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Nurture Your IRA

It's tempting to pay little attention to an individual retirement account (IRA). After all, with a maximum contribution of \$6,000 in 2021 and 2022 (\$7,000 if you are over age 50), how much can an IRA contribute to the vast sums you'll need for retirement? The answer is plenty, especially if you follow these tips:

✓ **Start contributing as soon as possible.** That way, tax-deferred or tax-free compounding of earnings can have a dramatic impact on your IRA's ultimate value. Consider the following example. Four individuals, ages 20, 30, 40, and 50, each contribute \$5,000 to an IRA this year. What will that amount grow to when each person reaches age 65, assuming an 8% annual rate of return? The 50 year old will potentially have \$15,861, the 40 year old will have \$34,242, the 30 year old will have \$73,927, and the 20 year old will have \$159,602. Compounding of earnings turned the 20 year old's contribution into a much larger balance.*

✓ **Contribute every year until you reach retirement.** Even if you can't afford the maximum con-

tribution, contribute something every year. Over a period of time, a modest investment program can grow to a significant sum. Assume that at age 30 you starting contributing \$5,000 per year to an IRA, earning 8% compounded annually. After one year, you'll have only \$5,400. But that will grow to \$29,333 after five years, \$72,433 after 10 years, \$228,810 after 20 years, and \$861,581 after 35 years, when you turn age 65.* (Keep in mind that an automatic investing program, such

as dollar-cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investments, consider your financial ability and willingness to continue purchases through periods of low price levels.)

✓ **Select investments with care.** Your IRA should be a long-term investment vehicle for retirement, so your investments should be appropriate for that long time

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Frankly Speaking

The last two years or so have been difficult to say the least. Nobody could see the 100-year virus coming or the havoc it would wreck. We still don't know when we'll be 'in the clear' or just accept annual boosters. Yet perhaps it will serve to remind us to have an annual financial review like the Doctor's checkup we need to stay healthy. If you're lucky, your health has held up as well as the market.

Here's hoping the work we've done together has helped you achieve your financial goals and enabled you to care for those you hold dear. If you have family or friends who would benefit from knowing me, please send me their contact information.

Remember, you cannot plan for an emergency, only prepare for one

A Nevada man who claimed to have proof of voter fraud in the 2020 presidential election has pleaded guilty to voter fraud. -The Week, November 17, 2021. ○○○

Nurture Your IRA

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frame. Even modest changes in your rate of return can substantially impact your IRA's ultimate value. For example, assume you have \$10,000 in your IRA, which will be invested for 30 years. If you earn an average rate of return of 6% compounded annually, your balance will equal \$57,435. Increase that return to 8%, and your ending balance will equal \$100,627, a difference of \$43,192.*

✓ **Fund your IRA at the beginning of the year, rather than at the end of the year.** This allows your contributions and earnings to compound for a longer period. For example, assume you are 30 years old and make \$5,000 IRA contribution at year-end for 35 years. If you earn 8% compounded annually, your IRA balance would equal \$861,584 at age 65. Make the contribution at the beginning of the year instead, and your balance would equal \$930,511, a difference of \$68,927.*

Please call if you'd like to review strategies to help maximize your IRA's value. ○○○

** These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment. They do not take into account the effects of commissions or any taxes that may be due.*



Organizing Your Estate

Estate planning is an ongoing process that rightly entails careful recordkeeping, review, and updates for the rest of your life to keep up with changes in the markets, laws, and your family. When you've finished creating the plan, the next step is to make it possible for your survivors to activate it easily and confidently when the time comes. That means organizing your estate so all those documents are readily available.

While it isn't necessary or even desirable to keep every piece of paper documenting your financial life, keeping the most important documents well-organized can save significant time for settling your estate.

Recognize that it's not just the estate documents you've created that you have to organize. It's also a wide array of documents that serve as proof of purchase and ownership of your assets and that document your and your spouse's key life events. One of the best ways to organize them all is to collect them by category, and create another master document that explains what they are, where they are, the first steps your spouse needs to take to get the settlement of your estate started, and contact information.

