

## Can Your Personality Influence Your Portfolio?

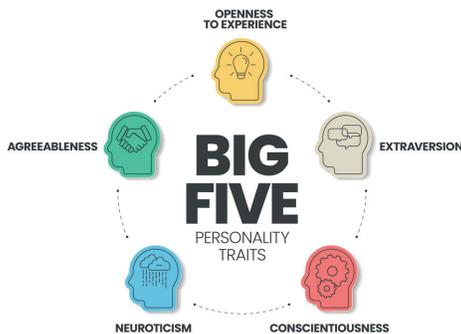
### New Research Points to Yes

Academic researchers have been exploring how investors' personalities might affect their financial decisions and wealth outcomes.

In one study, three finance professors (Dr. Zhengyang Jiang from Northwestern University's Kellogg School of Management, Cameron Peng from the London School of Economics, and Hongjun Yan from DePaul University's Driehaus College of Business) surveyed more than 3,000 members of the American Association of Individual Investors — a relatively sophisticated group of market participants. These researchers examined correlations between five personality traits and the investors' market expectations and portfolio allocations.<sup>1</sup>

Another study (by Mark Fenton-O'Creevy from The Open University Business School and Adrian Furnham from the BI Norwegian School of Management) involved more than 3,000 U.K. participants. These authors looked for correlations between the same five personality traits and three measures of wealth: property, savings and investments, and physical items.<sup>2</sup>

### The Big Five



Both studies were designed around the "Big Five" model of personality, which has long been used by psychologists to measure people's personalities and identify their dominant

tendencies, based on five broad traits. These traits are openness to experience (curious and creative), conscientiousness (organized and responsible), extraversion (sociable and action-oriented), agreeableness (cooperative and empathetic), and neuroticism (emotionally unstable and worry-prone).

Each participant was rated on a spectrum for each trait according to how they answered survey questions, the results of which typically capture how individuals differ from one another in terms of their preferences, feelings, and behaviors.

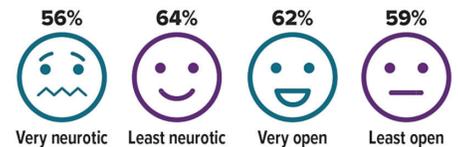
### Meaningful results

The first study pinpointed two traits that were closely correlated with investors' market perceptions and investment behavior: openness and neuroticism. Investors who scored high for openness entertained the possibility of extreme market swings, but were more willing to bear the risk, and they allocated a larger share of their investment portfolios to stocks. Highly neurotic personalities were pessimistic about market performance, worried more about a potential crash, and had a smaller portion of their assets invested in stocks. Investors who scored higher on neuroticism and extraversion were more likely to buy certain investments when they became popular with people around them — which could easily take them down the wrong road.<sup>3</sup>

The second study found that conscientiousness was positively correlated with all three measures of wealth, even more so than education level, often because this personality type brings diligent approach to saving and investing. Unfortunately, the traits of agreeableness, extraversion, and neuroticism were associated with lower lifetime wealth accumulation. Highly agreeable people may devote more of their money to helping others and might also be more vulnerable to financial scams, whereas extroverts could be more impulsive spenders.<sup>4</sup>

Both studies found common ground in one respect: highly neurotic investors tend to be risk-averse, and their volatility fears may cause them to have overly conservative portfolios.

### Share of portfolio invested in stocks, by personality type



Source: *The Wall Street Journal*, May 19, 2023

### Implications for investors

You might take some time to consider how your personality impacts the many financial decisions that you make in life. Becoming more self-aware may help you tap into your strengths and counter weaknesses that could prevent you from reaching your goals.

Even the most experienced investors can fall into psychological traps, but having a long-term perspective and a thoughtfully crafted investing strategy may help you avoid costly, emotion-driven mistakes. Also, discussing your concerns with an objective financial professional might help you deal with tendencies that could potentially cloud your judgment.

1, 3) "Personality Differences and Investment Decision-Making," National Bureau of Economic Research, March 2023

2, 4) "Personality and Wealth," *Financial Planning Review*, 2023

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## Bond Yields Are Up, but What Are the Risks?

