FRANKLY FINANCIAL.COM

119 Cedar Street
East Hanover, NJ 07936

973-515-5184 • Fax: 973-515-5190
frank@franklyfinancial.com

Frank McKinley
Investment Professional

financial $UCCESS

MAY 2020

Answers to Important Financial Questions

Although every person has specific questions regarding their personal financial situation, there are several that are pretty universal when it comes to finances. Following are answers to these important financial questions.

When should I start saving and investing? This is probably the most frequently asked question about personal finances. And it has a very simple answer — it is never too soon to start saving. The minute you begin making money is also the time when you should start saving for both short- and long-term goals by making them part of your budget.

If your employer offers a retirement plan such as a 401(k), contribute as much as you can up to $19,500 in 2020. If you can't manage to contribute that much, at least contribute enough to get matching funds if your employer offers them.

You should also save money for emergencies, such as medical bills, a job loss, or a major house repair. Most experts agree that you should have six months of income saved to cover unexpected expenses.

If you have additional cash, you should then develop an investment plan with an asset allocation strategy to help meet both short- and long-term goals.

How much debt is acceptable? It depends on the type of debt you are carrying. If you have debt that is paying for valuable things such as a home or a college education, this is the type of debt that can help further your progress in life. If you have high interest debt, such as credit cards, then you need to be more cautious.

Continued on page 2

Frankly Speaking

"When stocks drop, that is not the problem, that is the solution." -Benjamin Graham

"Bull markets bail you out of your mistakes. Bear markets make you pay for them." -Anonymous

"Imagine you see a child playing with a yo-yo, riding up an escalator. Focus on the escalator, not the yo-yo." -Mark Zinder

I'm told people are most concerned with 3 things now: The Virus, the Market & the November elections. If you said the virus, you're human; if you said the market, you're an investor; if you said the elections, you're a voter. And while you could easily be all 3, which is MOST important to you?

We all want to stay alive & healthy. We all hope to accumulate enough wealth to enjoy a long life without running out of money. Yet, where will our allegiances fall come November? Vote the party line as in the past, or break ranks and move to the 'dark side' whichever that might be? Will we vote for something, or just against? Will there be a dark horse independent who overwhelms the rest, and will he/she really be 'any better'?

If you, anyone in your family or someone you know is feeling down & confused by the Market and how the Virus is affecting things, PLEASE call me to discuss facts, rather than headlines, that may help put your mind at ease.

Financial Questions

Continued from page 1

You should know what your debt-to-income ratio is for this riskier type of debt. Excluding your mortgage, calculate how much debt you have compared to your income. Most experts agree that if it is 15% or less, it is an affordable amount of debt. If it is over 15%, you should act to reduce the amount of higher risk debt you are carrying.

How much house can I afford? Whether you rent or own your home, it is most likely your largest monthly expense. The general rule of thumb is your housing costs should not exceed 30% of your pre-tax income. For example, if you make $75,000 per year, you are making $6,250 per month prior to taxes. Using the 30% rule, you should not spend more than $1,875 a month on housing.

Am I earning enough money? It really depends on your goals, but to reach a comfortable retirement takes a lot of money. You can only cut expenses so much to save for retirement and other goals. At some point, you will most likely need to make more money. This may mean you need to change jobs or embark on a new career. It may be as simple as asking for a raise.

If your company does not schedule an annual review in conjunction with a raise, then you should ask. Be prepared to justify why you deserve to earn more money. If the answer is no, you'll know that looking for another job is a priority.

What if something happens to me? Preparing for the unexpected is imperative to your financial health. Ask yourself some important questions: How would I pay the bills if I lost my job? How would I pay the bills if I could no longer work? How will I replace things if they are stolen or there is a fire?

The first place to start is to develop an emergency fund. You will want to have cash on hand so that your credit cards become your last source for paying unexpected expenses. You should also look at developing an insurance plan to help cover bigger emergencies. This may include life insurance, renter's insurance, or disability insurance.

To protect your loved ones, you should also have a healthcare proxy, a living will, and updated beneficiaries on all of your financial accounts.

Please call if you'd like to discuss your financial questions in more detail. ❍❍❍

Financial Planning for Married Couples

Marriage is a partnership. You and your spouse are a team both personally and financially. Even if you've been married for decades, you may need a refresher course on financial planning basics. Here are six financial moves to make.

