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MEMORIAL DAY 2021

Your Financial Road Map

Are you making progress toward your financial goals? Are your finances in order? Are you prepared for a financial emergency? If you're not sure, take time to thoroughly assess your finances so you have a road map for your financial life:

Assess your financial situation.

Evaluating where you currently stand financially will help you determine how much progress you are making toward your financial goals. There are several items to consider:

✔ **Your net worth** — Prepare a net worth statement, which lists your assets and liabilities with the difference representing your net worth. Prepared at least annually, it can help you assess how much financial progress you are making. Ideally, your net worth should be growing by several percentage points over inflation.

✔ **Your spending** — Next, prepare a cash-flow statement, detailing your income and expenditures for the past year. Are you happy with the way you spent your income? You may be surprised by the amount spent on nonessential items like dining out, entertainment, clothing, and vacations. This awareness may be enough to change your spending patterns. But more likely, you will need to prepare a budget to help guide your future spending.

✔ **Your debt** — Debt can be a serious impediment to achieving your financial goals. To assess how burdensome your debt is, divide your monthly debt payment, excluding your mortgage, by your monthly net income. This debt ratio should not exceed 10% to 15% of your net income, with many lenders viewing 20% as the maximum. If you are in the upper limits or are

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Frankly Speaking

"Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly, and applying the wrong remedies." -Groucho Marx

"If shoeshine boys are giving stock tips, then it is time to get out of the market." -Joseph Kennedy, 1929

"The closer to the top, the sillier the market behaves." -Benjamin Graham

Are our politicians doing as Groucho suggests and as the great philosopher, Yogi Berra once said, "It's Deja' Vue all over again"? We may not have shoeshine boys today, but if we did, what would they say and more importantly, would you listen? Are the repetitious 'all time highs' causing you to exercise caution, diversify, reallocate and look toward Guaranteed Income Accounts* to help insulate from the inevitable? And when is that inevitable coming? How hard & severe will it be?

If you or someone you know is concerned by and looking for answers to these questions, please contact me. ❍❍❍

**According to the claims paying ability of the issuing company.*

Financial Road Map

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uncomfortable with your debt level, take active steps to reduce your debt or at least lower the interest rates on it.

Increase your savings.

Calculate how much you are saving as a percentage of your income. Is it enough to fund your future financial goals? If not, go back to your spending analysis and look for ways to reduce expenditures. That may mean reassessing your lifestyle choices. Commit to saving more immediately and then take steps to make that commitment a reality.

Rebalance your investments.

At least annually, thoroughly analyze your investment portfolio:

✔ Review each investment in your portfolio, ensuring that it is still appropriate for your situation.

✔ Calculate what percentage of your total portfolio each asset type represents; compare this allocation to your target allocation and decide if changes are needed.

✔ Compare the performance of each component of your portfolio to an appropriate benchmark to identify investments that may need to be changed or monitored more closely.

✔ Finally, calculate your overall rate of return and compare it to the return you estimated when setting up your investment program. If your actual return is less than your targeted return, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future.

Prepare for financial emergencies.

To make sure you and your family are protected in case of an emergency, set up:

✔ A reserve fund covering several months' of living expenses. The exact amount you'll need depends on your age, health, job outlook, and borrowing capacity.

✔ Insurance to cover catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability income, and personal liability insurance. Over time, your insurance needs are likely to change, so you may find yourself with too much or too little insurance.

Review your estate plan.

Take a fresh look at your estate-planning documents and review them every couple of years. Even if the increased exemption amounts mean your estate won't be subject to estate taxes, there are still reasons to plan your estate. You probably still need a will to provide for the distribution of your estate and name guardians for minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, as well as a healthcare proxy, which delegates healthcare decisions to someone else when you are unable to make them.

If you'd like help evaluating your finances, please call. ❍❍❍

Why Have an Asset Allocation Strategy?