After years of low yields, bonds are offering higher yields that may be appealing to investors regardless of their risk tolerance. While bonds could play a role in any portfolio, they can be a mainstay for retirees looking for stability and income, and near-retirees might consider shifting some assets into bonds in preparation for retirement.

Bonds are generally considered to have lower risk than stocks — one good reason to own them — but they are not without risk. In fact, bonds are subject to multiple risks. In considering the brief explanations below, keep in mind that coupon rate refers to the interest paid on the face value of a bond, whereas yield refers to the return to the investor based on the purchase price. A bond purchased for less than face value will have a higher yield than the coupon rate, and a bond purchased for more than face value will have a lower yield than the coupon rate.

**Interest rate risk (or market risk)** — the risk that interest rates will rise, making the coupon rate on an existing bond less appealing because new bonds offer higher rates. This typically lowers the value of a bond on the secondary market, but it would not change the yield for a bond purchased at issue and held to maturity. As the Federal Reserve has rapidly raised rates to combat inflation, the potential resale value of existing bonds has plummeted. However, rates may be nearing a peak, which potentially could make it a more opportune time to purchase bonds. If interest rates drop, the value of a bond will typically increase.

**Duration risk** — the risk that longer-term bonds will be more sensitive to changes in interest rates. Duration is stated in years and based on the bond's maturity date and other factors. A 1% increase in interest rates typically will decrease a bond's value on the secondary market by 1% for each year of duration. For example, a bond with a duration of seven years can be expected to lose 7% of its value on the secondary market.

**Opportunity risk (or holding period risk)** — the risk that you will not be able to take advantage of a potentially better investment. The longer the term of a bond, the greater the risk that a more attractive investment might arise or other events might negatively impact your bond investment.

**Inflation risk** — the risk that the yield on a bond will not keep up with the rate of inflation. This might be of special concern in the current environment, but high inflation is the reason that the Fed has been raising interest rates. If inflation cools, bonds with today's higher yields could outpace inflation going forward.

**Call risk** — the risk that an issuer will redeem the bond when interest rates are falling in order to issue new bonds at lower rates. Investors can avoid this risk by purchasing non-callable bonds.

**Credit risk (or risk of default)** — the risk that the bond issuer is unable to make promised interest payments and/or return principal upon maturity. Credit-rating agencies analyze this risk and issue ratings that reflect their assessment. Higher-rated bonds are considered "investment

### By the Letters

Bond ratings in descending order of creditworthiness as judged by the three best-known rating agencies (shaded ratings are considered non-investment grade)

Standard & Poor's	Moody's	Fitch
AAA	Aaa	AAA
AA+/-	Aa1-3	AA+/-
A+/-	A1-3	A+/-
BBB+/-	Baa1-3	BBB+/-
BB+/-	Ba1-3	BB+/-
B+/-	B1-3	B+/-
CCC+/-	Caa1-3	CCC+/-
CC/C	Ca	CC/C
D	C	RD/D

Note: Standard & Poor's and Fitch Ratings use the symbols + and - to denote the upper and lower ranges of ratings from AA to CCC; Moody's uses the numbers 1, 2, and 3 to denote the upper, middle, and lower ranges from Aa to Caa.

grade." Lower-rated bonds, commonly called "junk bonds," are non-investment grade. They generally offer higher yields and are considered speculative with higher credit risks.

Some lower-rated bonds may be insured, so the bond carries two ratings, one for the bond and one for the insurance company. Bond insurance adds a potential layer of protection if an issuer defaults, but it is only as good as the insurer's credit quality and ability to pay. An investor should not buy bonds based solely on the insurance.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

In a 2022 survey, consumers were first asked to quickly estimate how much they spend on subscription services each month, then a while later, they were directed to break down and itemize their monthly payments. On average, the consumers' actual spending was \$219 per month, about 2.5 times as much as the \$86 they originally guessed!<sup>1</sup>

Zombie subscriptions are auto-renewing services that people sign up for then forget about or rarely use. Some common examples include mobile phone and internet plans, television, music, and game streaming services, news subscriptions, meal delivery, language courses, and health/fitness memberships (digital and in person).

New types of services are rolling out every day, which is just one reason why subscription costs can creep up on you. But with inflation cutting into your purchasing power, getting rid of a few unnecessary recurring charges could help balance your household budget.

