



# MITCHELL INVESTMENT ADVISORS, LLC

## INVESTMENTS & FINANCIAL PLANNING

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# U C C E S S

WINTER 2024

## Dow Theory: Curbing Emotional Investing

In addition to starting the company that publishes *The Wall Street Journal*, Charles Dow (1851–1902) also lent his name to one of the most popular U.S. stock market indexes (the Dow Jones Industrial Average) and created a theory regarding major shifts in stock market trends. While neither Dow nor those who refined the Dow theory after him believed they were creating a sure-fire way to beat the market, they did believe that following its principles could at least avoid the mistakes associated with greed and fear.

### Three Assumptions

Behind the Dow theory is a set of assumptions about how the stock market works:

✓ **The stock market moves in broad cyclical trends.** According to Dow, there are primary trends, which are long-lasting (from months to years), and minor trends, which don't last very long and run in the opposite direction of the primary trend. Primary up trends are bull markets and primary down trends are bear markets — these primary trends are marked by peaks and troughs in price charts. Within these broader trends, there are secondary (minor) countertrends called corrections, which can retrace any-

where from 33% to 67% percent of the primary trend's movement. Of course, no one ever knows in advance how long trends will last (that's a key principle of the Dow theory). And since market prices fluctuate from day to day, it can be dangerous to read too much into a single day's movement.

✓ **Primary trends can't be manipulated.** While it may be possible for private interests to manipulate the price of one security for a relatively short period of time, the Dow theory holds that the pri-

mary trend in the stock market as a whole is driven by forces much bigger than any single individual, cartel, breaking news, or rumor.

✓ **The stock indexes reflect all available information.** The Dow theory believes that everything there is to know about a stock and the economy at a given moment is factored into the prices of stocks. This includes hopes, fears, and expectations of such factors as interest rates, earnings, revenue, and product initiatives. Unexpected

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## Happy New Year 2024

Warmest wishes for a Happy New Year! During this season of thankfulness, we want you to know we appreciate you and value the trust you place in our firm. You are important to us and we will work hard to continue to honor our commitment to providing you with quality financial service.

With the start of a new year, this is a great time to review your finances, assess your current financial situation, analyze your plans and review your investments. Resolve to update your goals and objectives, both financial and non-financial. Remember to reconnect with family, friends and your favorite hobbies and activities. Resolve to begin the New Year with some fun and adventure.

We are here to help guide you on your financial path to success, whatever success may mean to you. Best wishes to you and your family for good health, happiness and prosperity in 2024 and beyond!

Warmest regards,

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## Dow Theory

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events can occur, but usually they affect the short-term trend, creating what are called reaction rallies that soon lose steam and the primary trend resumes.

### Three Primary Trend Phases

According to the Dow theory, major trends consist of three phases of varying length:

**Stage 1: Accumulation or distribution.** In this phase, the smart money — typically large institutional investors like investment banks, pension funds, mutual funds — start major buying or selling programs. Initially, this looks like a secondary countertrend, but trading volume on the major exchanges noticeably increases on up days, while volume tends to be lighter on down days. In a bull market, stocks are cheap but no one other than value investors seems to want to buy them. In a bear market, there's a high level of enthusiasm for stocks, and few people believe the bull market is over.

**Stage 2: The big move.** In this phase, there are many more days in which the indexes move in the direction of the primary trend than in the opposite direction. In bull markets, there are strings of up days, followed by shorter strings of down days, reflecting the spread of enthusiasm for stocks. In bear markets, the opposite occurs, as anxiety and pessimism that the prior bull market is over mounts. The result is a significant, long-term increase (bull markets) or decrease (bear markets) in the market averages.

**Stage 3: Excess.** The final phase of a primary trend is marked by extremely high levels of emotion — enthusiasm in bull markets and pessimism in bear markets — which are signs that the primary trend is about to change. These extremes can be seen in the behavior of individ-

ual investors. In bull markets, even the most conservative investors are buying stocks. On the other hand, in the excess stage of a bear market, everyone is concerned about safety of principal, while those who bought stocks at high prices have finally given up and sold their stocks at a loss.

### The Indexes Confirm the New Trend

For Charles Dow, the primary trend was reflected in the Dow Jones Industrial Average, which today comprises 30 stocks. But Dow also looked to another index to confirm the emergence of a new trend. In his day, that was the Dow Railroad Index. Today, it's the Dow Transportation Index of 20 companies engaged in the shipping and transportation of manufactured goods, including marine transport, railroads, and trucking. The idea

was that a true change in the trend of business activity in the big manufacturing firms would show up in business for the companies they hire to move the goods they make.