Your asset allocation strategy represents your personal decisions about how much of your portfolio to allocate to various investment categories, such as stocks, bonds, cash, and others. Some of the advantages of an asset allocation strategy include:

✔ **Providing a disciplined approach to diversification.** An asset allocation strategy is another name for diversification, an important strategy for reducing portfolio risk. Since different investments are affected differently by economic events and market factors, owning various types of investments helps reduce the chance that your portfolio will be adversely affected by a particular risk type.

✔ **Encouraging long-term investing.** An asset allocation strategy is designed to control your portfolio's long-term makeup.

✔ **Eliminating the need to time investment decisions.** Not only do investment professionals have a difficult time accurately predicting the market's movements, but waiting for the perfect time to invest keeps many investors on the sidelines. With an asset allocation strategy, you don't have to worry about timing the market.

✔ **Reducing the risk in your portfolio.** Investments with higher returns typically have higher risk and more volatility in year-to-year returns. Asset allocation combines more aggressive investments with less aggressive ones. This combination can help reduce your portfolio's overall risk.

✔ **Adjusting your portfolio's risk over time.** Your portfolio's risk can be adjusted by changing allocations for the different investments you hold. By anticipating changes in your personal situation, you can make those changes gradually.

✔ **Focusing on the big picture.** Staying focused on your asset allocation strategy will help prevent you from investing in assets that won't help accomplish your goals.

Your asset allocation strategy will depend on a variety of factors unique to your situation, including your risk tolerance, return expectations, investment period, and investment preferences. Please call if you'd like to discuss asset allocation in more detail. ❍❍❍

Retirement Planning Decade by Decade

Retirement planning is a lifelong process. Below are some of the key retirement-planning actions you need to be taking from your 20s through your 60s.

Your 20s

Start saving. The sooner you can start saving for retirement, the less you'll have to save overall. If you start saving $5,000 per year at age 25, you'll have just under $775,000 by age 65, assuming annual returns of 6%. Wait until age 35 to start saving and you'll have about $395,000 — more than $300,000 less. Also, since you're still decades away from your retirement date, don't be afraid to take some risk with your investments. You'll have to stomach some ups and downs, but earning higher returns from equity (or stock) investments now means more money (and less to save) as you get older.

Other steps to take when you're young: start budgeting, avoid debt, and save for other goals, like buying a house. Even if you're not earning a lot right now, adopting healthy money habits today will pay big dividends later in life.

Your 30s

As you enter your 30s, your income is probably heading upward and your life is beginning to stabilize. You may find that you can contribute more to your retirement savings accounts than you could in your 20s. As your income increases, consider increasing your retirement contributions by the amount of your annual raise so you don't fall behind on saving. Reassess your savings rate and consider meeting with a financial advisor to make sure you're saving as much as you can — and investing it well.

Your 40s

You're at the halfway point to retirement. If you've been saving for the past 10 or 20 years, you should have a nice nest egg by now. If you haven't gotten serious about saving, now is the time to do so. You'll have to be fairly aggressive, but you still have some time to build a respectable financial cushion. Whether you're an accomplished saver or just getting started, you may also want to consider meeting with a financial advisor to help you make sure you're saving enough to meet your goals and investing in the best way possible.

A special note: people in their late 40s and early 50s are often looking at steep college tuition bills for their children. Don't make the mistake of sacrificing your retirement goals to pay for your children's college educations. Stay focused and on track so your children don't have to jeopardize their financial future to support you as you get older.

Your 50s

Once you turn 50, you have the option to make catch-up contributions to retirement savings accounts like 401(k)s and IRAs. You can save an additional $6,500 a year in your 401(k) plan and $1,000 a year in your IRA in 2021. That's great news if you're already maxing out your savings in those accounts.

Your fifth decade is also the time to start thinking seriously about what's going to happen when you retire — when exactly you're going to stop working, where you want to live, whether you plan to work in retirement, and other lifestyle issues. It's also the time to take stock of your overall financial situation. You'll still want to keep saving as much as you can, but you may also want to make an extra effort to be debt-free at retirement by paying special attention to paying off your mortgage, car loans, credit card debt, and any remaining student loans.

