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MARCH 2024

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Calculating Your Financial Ratios

When reviewing the financial health of a company, it's common to look at financial ratios, such as earnings per share, price/earnings ratios, book value, and total return. The reason financial ratios are so popular is they give you a means to evaluate financial information, while allowing you to track changes in a company's performance over time.

Consider using the same concept to assess and track your personal financial situation. At least annually, prepare a net worth statement and then calculate various financial ratios. Comparing those ratios over time will help you assess whether you are making progress toward your financial goals.

You should start by preparing a net worth statement, which lists all your assets and liabilities, with the excess representing your net worth. All assets should be listed, including vested balances in retirement plans and 401(k) plans, personal property, jewelry, and household items. Assets should be valued at the price you would obtain if you sold them now, not the amount you paid for them. You'll also want to list your annual income, for ease in calculating some of the ratios.

Now, ask yourself the following questions about your finances:

✔ **Has your net worth grown by more than the inflation rate?** Calculate the percentage growth in your net worth over the past year and compare that to the inflation rate. To make progress toward achieving your financial goals, your net worth should increase by more than the inflation rate. With recent fluctuations in the stock and housing markets, you may see short-term declines, but make sure you are making progress over the long term.

✔ **What is your ratio of assets to liabilities?** A ratio of less than 1 indicates you have more liabilities than assets — a negative net worth. If that is the case, take active steps to reduce your liabilities. This ratio should increase over time, which indicates you are reducing debts.

✔ **What is the trend in your liabilities?** Review the amounts and types of debt outstanding. Mortgages are typically used to purchase a house or other items that

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Frankly Speaking

Which is worse? Preparing your taxes or paying them? The time to start preparation is now. Gather your various forms and calculate your expenses for 2023. Get ready to pay or make payment 'arrangements' and consider quarterlies for next year.

If you haven't made your IRA contributions for 2023, PLEASE do so before April 15. And if you are able, make your 2024 contributions too so the money will be earning for you as long as possible. This is a great time to balance your portfolio as many have gotten lopsided toward Technology as the 'Magnificent Seven' has performed so well. Review the fixed-income positions too as they did unusually well last year.

Also, a perfect time to review your insurance coverage including Long Term Care and Estate Planning to ensure that those we leave behind can continue in the lifestyle we've provided for them. If you aren't sure what some of these terms mean, PLEASE call me to arrange a review so we can take advantage of opportunities in the market. ❍❍❍

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Your Financial Ratios

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appreciate in value, so are considered good debt. Credit card balances and auto loans are used to finance items that typically don't appreciate in value and should be kept to a minimum.

✔ **What percentages of your assets are liquid and nonliquid?** Nonliquid assets include items like your home, other real estate, jewelry, and works of art. Although they may increase in value over time, they can be difficult to sell quickly at full market value. Liquid assets, such as bank accounts and stocks, are more easily converted to cash. You want sufficient liquid assets to cover financial emergencies.

✔ **What is your savings to income ratio?** For this ratio, your savings equal all assets designated to help fund your retirement. It typically won't include your home, since you will probably live there after retirement. First, you need to decide what this ratio should equal at retirement. It is basically the amount of savings you want at retirement age, preferably determined after a careful analysis of all appropriate factors, divided by your annual income. For instance, if you want retirement assets equal to $2,000,000 when you retire and you currently earn $100,000, you would need a savings to income ratio of 20 when you retire. You might then develop benchmarks over your working years to help you gauge whether you are on track to achieving that goal.

✔ **What is your savings rate?** Calculate what percentage of your income you are saving on an annual basis. Typically, you'll want to save a minimum of 10% a year. This would include 401(k) contributions and individual retirement account contributions. If your employer matches your 401(k) contributions, you can include those contributions as part of your annual savings.

✔ **How have your investments performed?** Now may also be a good time to thoroughly analyze your portfolio's performance over the past year. Measure the performance of each investment, comparing it to an appropriate benchmark. This can help you identify portions of your portfolio that may need to be changed. Also calculate your overall rate of return and compare it to your targeted return. If your actual return is lower than the return you targeted when designing your investment program, you may need to increase your savings, select investments with higher return potential, or settle for less money in the future.

