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5 Steps to Create an Investment Plan

Like anything in life, having a plan for your investments will help you reach your investment goals. Below are five steps for crafting your plan.

1. Determine Your Goal

Every good investment plan begins with a clear goal in mind. Ask yourself: "Why am I investing? What do I hope to do with the money I save and earn?" For example, you might invest to: fund a child's college education, retire comfortably, buy a house, start a new business, leave a charitable bequest to a favorite cause, or pay for a wedding.

Write down your investment goals. Make them as specific as possible. Think about the kind of lifestyle you want in retirement, the cost of your dream vacation home, the cash you'll need to start your business, or the cost of tuition where your children might go to college. Write down a realistic estimate of how much you think you'll need. After all, if you don't know where you're going, you'll never get there.

2. Decide on Your Time Frame

After you outline your goals, you need to establish your time frame for investing. Typically, your goals will fall into one of three categories:

- **Short-term:** Short-term goals are those you expect to achieve in five years or less.
- **Mid-term:** Mid-term goals are those you expect to achieve in five to 10 years.
- **Long-term:** Long-term goals are those you expect to achieve in more than 10 years.

Your investing time frame has a direct relation to the investments you'll choose. Generally, the shorter your time horizon, the less risk you want to take. If you will need your money in three years to pay for your daughter's college education, then putting all your money in riskier investments is probably not wise, as the chances of losing money are greater. Instead, less risky investments, like bonds, will likely make up a larger portion of your portfolio. But if you're investing for the long haul (say, for a retirement that's 30

Continued on page 2

Frankly Speaking

NEW VOICES WANTED - Senator Rick Scott (R-FL) introduced on 2/22/2022 "An 11 Point Plan to Rescue America," including a recommendation to enact a 12-year term limit for members of Congress. As of Tuesday 3/01/2022, 123 members of the House (out of 435) and 53 members of the Senate (out of 100) have served in Washington at least 12 years (source: GovTrack.us).

BRAND NEW HOMES - The median sales price of a new home sold in the USA in January 2022 was $423,300, an all-time record high both on a nominal basis and on an inflation-adjusted basis (source: Census Bureau).

NOT ALWAYS UP - For 17 consecutive quarters (from 3/31/2007 through 6/30/2011), the average price of American single-family homes fell in value (source: Federal Housing Finance Agency).

So, it should be obvious that what goes up eventually comes down, if only you can wait.

"The stock market is a device for transferring money from the impatient to the patient." -Warren Buffet ❍❍❍

5 Steps

Continued from page 1

years away), you can invest in higher risk investments, since you'll have more time to recover from a loss.

3. Evaluate Your Tolerance for Risk

All investments come with risk — the chance you could lose your money. But riskier investments also come with the possibility of greater return. As an investor, you must decide how much risk you're willing to accept. Your personal risk tolerance is closely related to your goals and your time frame, as well as your experience with investing and your feelings about the possibility of losing money.

4. Decide How Much You Want to Invest

Once you've considered your time horizon, goals, and risk tolerance, you can consider how much money you want to invest. You should keep a portion of your savings in a stable, easily accessible account to use for emergencies and other immediate needs.

Once you have the funds for your initial investment, you need to decide how much you want to invest on an ongoing basis. This number will be determined by your budget, your investment goals, and your time frame. For smaller, short-term goals, determining ongoing investment amounts is fairly easy. If you want to buy a home in five years, you might open an account with $2,000 you've already saved, and then invest $400 a month for the next five years.

Deciding how much to invest for longer-term goals can be more challenging. When saving for retirement, you need to consider how much yearly income you'll need, your anticipated investment returns, when you want to retire, how long you expect to live, the impact of inflation, and the money you'll receive from other sources, like Social Security. It can be a complicated equation, which is why many people turn to a financial advisor for help running the numbers.