Start talking — Some couples avoid having conversations about finances because they're boring, while others skip the talk because of money anxiety or conflicts. But your financial lives are deeply intertwined. You and your spouse need to be able to talk honestly about your finances. Consider having a monthly check in, where you sit down together and go over important issues.

Get on the same page — You're not going to agree on everything money-wise. But when it comes to major financial moves, you should be on roughly the same page. If you're both working together toward the same goals, you're much more likely to get where you want to be.

Be willing to compromise — Ideally, you and your spouse will be of one mind when it comes to money matters, but in reality, you might not always agree. That's where compromise comes in. For example, you may want to keep working until age 70 for maximum financial security, while your spouse may be dreaming of quitting his/her job at 60. You might want to meet in the middle by planning for a retirement that starts at 65 for both of you.

Put it in writing — Don't let inertia lead you and your spouse into skipping key financial- and estate-planning tasks. Even if you want all your money and personal effects to go to your spouse, a will is still helpful in clarifying your wishes should you die unexpectedly. You may also want to set up a financial power of attorney to ensure your spouse can make financial decisions on your behalf if you're incapacitated. Meanwhile, a living will and medical directive can make it clear to your spouse, other family, and loved ones what medical interventions you want (or don't want) if you are seriously ill.

Share information — If the worst happens, will your spouse have the information he/she needs to keep the household running? Make sure each of you knows how to access the bank and investment accounts — even the accounts for the household utilities. You each should also know how to locate important documents, like insurance policies, financial records, birth certificates, and the deed to your house.

Meet with an advisor together — It's not unusual for one spouse to take on a bigger role in the day-to-day financial planning process either out of choice or necessity. Both of you should still be present at meetings with your financial advisor. You're a team, and your advisor will be better able to provide appropriate advice if he/she can hear from both of you. ❍❍❍

7 Psychological Traps

Sometimes, when it comes to investing, volatile markets aren't your worse enemy. You are. Unfortunately, our brains often play tricks on us, causing even the savviest of investors to make decisions that don't really make a lot of sense, such as panic selling or ignoring opportunities.

The problem of psychological investing traps is so pervasive, in fact, that there's a whole field dedicated to studying it called behavioral finance. Researchers in this discipline look at the way psychology affects how we make financial decisions. Knowing about these traps can help you avoid them and make you a better investor. Here are seven psychological traps to keep in mind.

Sunk Costs Bias — The sunk costs bias has to do with the all-too-common tendency to stick with something, whether a bad boyfriend or a bad investment, long after it's clear that it's not worth it anymore. Still, because you've invested a certain amount of time or money, you're reluctant to give it up. In investing, you might end up hanging on to a stock long after you should sell it in the vain hope that you'll eventually come out ahead. But in these cases, it's better to cut your losses rather than to hang on to a loser.

Familiarity Bias — Most of us are biased toward what is familiar to us. We head to restaurants we've been to before and follow the same roads to work because we know what to expect. With investing, familiarity bias involves favoring investments that are familiar to you. You might prefer to invest in the company you work for or big-name businesses that are in the news. That could cause you to overlook important opportunities you don't know as much about.

Anchoring — Anchoring is the process of getting attached to a particular reference point — such as the price you paid for a stock — and using that to guide future decisions. Or you might fixate on a stock's previous high, even though that price was an anomaly. Anchoring is why buyers think they got a great deal when buying a car for $50,000 when the initial price was $60,000, even though the car's really worth $40,000.

Whether buying stocks or cars, anchoring involves using a single piece of information to determine what a stock or other investment should be worth while also discounting more relevant information, such as a company's fundamentals or broader economic trends. Unfortunately, avoiding anchoring is difficult, but considering all available information before choosing an investment can help.

Focusing Too Much on the Recent Past — Recency bias is the tendency to make decisions or judgments based on relatively new or recent information. For example, during times when the market is up, people may ignore or discount the possibility of a market decline. Or, if a certain category of stocks has done poorly recently, people may conclude that those stocks *always* have negative returns, even if the dip is an anomaly. You can avoid this mistake by doing your best to consider the entire universe of information at your fingertips, not just what happened yesterday.

Following the Herd — While following trends might be fine for fashionistas, it's not always a smart investing move. Yet herd investing is an all-too-easy trap to fall into. If everyone is telling you that now's the time to get into a certain hot investment, you may feel you need to act fast so you don't miss out. But just because something is popular doesn't make it a good investment. Blindly following the herd without first consulting your own financial goals and plan doesn't make you a smart investor.

