily lose track of old 401ks.** Retirees will want to avoid the headache of tracking down accounts in retirement, particularly when it's time to take required minimum distributions (RMDs). Multiple investment accounts only complicate RMDs, especially if the accounts are a mix of 401ks and individual retirement accounts (IRAs). Retirees must calculate an RMD from each account. Combining similar accounts, where possible, simplifies calculating RMDs. Remember missing an RMD can be costly, possibly owing the IRS an excise tax of 50% of the RMD shortfall.

In addition to RMDs, a financial professional overseeing all your accounts can help determine and lead an investor to an **effective retirement distribution strategy** to optimize your income and help you decide an appropriate withdrawal strategy to minimize after-tax income.

PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns.



3. REVIEWING ASSET LOCATION AND TAX OPPORTUNITIES

Investors, and the financial professionals they work with, devote significant time and energy to the asset allocation process (time horizon, risk tolerance, liquidity constraints, etc.). However, effective asset location involves the process of placing various investment holdings in the most appropriate accounts (taxable vs. tax-advantaged) to maximize after-tax returns.

When financial professionals have a complete picture of an investor's holdings they have a deeper understanding of the overall asset mix and aggregate returns. This helps financial professionals **develop an efficient asset location strategy for investors** – a key driver of incremental investor return potential. After all, it's not the assets you own, but where you place those assets.

When it comes to buying and selling for tax loss harvesting purposes, an entire financial snapshot is necessary to avoid inefficient or unjustified losses. For example, an investor can have a large capital gain with one advisor and end up selling the underperforming assets to create capital losses, but may already have capital losses with another advisor.

While taxes should not drive the investment process, attention to tax-sensitive asset location and tax loss harvesting has the potential to improve investors' results.

The above examples are for illustrative and discussion purposes only and may not be appropriate for all. Taxpayers should discuss with their tax adviser.

TAXABLE ACCOUNTS

- Passively managed investments
- Qualified dividend positions
- Long-term holdings
- Tax-exempt bond funds/ETFs
- Investments subject to foreign tax

SITUATIONAL

- REITs
- Partnership interests
- Precious metals

TAX-ADVANTAGED ACCOUNTS

- Actively managed investments
- Non-qualified dividend positions
- Short-term holdings
- Taxable bond funds/ETFs

*Tax-exempt refers to federal tax-exempt income.

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4. EASING WEALTH TRANSFER AND ESTATE GUIDANCE

As is often the case, investors tend to focus on brokerage accounts. But ignoring assets held in company benefit plans (which, for many investors, could be the majority of assets) means that these assets do not receive the attention they deserve. **Informing your financial professional of all investment holdings** will help ensure that these assets are not overlooked, and will help confirm that the correct beneficiary is listed on an account. IRA assets bypass probate, which means that forgetting to update an IRA beneficiary leaves the assets vulnerable to going to a former spouse instead of a current spouse, for example.

Simplifying financial matters when living – having one tax statement, fewer passwords, pre-arranged access to financial accounts – is often extremely helpful, too. Easing the burden on loved ones who are left when a partner or family member passes away may not be top of mind when setting up an account, but it is arguably one of the most impactful benefits of consolidating accounts. Additionally, **streamlining investment records** for those who will inherit these assets allows for ease of transfer during an otherwise challenging time.

DIFFERENT JOBS LEAD TO VARIED ACCOUNTS

According to the U.S. Bureau of Labor Statistics the average worker holds 10 different jobs before the age of 40

- Baby Boomers average ~12 jobs before they are 50
- Older Millennials (those born 1980–1984) average ~8 jobs before they are 30

This translates to the potential for several 401k accounts left behind at former employers.

Source: Bureau of Labor Statistics. July 2018.

The Value of a Strong Relationship with a Financial Professional

Plenty of investors crave simplicity in investing, but when it comes to consolidating investment accounts to achieve a simpler financial life, few are successful. In addition, when factoring in individual bank and brokerage accounts, it's no surprise that investors easily accrue multiple investment accounts scattered among various financial institutions.

A strong relationship with a single financial professional can potentially help investors achieve better outcomes than they may achieve with multiple advisors and accounts. To be fair, not all accounts can be combined – or should be combined. But beyond the opportunity for more efficient planning advice and lower overall costs, both consolidating accounts and partnering with a financial professional offer many additional benefits.

A WORD ON REBALANCING

A holistic planning experience is essential when it comes time to design and implement an investment strategy or allocation. As various asset classes earn differing returns, the overall asset allocation may no longer reflect your investment objectives.

Rebalancing, an important tool to reduce risk and instill disciplined decision making, becomes nearly impossible with assets spread across various accounts. A financial professional can help you accomplish what may be emotionally uncomfortable but financially productive by rebalancing investments annually.

Maintaining perspective in times of financial volatility

This checklist below can help you focus on what's likely to have the greatest impact on your financial success during times of market volatility: maintaining a longer-term perspective, being thoughtful about portfolio allocation, understanding risk exposures and minimizing costs and taxes.

- ☑ **Don't forget your long-term financial goals:** Try to maintain perspective by focusing on your long-term investment objectives rather than worrying about short-term market fluctuations. Emotional decisions are often not the wisest.
- ☑ **Revisit your risk tolerance:** If short-term market moves are getting the better of you, perhaps its time to revisit your risk tolerance with your financial professional. This exercise may inspire you to stay the course, or to trim additional risk from your portfolios.
- ☑ **Reaffirm (or write) your Investment Policy Statement:** An Investment Policy Statement (IPS) can help determine the appropriate allocations and the guidelines for effective implementation. Make sure you and your financial professional have clearly defined your objectives, so that you can keep them in mind during emotional times of market fluctuations.
- ☑ **Review your cash needs:** Do you have immediate liquidity needs? If not, you may be in a strong position to ride out short-term market shocks.
- ☑ **Stay diversified:** Portfolio diversification, in line with your objectives and risk tolerance, can help mitigate volatility and potentially produce more consistent outcomes.
- ☑ **Rebalance regularly:** Meet with your financial professional to ensure your asset allocations are aligned with your long-term targets. Regular portfolio rebalancing instills a disciplined approach to decision making and sometimes inspires investors to take actions that may be emotionally uncomfortable but financially productive.
- ☑ **Consider tactical shifts:** Every investor is different. For some bouts of market volatility there may be an opportunity to buy equities. Others may look to add hard duration through core and long-duration strategies as a way to add resiliency to their portfolio. Check in with your advisor to review strategies.

KEY TAKEAWAYS

- **Behavioral biases, especially in volatile times, may inspire investors to focus on short-term returns rather than long-term goals**
- **Financial professionals can play a critical role in helping maintain perspective and avoid costly mistakes**

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Past performance is not a guarantee or a reliable indicator of future results.

All investments contain risk and may lose value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **Diversification** does not ensure against loss.

There is no guarantee that an investment strategy will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision.

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Pacific Investment Management Company LLC, 650 Newport Center Drive, Newport Beach, CA 92660, 800-387-4626.

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