5. Choose Your Investments

Given the thousands of possible options, choosing investments can be overwhelming. But completing the first four investment planning steps should help you make those decisions. Again, your goals, risk tolerance, and time frame will point you in the right direction, such as toward target-date funds designed for retirees or college savers, or a money market fund for short-term goals. But if you're baffled by all the options, it's always a good idea to seek a second opinion. Please call if you'd like help with your investment plan. ❍❍❍

6 Questions to Ask before Investing

Gathering as much information as you can before you choose an investment will protect you and your money. To help you do that, here are six questions that everyone should ask before they invest.

1. Do I understand this investment? Before deciding to invest, make sure you're clear on what you're investing in, how it makes money, and how easy it is to sell.

2. What's the potential reward, and am I prepared to accept the risk involved to get it? Usually, an investment that comes with a big potential reward also comes with big risk. That doesn't necessarily mean it's a bad choice, but it does mean you should go into it fully informed.

3. What's the cost of this investment? You should also find out if there are fees and expenses associated with the investment. Also important are the taxes you'll have to pay when you sell as well as any potential penalties.

4. Does this investment fit with my goals? Shorter-term goals, like saving for a down payment on a house or accumulating funds for a child's college education, require a different investment strategy than if you're investing for a retirement that may be 20 or 30 years away. Lower-risk investments are usually more appropriate for shorter-term goals, while riskier investments can be fine for longer-term goals. A financial advisor can help you determine which investments fit with your particular goals.

5. How easily can I get out of this investment? Money that you've invested isn't liquid. In the case of stocks, you can always sell without too much difficulty, but you may take a loss. But with other investments, like real estate and certain types of life insurance, it's harder to get your money out. If you think you're going to need to access your investment in the near future, make sure you know how easy it is to access those funds.

6. What is this investment's history? Some investments have a long history that you can look to when making a decision about whether to get involved. The U.S. has never defaulted on its debt, for example, and there's little chance that it will in the future, and that long history allows you to make certain informed predictions about the future performance of this investment. Likewise, certain companies have a solid history of strong performance. While past performance is no guarantee of future results, it is useful information to consider. Newer companies and investments obviously don't have that clear history for investors to study. That doesn't mean they're always bad investments, but it does mean you should be skeptical of any claims of out-size returns. ❍❍❍

Watch Out for Estimating Mistakes

When determining how much to save by retirement age, several variables must be considered, some requiring estimates that will span decades. Err significantly on those estimates and you can end up with little or no money left during the later years of your life. Three of the most significant estimating mistakes to watch out for are:

✔ **Underestimating how much income you'll need in retirement.** The entire point of your retirement savings is to ensure you have sufficient income to spend your retirement how you'd like, so make sure you have a good estimate of how much that will cost. Various rules of thumb indicate you'll need anywhere from 70% to over 100% of your preretirement income. At first glance, it seems like you'll need less than 100%, because work-related expenses, lunches out, professional clothes, and commuting costs will be gone. But look carefully at your current expenses and how you plan to spend your retirement years before deciding how much you'll need. If you pay off your mortgage, remain in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, you might need less than 100% of your preretirement income. However, if you plan to travel extensively, must pay for health insurance, and carry significant debt, you may find that 100% of your preretirement income is not enough. You need to look closely at your current expenses and planned retirement activities to come up with a reasonable estimate.

✔ **Underestimating how long you'll live.** Today, the average life expectancy is 84.3 years for a 65-year-old man and 86.6 years for a 65-year-old woman. But don't use those figures without further analysis. Average life expectancy means the woman has a 50% chance of dying before age 86.6 and a 50% chance of living past age 86.6. Since you can't be sure which will apply to you, you should probably assume you'll live at least a few years beyond your life expectancy. When deciding how many years to add, consider your health and how long other family members have lived.

✔ **Overestimating how much you can withdraw annually from your retirement savings.** With a retirement that could span decades, it's important to withdraw a reasonable amount so you don't deplete those savings too soon. A number of factors can make that a difficult number to calculate. First, as noted above, you can't be sure how long you'll be making withdrawals. Live significantly beyond your average life expectancy and you could find yourself with little in the way of savings. Second, inflation over such a long period means you'll have to withdraw increasing amounts just to maintain the same purchasing power. Third, your rate of return on your investments will significantly affect how much you can withdraw annually. When withdrawals are being made, down markets can have a devastating effect on your savings. Not only will your investment value go down, but you will be withdrawing the same amount from a smaller balance. Thus, when the market rebounds, you'll have less capital available to participate in that rebound. Especially if a major market downturn occurs early in your retirement, withdrawing an amount that may have been reasonable during an up market may quickly deplete your assets. Thus, it's generally prudent to keep your withdrawal percentage as low as possible, perhaps 3% or 4% of your balance. With that level of withdrawal, your funds should last for decades.