For the second index to confirm the first, the Dow theory looks for both averages to be moving in the same direction. And new highs or lows in one index are accompanied by new highs or lows at the same time or shortly thereafter in the other index.

The Dow theory isn't intended to help short-term traders. What it's designed to do is tip off long-term investors to changes in the trend, so they can shift their money from stocks to another asset class, like bonds or cash, during a full business cycle.

Please call if you'd like to discuss this in more detail. ○○○

## Benefits of Low-Correlated Assets

**C**orrelation is a statistical measure of how one asset class performs in relation to another asset class. Correlations can range from +1 to -1. A correlation of +1 means the two assets move very closely together in the same direction. Combining assets with a high positive correlation will not provide much risk reduction. A correlation of -1 indicates the assets move in opposite directions, a rare event in the investment world. A correlation close to 0 means no relationship exists in the price movements of the two assets.

Combining assets with consistently high correlations to each other does little to reduce risk. The greatest combination benefit to a portfolio seems to be achieved by combining assets with consistently low correlations, which results in consistently reduced risk.

When selecting investments for your portfolio, don't just look

at their risk and return characteristics. Also consider the diversification aspects for your overall portfolio. While correlations change over time, general observations include:

- ✓ Stocks tend to have a low positive correlation with corporate and government bonds.
- ✓ Short-term bonds tend to have a low correlation with long-term bonds.
- ✓ Stock markets around the world are all positively correlated to some degree. In general, European stock markets are more closely correlated to each other and the U.S. than to markets in Japan or Asia. Correlations between developed countries tend to be higher than correlations between developing and emerging countries.
- ✓ Real estate tends to have a low correlation with stocks and bonds. ○○○

# Insurance and Financial Planning

Insurance plays a vital role in your financial plan. A comprehensive insurance plan, which can include everything from auto insurance to disability insurance, helps protect you, your family, and your wealth.

Without insurance, most people would have difficulty coping with major and unexpected financial setbacks. Insurance is a reasonable way to plan for worst-case scenarios.

## Where Do I Start?

Most people already have some insurance. A typical adult with a family and a job might carry auto, life, and homeowners insurance (not to mention health insurance, which is another essential coverage). But most people purchase their insurance piecemeal, picking up a policy here and there when they need it. Rarely do people have a coordinated insurance plan that aligns with their overall financial plan.

Thus, your first step in developing an insurance plan should be sitting down and taking an objective look at your total financial situation, perhaps with the help of a financial advisor. Consider your age, family situation, the risks you face, and current assets and liabilities. This will help you identify areas where you might need the peace of mind that quality insurance provides.

For example, parents with young children will almost certainly want life insurance, while people

who suspect they may end up in a nursing home may want long-term-care insurance. Sound complicated? It can be. Unfortunately, there is no one-size-fits-all approach to buying insurance.

## Evaluating Your Risk and Determining Your Needs

Determining what kind of insurance you need to protect yourself and your family begins with an honest evaluation of the risks you face. But that's just the beginning. For example, if you have young children, you probably know you need life insurance. But how much is enough and what variety (whole or term) is best? And what about other types of coverage? Should you buy umbrella insurance or disability insurance?

Life insurance tends to be the area where people have the most questions about whether their coverage is adequate. To do this, you need to imagine the unthinkable: How would your family survive if you were no longer there to support them? Don't just pick a big number and assume it will be enough.

Consider this: You have a life insurance policy with a \$1 million death benefit that you think will be more than enough to provide for your family if you pass away unexpectedly. Tragically, you die, and your surviving spouse uses \$400,000 of the benefit to pay off your mortgage and some other debts, pay for your funeral, and cover other mis-

cellaneous expenses. That leaves just \$600,000 for your family.

If your survivors invest that sum in a fund that earns an average 5%, that translates to a monthly income of \$2,500. That amount may not be enough to meet all your survivors' financial needs. And that assumes your financial situation is relatively uncomplicated. If you have children with special needs or who will be attending college soon, you may need even more insurance.

When it comes to disability insurance, you may be tempted to rely on your company's policy, but that might be a mistake as well. The coverage may not be as extensive as you expect, with a limited benefit period or a narrow definition of disability (you may only get benefits if you aren't able to work in any occupation, not just your current occupation). Robust disability insurance coverage is essential if you do not have the resources to replace your current income should you become unable to work.