Please call if you'd like help reviewing your personal financial ratios or assessing whether you are on track in pursuing your financial goals. ❍❍❍

Give Yourself a Money Makeover

A new haircut or wardrobe overhaul can work wonders in terms of giving someone a fresh outlook on life and a self-esteem boost. The same can be said for a money makeover.

Step 1: Identify your flaws. Any makeover begins with identifying what you want to change. Sit down, make an honest assessment of your current financial state, and then list a few items you wish were different.

Step 2: Decide what you want to change. If you're like most people, your list of potential financial fixes is a bit overwhelming. Since you won't be able to tackle everything at once, you need to prioritize.

Look at your list and highlight a few items you think would make the biggest difference in your life and you can actually do something about. Say you want to buy a house so you can stop renting, but reckless spending has left you with poor credit. Rather than focusing on changing your living situation, you might be better off by focusing on improving your credit score, so one day you can buy that dream house.

Step 3: Take action. The next step is to actually implement your makeover. Take the steps you need to make the necessary changes in your life. It may be helpful for you to come up with a calendar or list of specific action steps to keep you from getting discouraged.

For example, if you're looking to improve your credit score, you might make a list of specific things you need to do to make that happen, with deadlines for each one. If it's your spending that's the problem, you might start by simply tracking how and when you spend for a week or two. Once you know where your money is going, you can make an effort to stop or reduce some spending and dedicate the money you save to other goals.

Step 4: Get help if needed. You don't necessarily need fancy tools to give yourself a financial makeover. But it often helps when someone has your back. If you're worried about your ability to turn your makeover dreams into reality, you may want to seek the help of an expert on issues related to taxes, retirement, college planning, debt repayment, and more. Not only can they provide valuable and objective advice, but they'll also be a coach who can help you stay on track.

As you take steps to change your financial life, be sure to stop and celebrate your successes. Give yourself a pat on the back — and perhaps a small reward — when you achieve a goal. ❍❍❍

4 Steps to Boost Financial Confidence

When it comes to being in control of your money, confidence is one of the most important attributes you can have. But many people lack that confidence. Below are four simple suggestions that can help you increase your financial confidence, so you'll know you're making smart decisions for yourself, your family, and your future.

1. Get organized. Not too long ago, it didn't take much work to organize your finances. Unless you were very wealthy, money matters were fairly straightforward — you might have had checking and savings accounts, an insurance policy, maybe some stock investments and bonds, and a mortgage. If you were lucky, you had a pension. You could easily store all your financial information in a single accordion file.

Today, things are more complicated. Credit cards, home equity lines of credit, student loans, 401(k)s and IRAs, 529 plans for college expenses — the list of information to keep track of seems endless. It's easy for things to get lost or overlooked. That in turn can lead to mistakes that can weaken your financial confidence. Getting organized will restore a feeling of control.

There are numerous strategies for getting organized. The best approach for you depends on your specific situation and your personality. Some people stick with that old-fashioned accordion file. Others go completely digital, taking advantage of apps and online document storage to keep everything straight. Whatever solution you choose, you need to know all the details of your finances — how much you earn, how much you owe, how much you're worth, and how much you're saving.

2. Get educated. When you start a new job, you may feel nervous and on edge. There's a lot to learn, and you may not be confident you'll succeed in your new position. But if you commit yourself to learning new skills and the ins-and-outs of how your new organization functions, your confidence will gradually increase. The same holds true for your finances. Simply taking the time to learn more about finances and managing your money can do wonders for how you feel about your life.

Basic financial literary isn't really covered in most school curricula, so many otherwise savvy adults are clueless in this area. Fortunately, increasing your financial literacy is not hard; it just requires a little bit of effort. Many community colleges, churches, and nonprofit groups offer classes, or you can sign up for a class online. If you don't want to go back to school, consider watching videos or reading articles that review financial concepts you're unfamiliar with.

3. Get a financial plan. Making financial decisions on a day-to-day basis with no larger purpose or focus in mind may work for some people, but it's not likely to help you become financially confident. If you don't have any idea what might (or what you want to) happen, you're not likely to be very confident about your future. To achieve true financial confidence, you need a plan. Setting goals and making meaningful progress toward those goals will do wonders for your financial self-esteem. Having a plan will also help you prepare to cope with an uncertain world. You'll be better prepared for the unexpected. In fact, people who engage in financial planning are more likely to report that they live comfortably and are on track to meet all of their financial goals.