Your 60s

Retirement is just a few years away. If you haven't already, you'll want to dial down the risk in your portfolio so you don't take a large loss on the eve of your retirement. You'll also want to start thinking about a firm retirement date and estimating your expected expenses and income in retirement. If your calculations show that you're falling short, it's better to know before you stop working. You can make up a shortfall in a number of ways — reducing living expenses, working a bit longer, and even delaying Social Security payments so you get a larger check.

Whatever your age, the key to retirement is having a plan and consistently executing that plan. Not sure how to get started? Please call so we can discuss this in more detail. ❍❍❍

Discussing Your Estate with Family

Having this conversation before your death, when choices can be explained, will help avoid the potential relationship damage that can happen if no one is aware or understands your decisions.

Choose the Right Person for the Right Job —While you are likely to consider the feelings of your family members, try to take the emotion out of your decisions and select the people who will be best at certain tasks. Once people understand the various roles and what they entail, they tend to understand why a particular person was selected. The roles can range from being the executor of the estate, to the guardian of your children, to making medical decisions on your behalf.

Prepare the Appropriate Documents — Once you have determined who will handle the key roles, you will want to get the proper paperwork drafted and notarized. These documents may include: your will, trust, durable power of attorney, healthcare power of attorney, and guardianship designations.

Prepare for the Conversation — You'll want to take the time to think through this conversation and anticipate the questions people will have. You will want them to understand what your goals are for the estate plan, what the various roles are and what they entail, and why certain people were chosen for certain roles. It is important to think through your family dynamic in approaching this conversation. Should it be a more formal conversation that includes an attorney or financial advisor to help explain the roles and your choices? Should it be more casual discussion around the dinner table with only family?

Either way, you will want to make sure you set ground rules to avoid confrontation. You will want people to express their thoughts but if it becomes argumentative, let them know the meeting will be canceled until it can be discussed rationally.

Keep the Conversation Going — Let your family know that this will be an ongoing discussion as circumstances change, such as new marriages, new children, divorce, etc. By having regular conversations, you can avoid the "Mom would have wanted this" argument. Setting this expectation can help prevent future family tension. ❍❍❍

Distributing Personal Possessions

Dealing with major assets may be so time consuming that you don't even think about your personal possessions, leaving distribution decisions up to your heirs. But disputes over personal possessions are more apt to cause conflict. Some items to consider include:

✔ **Take time to think about who should receive treasured personal possessions.** You might want to detail your wishes in a separate letter to your heirs to prevent disagreements.

✔ **Ask your heirs what possessions are important to them.** Otherwise, you may inadvertently give a treasured possession to one child without realizing its importance to another child.

✔ **Don't distribute assets based on arbitrary criteria.** You don't necessarily have to give your jewelry to your daughter or your tools to your son.

✔ **Devise a method for heirs to distribute personal possessions.** After you have determined how to distribute your most valued possessions, detail a method for heirs to distribute the rest of your possessions. It can be as simple as having heirs take turns selecting items or flipping a coin. ❍❍❍

Financial Thoughts

Previously active investors who are unaware that they have experienced a decline incurred roughly a 15% loss in financial wealth. Inactive investors experienced about 6% in financial losses. More than half of the average loss was attributable to a decrease in the value of stocks, mutual funds, and investment trusts (Source: *AAII Journal*, November 2020).

The Employee Benefit Research Institute analyzed 401(k) plan balances for consistent participants for the years 2010 through 2018. The average 401(k) plan account balance increased at a compound average annual growth rate of 13.9% from 2010 to 2018, for an average increase from $63,756 to $180,251. The median account balanced increased 17.3% over the same time period, to $90,015 at the end of 2018. Two-thirds of 401(k) participants' assets were invested in equities, with younger participants having a higher allocation to equities than older participants. Fourteen percent of participants were in their 20s and 13% were in their 60s (Source: *AAII Journal*, November 2020).