Below is a description of all the categories of documents your spouse needs, with examples of specific documents in each category.

Estate planning documents: Your last will and testament, living will, all trust documents, power of attorney declarations, and any funeral instructions.

Personal documents: Certificates of birth, marriage, and death of other key relatives, divorce and separation agreements, adoption papers, and military records. In

addition, make copies of your driver's license, Social Security card, health insurance and/or Medicare card, and any organ donor cards.

Other legal documents: Examples include pre- and post-nuptial agreements, corporation or partnership agreements, and leases.

Financial account statements and securities certificates: Keep and periodically refresh all your bank, brokerage, mutual fund, and other investment account statements. Also include any stock, bond, or saving certificates.

Copies of your life insurance policies: Make sure that you include copies of the beneficiary designations and recent statements of any cash values.

Real estate documents: These should include all deeds, mortgage, and title insurance documents, and copies of your homeowners' insurance policies for all properties you own.

Retirement plan documents: Be sure to include all plan and account documents, beneficiary designations, and statements of all workplace retirement plans, IRAs, annuities, and pension plans you own and statements of your Social Security benefits.

Vehicle documents: All documents related to the automobiles, motorcycles, scooters, boats and airplanes you own. Include all titles, loan statements, and insurance policies for each vehicle.

Credit card and outstanding debt documents: Keep and periodically refresh copies of your credit card, education, and any other outstanding personal loan balances.

Tax returns. This file should always contain full copies of at least three years of federal, state, and local income tax returns. ○○○

Evaluating Stock Investments

You should thoroughly analyze a stock before purchase. But pick up a company's annual report and you can quickly become overwhelmed by all the numbers. At a minimum, look for answers to these questions:

✓ **What are the company's earnings?** Earnings per share (EPS) is the company's net income after taxes and preferred stock dividends divided by the average number of shares outstanding. Look for steadily increasing EPS.

✓ **How does the company's price relate to earnings?** The price/earnings (P/E) ratio is calculated by dividing the company's stock price by EPS. It basically indicates how much investors are willing to pay for a dollar of the company's earnings. P/E ratios can be calculated using different earnings numbers. Trailing P/E ratios use earnings per share for the most recent four quarters, while forward P/E ratios use forecasts of future earnings per share. To get a feel for the reasonableness of a company's P/E ratio, review its historical P/E ratio, the P/E ratio of other companies in similar industries, and the P/E ratio of the market as a whole.

✓ **How does the company's book value relate to its price?** A company's book value equals its assets less its liabilities, commonly referred to as stockholders' equity. Dividing the stock's price by its book value per share will give you the price-to-book value. Companies with low price-to-book values are often considered value stocks.

✓ **What is the company's return on equity?** Return on equity (ROE) is calculated by dividing the company's income by its shareholders' equity. It is used to measure how well capital retained in the company is utilized.

✓ **What is the stock's total return?** Total return equals dividends plus or minus changes in stock price divided by your purchase price. This is the overall measure of the stock's performance and is useful when comparing one investment with other investments.

✓ **What is the company's debt level?** The debt ratio is the company's outstanding debt divided by shareholders' equity, which measures how leveraged a company is. High levels of debt can make a company more vulnerable during economic downturns. Also take a look at the current ratio, which is calculated by dividing current assets by current liabilities. It is a measure of a company's ability to pay its current obligations, with higher ratios indicating a stronger ability to make payments.

✓ **What is the company's growth rate?** A company's growth prospects can be evaluated using the price/earnings growth, or PEG, ratio, which is calculated by dividing the P/E ratio by the company's projected earnings growth rate. A PEG ratio of one is considered standard, meaning the growth rate is incorporated in the stock's price. A PEG ratio higher than one means the stock is trading at a premium to its growth rate, while a ratio of less than one may mean the stock is

undervalued.