Why is a financial plan so important? It brings together all the threads of your financial life. Having a solid financial plan in place that covers everything from preparing for emergencies to planning for retirement is key to boosting your financial confidence.

4. Get help. Getting reliable advice from an outside expert can greatly improve your financial confidence. Just like a doctor supports and guides you in making decisions about your health and a personal trainer is there to encourage and motivate you to get fit, a financial advisor is there to make sure you're sticking to your financial plan. Even if you're organized and financially savvy, there are many decisions that are difficult to make on your own, from deciding how much to save for retirement to choosing investments for your portfolio. If you're unsure about what to do next, please call. ❍❍❍

How to Avoid Credit Card Dependence

Ask yourself these questions to evaluate your dependence on credit cards:

✔ Do you rely on credit cards to make it through until your next paycheck?

✔ Does it seem you always have to put unexpected expenses on your credit card?

✔ Do you think you spend more than you would with cash because your card has rewards or discounts?

✔ Do the holidays leave you with a mountain of credit card debt?

If you answered yes to these questions, you are probably relying too much on your credit cards. If you are concerned you are too dependent on your credit cards, there are steps you can take to become credit card independent.

✔ Put your credit cards somewhere for safekeeping to reduce the temptation to use them as your regular form of payment.

✔ Become more disciplined with spending by enacting a cash-only policy. While many people use debit cards as a convenient way to pay cash; be careful, because many financial institutions will allow you to overdraft your account when you use a debit card and may charge a large fee for this overdraft privilege.

✔ Consolidate your balances to fewer cards that have the lowest interest rates and close the rest of your credit card accounts to reduce the amount of available credit and, thus, the potential amount of debt you could incur. While closing credit cards can have a negative impact on your credit score, it's still better to have a temporary credit score setback than to go deeper into debt if you can't control your spending. To reduce the impact to your score, you should also consider keeping your oldest credit card in addition to a lower interest-rate card.

✔ Shock yourself into reality by looking at a few important things on your credit card statement including: how much are you paying in interest on an annual basis? How long will it take you to pay off the balance and how much will you pay in interest if you are only making the minimum monthly payment? This information can be a real eye-opener.

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

How 401(k) Matching Works

Employers use many different formulas to determine matching contributions, but most match employee contributions up to a percentage of the employee's annual income. However, some employers may not consider income at all and match a certain dollar amount of an employee's contribution.

All contributions to your 401(k) plan, whether they come from you or your employer, must adhere to the Internal Revenue Service contribution limits. The total contribution limit in 2024 is $23,000. If you are over 50, you may make additional catch-up contributions up to $7,500, if permitted by your 401(k) plan.

You should also familiarize yourself with your plan's vesting schedule. This schedule determines the percentage of ownership you have in your employer's contributions based on how many years you've been employed with the company. Any contributions you make to the account will always be yours with no forfeiture if you leave the company.

Please call if you'd like to discuss 401(k) plan matching in more detail. ❍❍❍

Financial Thoughts

In a recent survey, 85% of couples who created a wedding registry in the last two years said they would have preferred to receive cash toward a down payment on a house rather than a standard registry gift. If given the option to redo their registry, 80% would have created a category for housing assistance (Source: Realtor.com, 2023).

The rate of divorce among millennials has fallen by 30% between 1990 and 2017, though an estimated 25% of millennials will probably never marry at all (Source: Divorce.com, 2023).

Consumers spent $749 million on donations at checkout last year, up 24% from 2020. But while the amount of giving has never been higher, Americans are getting fed up with retailers always asking for tips and donations: Only 59% of consumers said they donated to charity at the register this year, down from 80% in 2021 (Source: Accelerist, 2023).

Workforce participation rates were 57.7% among women and 68.2% among men as of August 2023. This 10.5% difference is the narrowest that's ever been recorded. For full-time work, the gender pay gap decreased to 16 cents — or women earning 84 cents for every dollar men make — the smallest disparity on record (but still not a huge leap from 20 cents in 2002 (Source: Bureau of Labor Statistics, 2023). ❍❍❍