If you'd like help making these estimates, please call. ❍❍❍

7 Ways to Pay Less for College

With the cost of college steadily rising, students and their parents are looking for ways to ease the financial burden. Fortunately, there are ways to reduce college expenses for your child, even if a free-ride scholarship isn't a possibility.

1. Take college-credit courses in high school. Pack your child's high school schedule with advanced placement classes so they can start earning college credits now. Students who do well on AP exams may be able to skip general education requirements.

2. Apply for aid. Always apply for financial aid, even if you think you might not qualify. Even if you make a lot of money, your child may still be granted some assistance.

3. Start at a community college. Tuition at two-year community colleges is more affordable than at four-year private and public universities. Many students can save money by beginning their college education at these schools and then transferring to a four-year institution to complete their degree.

4. Stay close to home. Heading halfway across the country for college is going to be expensive. If your child stays closer to home for school, they'll spend less on travel and may even be able to live with you, cutting costs even further. Plus, in-state public universities and community colleges are typically cheaper.

5. Get a job. College is hard work, but many students benefit from working at least a few hours a week while in school. Consider having your child rely on their part-time job, rather than you, for their spending money.

6. Look for scholarships. Scholarships aren't just for top athletes and those with perfect SAT scores. There's money out there for all kinds of students.

7. Choose a school that charges no or minimal tuition. While admission to these schools is competitive and they won't be an option for all students, they are worth exploring. The U.S. federal service academies charge no tuition in exchange for a service commitment after graduation. A number of work colleges allow students to attend for free or a nominal cost in exchange for working on campus. However, keep in mind that despite free or discounted tuition, students may still be responsible for room, board, and other fees. ❍❍❍

Protect Family's Security

One of your first financial goals should be to protect your family's financial security from major catastrophes. Consider these items:

✔ **A cash reserve for short-term emergencies.** A common rule of thumb states that your cash reserve should equal two to six months of living expenses. However, how much you'll need depends on your age, health, job outlook, and borrowing capacity.

✔ **Adequate insurance in all major areas.** Your insurance needs will change over the years, so you may find yourself with too much or too little coverage. Thus, periodically review your life, disability, medical, and homeowner's insurance.

✔ **Umbrella liability insurance to protect against major lawsuits.** Umbrella policies are purchased in $1 million increments and kick in once limits of your homeowner's and automobile policies are exceeded.

✔ **A power of attorney.** A power of attorney gives an individual you designate the power to act on your behalf when you are incapacitated, allowing him/her to take over your finances and make investment decisions. ❍❍❍

Financial Thoughts

Robinhood had over 13 million users in May 2020 compared to 12.7 million at Charles Schwab. On average, Robinhood investors have smaller accounts than investors at other brokerages. However, during the first three months of 2020, Robinhood investors traded 40 times as many shares as Charles Schwab investors per dollar of investment. Robinhood investors also concentrate their funds at a much higher rate than the average retail investor. Thirty-five percent of purchases by Robinhood investors is focused in just 10 stocks, versus 24% for most individual investors (Source: *AAII Journal*, November 2021).

In a study of individuals between the ages of 55 and 75 years old, waiting to retire until age 67 lessened the rate of cognitive deline in retirement. However, those who retired at age 67 had a slowed rate of cognitive decline, not necessarily a boost in cognitive decline. It was also found that this insulation does not vary across gender, education, or occupation, affecting everyone equally. Furthermore, depressive symptoms and comorbidities were not found to mediate the effect of postponing retirement (Source: *SSM Population Health*, June 2021). ❍❍❍