✓ **How volatile is the stock?** Beta is a statistical measure of how stock market movements have historically impacted a stock's price. By comparing the movements of the Standard & Poor's 500 (S&P 500) to the movements of a particular stock, a pattern develops that gauges the stock's exposure to stock market risk. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market and has a beta of one. A stock with a beta of one means that on average it moves parallel with the S&P 500. A beta greater than one means the stock should rise or fall to a greater extent than movements in the S&P 500, while a beta less than one means it should rise or fall to a lesser extent than the S&P 500. Since beta measures movements on average, you cannot expect an exact correlation with each market movement.

The decision to purchase a stock can't be made solely from a review of financial ratios. You'll also need to evaluate subjective factors, such as the quality of management, prospects for the company's industry, and where the company stands in relation to its competitors. If you'd like help reviewing the financial ratios of a stock that interests you, please call. ○○○



Enjoy Life and Still Save

Some people worry that when saving for retirement, they have to give up everything they enjoy. While there needs to be a balance between spending and saving, it doesn't mean you can't enjoy life.

Look at Your Current Situation and Set Goals

You should start by reviewing how you live and how you save. Make a list of questions about your lifestyle to assess what is most important to you: Am I happy with my lifestyle? Are there things I want to pursue? Do I have enough money to support my lifestyle and the things I want to pursue?

Prioritize your responses by order of importance, so that you can budget for the things you really want to do. Next, you will want to make a list of how you are managing your finances and savings: Am I able to cover my bills? How much am I saving for retirement? Am I saving enough for retirement? How much disposable income do I have every month?

Once you have answered these questions, it is time to look at your responses to figure out how you can accomplish both. You'll want to develop

or revise both lifestyle and retirement goals being as realistic as possible with your current financial situation.

Make a Plan

Now you need to figure out if you can make it all work. As part of your budget, add both your lifestyle goals and your retirement goals with specific dollar amounts.

If you can't meet all of your goals within your budget, you will have to make decisions about what is most important.

Also assess your job. Are you making enough money for the type of job you have? Are you happy with your job? Changing a job takes time and energy, but you need to decide if it is an option if you need more disposable income.

Review and Reassess

You will want to review your goals and budget on a regular basis to determine if you need to make adjustments, especially if you are having trouble accomplishing your goals within your budget. Also, as time goes by, you will find that your goals will change and you need to adjust your plan as well.

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Life Insurance Tips

- ✓ Don't rely on rules of thumb when deciding how much life insurance you need. Go through a detailed analysis of your needs.
- ✓ Evaluate who should own the insurance policy, which determines whether the proceeds will be subject to estate taxes.
- ✓ Select beneficiaries with care, being sure to name contingent or back-up beneficiaries.
- ✓ Before deciding on a specific type of life insurance policy, review all available options.
- ✓ Look for ways to reduce premiums by meeting certain criteria.
- ✓ Don't purchase cash-value insurance unless you plan to own the policy for at least 10 years. It typically takes at least that long to generate significant cash values.
- ✓ Check the financial rating of your insurance company periodically.
- ✓ Don't replace an existing life insurance policy without first evaluating the consequences of surrendering the policy.
- ✓ Review your life insurance policies every couple of years. Evaluate the policy's performance and whether your needs and circumstances have changed. ○○○

Financial Thoughts

There is a noticeable increase in the portion of individuals with missed credit payments before and soon after being diagnosed with Alzheimer's disease or related dementia. Cognitive impairment not only impacts one's ability to manage finances, but puts one at greater risk of being scammed (Source: *AAIL Investor Update*, May 6, 2021).

Workers are confident they

will live comfortably in retirement despite a tumultuous 2020. A recent survey found that 70% of workers are at least somewhat confident in their ability to live off their savings once they retire, with more than 30% very confident. Half of workers and 7 in 10 retirees said the pandemic did not change their confidence in achieving a secure retirement. About 30% of workers say the coron-

avirus pandemic has made it more difficult to save for retirement due to fewer hours worked, lower income, or a change in jobs. The past year has caused about one in four workers to adjust their planned retirement age, with 17% planning to retire later and 6% to retire earlier (Source: 2021 Retirement Confidence Survey, 2021). ○○○