Overconfidence — Most of us like to think we're smarter than the average person. If you hit it big with a certain investment, you may overattribute that success to your skill rather than what it really is — luck. That can cause you to repeat the same behavior again.

Panic — Investing isn't for the faint of heart. When the market takes a sudden dip, it's easy to panic, which can lead you to make bad decisions, such as selling at a big loss, rather than riding out the natural hills and valleys of investing. Making these emotionally-driven choices costs you a lot of money. When making investing decisions, make sure they're based on evidence, not your initial gut reaction to the day's events.

Avoiding psychological investing traps on your own can be difficult. Please call if you'd like to discuss this in more detail. ❍❍❍

Your Risk Tolerance and Retirement

To gain a better understanding of how we're affected by risk when building a retirement portfolio, it's important to learn about risk tolerance and what it means for you as an investor.

What Is Risk Tolerance?

Risk tolerance essentially refers to an investor's ability — both emotionally and financially — to deal with major upswings and downswings in the market. If a person is said to have high risk tolerance, he or she likely tends not to worry so much about the potential risk of certain stocks or having a large amount of stocks in a portfolio. Those with low risk tolerance are on the other end of spectrum, often too cautious to deal with volatile stocks or the market in general.

Risk Tolerance and Age

While plenty of factors must be taken into consideration when considering your own risk tolerance, age is an important anchor to help risk-takers avoid getting in over their heads. This is especially true of those who are working toward building an effective retirement plan. When people are young, it makes more sense to take risks with investments than when they reach retirement age. What's important to recognize is that risk tolerance *must* shift with age to avoid making costly mistakes at a time when it may be potentially too late to recover.

Adjusting Risk Tolerance

Adjusting risk tolerance means taking a realistic approach to your investments. Many successful investors find moving away from stocks to bonds is an effective later-in-life strategy.

Once you have a general percentage figured out, take a moment to determine how many stocks will actually make up that portion of your portfolio. This can vary significantly in terms of personal preference, but often 10 stocks are mentioned as a reasonable number to hold in your portfolio. Keeping your investments to 10 or less allows you to pay closer attention to what's actually happening with your investments.

The Importance of Working with a Financial Planner

The best way to get a better sense of what is a realistic risk tolerance for you to have at this point in life is to work closely with your financial planner. Please call if you'd like to discuss this in more detail. ❍❍❍

Developing a Plan Is Not Enough

You have your investment plan in place, and you're feeling good about it. But your job doesn't stop there. You need to establish regular reviews to ensure that plan is meeting your goals. Here are some steps to follow:

Review Your Asset Allocation — Begin by making sure the asset allocation you have selected still aligns with your goals, risk tolerance, and time horizon. If your allocation in any one asset class has shifted more than 10% from your strategy, you may want to get it back into balance.

Review Your Holdings — Revisit your positions by using a variety of resources, such as analyst opinions, credit ratings, stock valuation measurements, and benchmarks. Consider whether your stock and fund holdings still make sense for your investment strategy and still meet your expectations.

Assess Performance — If your portfolio's performance has fallen short of expectations or your stomach can't handle the volatility of your investment mix, it may be time to revisit your asset allocation strategy. You also want to see how your individual investments have performed. ❍❍❍

Financial Thoughts

Of those who filed as of late May 2019, the average federal tax refund that taxpayers received from 2018 taxes was $2,879 compared to $2,908 as of late May 2018 for 2017 taxes. However, two-thirds of households received tax cuts under the Tax Cuts and Jobs Act, while 6% paid more taxes (Source: *The Wall Street Journal*, 2019).

Approximately 10% of tax filers itemized deductions in tax year 2018 compared to 30% in tax year 2017 (Source: Tax Foundation, 2019).

The average inheritance is gone within five years, unless invested in financial assets or housing equity (Source: Lund University, 2019).

The average net wealth retired adults leave behind when they die by age bracket is $296,000 in their 60s, $313,000 in their 70s, $315,000 in their 80s, and $283,000 in their 90s (Source: United Income, 2019).

Approximately 63% of affluent Americans said they were very or somewhat likely to change their personal financial plans based on the new federal tax law (Source: AICPA, 2019). ❍❍❍