Long-term-care insurance is another essential component of many people's financial plan. Given the high cost of nursing home care or a stay in an assisted-living facility, the need for these types of services in retirement would bankrupt many, even those with substantial retirement savings. If you suspect that you or your spouse might need such care, a long-term-care policy is one way to protect your assets and reduce the risk that you will run out of money paying for a nursing home stay.

Clearly, insurance and financial planning are intimately intertwined. It is difficult to separate one from the other. If you have questions about whether your current insurance coverage fits with your overall financial needs, please call to discuss this in more detail. ○○○



## Review Life Insurance at Retirement

**A**s retirement age approaches, it's usually a good time to reassess your life insurance policies to see if your needs have changed. Before making changes, however, make sure there aren't other uses for your life insurance policy, such as:

- ✓ **To leave a legacy to heirs** — Even if the money isn't needed for your children's support after your death, many people like the thought of leaving a large inheritance to their children or grandchildren.
- ✓ **To pay your grandchildren's college expenses** — With the rapidly increasing costs of college making it more and more difficult for parents to cover this cost, you might want to use an insurance policy as a college fund for your grandchildren.
- ✓ **To support adult children** — There are a variety of reasons why you might want to provide financial help to an adult child. Perhaps your child is a doctor, but has significant debt from college. Or your child might work at a job that doesn't pay a significant amount of money.
- ✓ **To provide a large charitable contribution** — A life insurance policy can serve a couple of purposes when making a large char-

itable contribution. You can name the charity as the beneficiary of the policy. Or you can leave other assets to the charity that would have been included in your estate and possibly subject to estate taxes. The proceeds of the life insurance policy, if properly structured, can then be paid to your heirs estate- and income- tax free.

- ✓ **To help deal with long-term-care costs** — Many individuals don't purchase long-term-care insurance, believing their spouse will take care of them. However, when one spouse dies, there may not be anyone to take care of the surviving spouse. The proceeds of a life insurance policy can be used to provide long-term care for the surviving spouse.
- ✓ **To optimize pension benefits** — When retiring, irrevocable decisions about pension plan benefit payments must typically be made. An individual life income option will pay higher benefits than a joint and survivor benefit, but then your spouse will not have pension benefits if you predecease him/her. You could use the proceeds from a life insurance policy as a source of income to help support your spouse after your death.

Please call to discuss your own situation. ○○○

## Lower Homeowners Insurance Premiums

- ✓ **Increase your deductible.** Raising your deductible can significantly lower your premium.
- ✓ **Combine insurance coverage with one company.** Often, you can obtain discounts for purchasing more than one insurance policy.
- ✓ **Install an alarm and other safety features.** Since these features help reduce claims, insurance companies will often offer discounts.
- ✓ **Stay with the same company.** Insurance companies will often give loyalty discounts to customers who have stayed with the company for years.
- ✓ **Maintain a smoke-free environment.** Insurance companies will often lower premiums for households that are smoke free.
- ✓ **Review how much coverage you need.** Your homeowners insurance should be sufficient to completely rebuild and refurnish your home in the event of a total disaster. You will probably want a guaranteed replacement clause, which pays for the entire cost of rebuilding your home. However, that doesn't mean you need to insure it for its full market value. Even if your home is totally destroyed, you won't have to replace the land. ○○○

## Financial Thoughts

**A**pproximately 87% of Americans are stressed about inflation. And 61% of Americans live paycheck-to-paycheck. Only 60% of Americans have a three-month emergency fund (Source: moneytransfers.com, February 16, 2023).

In 2020, the average household earned \$84,352 before taxes (Source: debt.com, 2023).

In a recent survey, approximately 75% of adults are not con-

fident in the reliability and safety of cryptocurrencies. Women are more skeptical of investing, trading, or using cryptocurrencies than men (80% to 71%) (Source: Pew Research Center, April 10, 2023).

About half of U.S. workers are extremely or very satisfied with their job overall. Older workers are the most positive about their job. And workers with higher incomes are more likely

than those with lower and middle incomes to say they are extremely or very satisfied with their job overall. Approximately 39% of workers say their job or career is extremely or very important to their overall identity. Most workers place a high priority on paid time off — 62% says it's extremely important to have paid time off (Source: Pew Research Center, March 30, 2023). ○○○