**Conduct an audit.** Some subscriptions are billed annually, so you may need to scrutinize a full year's worth of credit card statements. Plus, if you purchased a subscription through an app store on your smartphone, the name of the service won't be specified. So when you notice a recurring charge that you can't identify, try looking for a list of subscriptions in your device's settings.

### Share of consumers who forgot about subscriptions but still paid for them, by age group



**Use an app.** One in 10 consumers said they rely on banking and personal finance apps to track their spending on subscription services. There are several popular services that can be used to scan account statements for recurring costs and remind you to cancel unwanted subscriptions before they renew automatically — if you are comfortable sharing your financial information.

Some companies make it difficult to cancel unwanted subscriptions by requiring a call, hiding the phone number, and/or forcing customers to wait to speak to a representative. If you find this practice frustrating, help may be on the way. The Federal Trade Commission has proposed a new rule that requires companies to make it just as easy to cancel a subscription as it is to sign up.

## How to Kill Your Zombie Subscriptions



## Enriching a Teen with a Roth IRA

Teenagers working part-time gain not just spending money but valuable work experience. A unique financial opportunity for them is to contribute to a Roth IRA, a tax-advantaged account for retirement or other financial goals. Minors, with earned income, can contribute if an adult opens a custodial account in their name.

Contributions to a Roth IRA are after-tax, enabling tax-free withdrawals at any time without penalties. However, nonqualified withdrawals from earnings may face ordinary income tax and a 10% early withdrawal penalty unless exempted.

Qualified withdrawals from a Roth IRA require at least five years of account holding and distribution after age 59½. Two penalty exceptions benefit young savers: early withdrawals for higher-education expenses or a first home purchase up to a \$10,000 lifetime limit (subject to ordinary income taxes).

Compared to savings accounts and college plans, a Roth IRA holds advantages. It doesn't count towards the "expected family contribution" (EFC) for financial aid, unlike most parental and student assets.

Opening a Roth IRA for a child not only offers financial advantages but also teaches crucial financial concepts. It introduces them to various investments, emphasizes the importance of saving for the future, and showcases the power of compounding over time. Encouraging children to save a portion of their pay or matching their contributions can be effective strategies.

In 2023, the Roth IRA contribution limit for individuals under 50 is the lesser of \$6,500 or 100% of earned income. For instance, if a teenager earns \$1,500, their annual contribution limit is \$1,500. Parents or others can also contribute directly to a teen's Roth IRA within these limits.

In summary, part-time jobs not only offer teens earnings and work experience but also the chance to start saving for the future through a Roth IRA. This financial tool provides tax advantages, flexibility, and a head start in understanding crucial money management concepts.



## Much Ado About RMDs

The SECURE 2.0 Act, passed in late 2022, included numerous provisions affecting retirement savings plans, including some that impact required minimum distributions (RMDs). Here is a summary of several important changes, as well as a quick primer on how to calculate RMDs.

### What Are RMDs?

Retirement savings accounts are a great way to grow your nest egg while deferring taxes. However, Uncle Sam generally won't let you avoid taxes indefinitely. RMDs are amounts that the federal government requires you to withdraw annually from most retirement accounts after you reach a certain age. Currently, RMDs are required from traditional IRAs, SEP and SIMPLE IRAs, and work-based plans such as 401(k), 403(b), and 457(b) accounts.

If you're still working when you reach RMD age, you may be able to delay RMDs from your current employer's plan until after you retire (as long as you don't own more than 5% of the company); however, you must still take RMDs from other applicable accounts.

While you can always withdraw more than the required minimum, if you withdraw less, you'll be subject to a federal penalty.

### Four Key Changes

1. Perhaps the most notable change resulting from the SECURE 2.0 Act is the age at which RMDs must begin. Prior to 2020, the RMD age

was 70½. After passage of the first SECURE Act in 2019, the age rose to 72 for those reaching age 70½ after December 31, 2019. Beginning in 2023, SECURE 2.0 raised the age to 73 for those reaching age 72 after December 31, 2022, and, in 2033, to 75 for those who reach age 73 after December 31, 2032.

### When Must RMDs Begin?

Date of Birth	RMD Age
Before July 1, 1949	70 ½
July 1, 1949 through 1950	72
1951 through 1959	73
1960 or later	75

2. A second important change is the penalty for taking less than the total RMD amount in any given year. Prior to passage of SECURE 2.0, the penalty was 50% of the difference between the amount that should have been distributed and the amount actually withdrawn. The tax is now 25% of the difference and may be reduced further to 10% if the mistake is corrected in a timely manner (as defined by the IRS).
3. A primary benefit of Roth IRAs is that account owners (and typically their spouses) are not required to take RMDs from those accounts during their lifetimes, which can enhance estate-planning strategies. A provision in SECURE 2.0 brings work-based Roth accounts in line with Roth IRAs. Beginning in 2024, employer-sponsored Roth 401(k)

accounts will no longer be subject to RMDs during the original account owner's lifetime. (Beneficiaries, however, must generally take RMDs after inheriting accounts.)

4. Similarly, a provision in SECURE 2.0 ensures that surviving spouses who are sole beneficiaries of a work-based account are treated the same as their IRA counterparts beginning in 2024. Specifically, surviving spouses who are sole beneficiaries and inherit a work-based account will be able to treat the account as their own. Spouses will then be able to use the favorable uniform lifetime table, rather than the single life table, to calculate RMDs. Spouses will also be able to delay taking distributions until they reach their RMD age or until the account owner would have reached RMD age.

### How to Calculate RMDs

RMDs are calculated by dividing your account balance by a life expectancy factor specified in IRS tables (see IRS Publication 590-B). Generally, you would use the account balance as of the previous December 31 to determine the current year's RMD.

For example, say you reach age 73 in 2024 and have \$300,000 in a traditional IRA on December 31, 2023. Using the IRS's Uniform Lifetime Table, your RMD for 2024 would be \$11,321 ( $\$300,000 \div 26.5$ ).

The IRS allows you to delay your first RMD until April 1 of the year following the year in which it is required. So in the above example, you would be able to delay the \$11,321 distribution until as late as April 1, 2025. However, you will not be allowed to delay your second RMD beyond December 31 of that same year — which means you would have to take two RMDs in 2025. This could have significant implications for your income tax obligation, so beware.

An RMD is calculated separately for each IRA you have; however, you can withdraw the total from any one or more IRAs. Similar rules apply to 403(b) accounts. With other work-based plans, an RMD is calculated for and paid from each plan separately.





## Economy Staying Strong

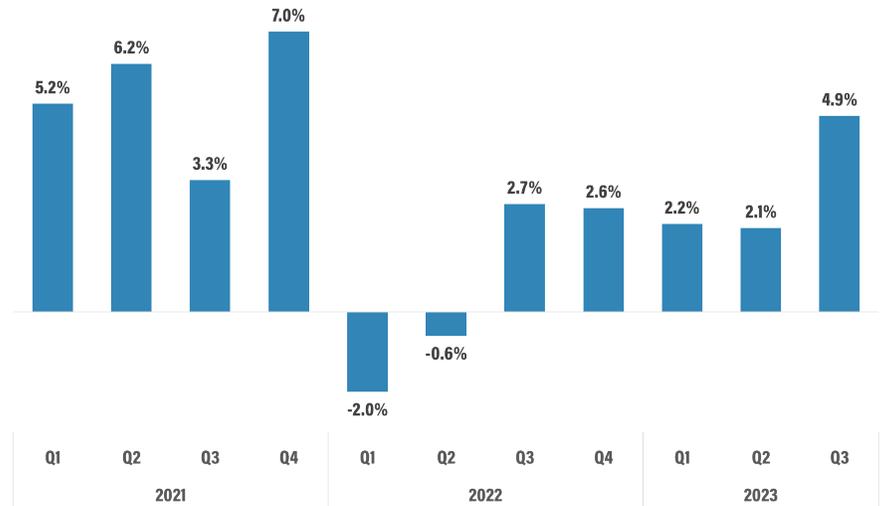
After a worrisome decline in the first half of 2022 — which sparked fears of a recession — U.S. inflation-adjusted gross domestic product (real GDP) has grown steadily. The third quarter of 2023 showed the strongest growth since the post-pandemic bounceback.

Current-dollar (nominal) GDP measures the total market value of goods and services produced in the United States at current prices. By adjusting for inflation, real GDP provides a more accurate comparison over time, making its rate of change a preferred indicator of the nation's economic health.

# \$27.6 trillion

Projected U.S. gross domestic product for 2023 in current dollars, based on advance data for the third quarter. In 2022, current-dollar (nominal) GDP was \$25.7 trillion.

Source: U.S. Bureau of Economic Analysis, 2023



Source: U.S. Bureau of Economic Analysis, 2023 (seasonally adjusted at annual rates; Q3 2023 based on advance estimate)

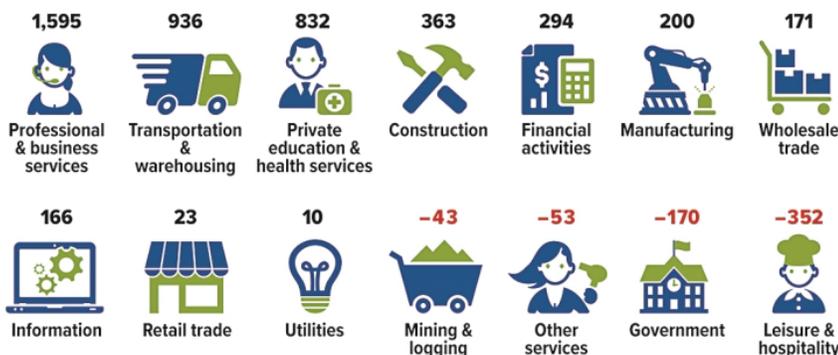
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## Uneven Jobs Recovery

The U.S. economy lost nearly 22 million jobs during the two-month pandemic recession of March–April 2020. The total job count returned to pre-pandemic levels in June 2022, and by July 2023, there were almost 4 million more Americans working than before the pandemic. But jobs shifted among industries. The biggest gains have been in professional & business services (which includes many remote workers) and transportation & warehousing, while the biggest losses have been in leisure & hospitality and government, largely in public education.

Change in U.S. employment by industry between February 2020 and July 2023, in thousands



Source: U.S. Bureau of Labor Statistics, 2023

# 156.3 million

Total number of U.S. non-farm employees in July 2023. By comparison, the pre-pandemic high was 152.4 million in February 2020, and the pandemic low was 130.4 million in April 2020.

Source: U.S. Bureau of Labor Statistics, 2023





297 King Street  
Chappaqua, New York 10514

THE SAMLIN WEALTH TEAM



WESTCHESTER & THE HUDSON VALLEY | NEW YORK | PHILADELPHIA | DALLAS | 914.666.6600 | SAMLINWEALTH.COM

## Then and Now: 2003 vs. 2023

In 2003, the U.S. was emerging from the dot-com recession, unemployment rates were peaking during a jobless recovery, and online shopping was becoming more popular. Twenty years have passed, and here's how some things have changed — one pandemic and two recessions later.



Average mortgage rate (30-year fixed)<sup>1</sup>



Unemployment rate<sup>2</sup>



E-commerce sales (percent of total retail)<sup>3</sup>



Personal saving rate (percent of disposable income)<sup>4</sup>



Average credit card interest rate<sup>5</sup>

<b>2003</b>	<b>6.32%</b>	<b>6.1%</b>	<b>1.7%</b>	<b>6.1%</b>	<b>12.89%</b>
<b>2023</b>	<b>7.18%</b>	<b>3.8%</b>	<b>15.4%</b>	<b>3.5%</b>	<b>22.16%</b>

Sources: 1) Freddie Mac, 2023 (August); 2) U.S. Bureau of Labor Statistics, 2023 (August); 3) U.S. Census Bureau, 2023 (Q2); 4) U.S. Bureau of Economic Analysis, 2023 (July); 5) Federal Reserve

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## F-150

The Ford F-Series, including the F-150® pickup truck, topped the list of best-selling vehicles in the U.S. in both 2003 and 2023. In fact, Ford F-Series trucks have endured for the long haul, leading vehicle sales since 1982.

Source: Ford Motor Company, 2023