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Saving and Life Planning

Knowing when and how to save for different periods of your life can seem a daunting task. Everyone is different, so how can one plan apply across the board? The truth is that while everyone should have a savings plan customized to their own circumstances, there are some benchmarks and guidelines that are good to follow to meet financial goals.

When You're in Your Twenties

This is the time in which you'll be making the least amount of income, but will have fewer expenses as far as dependents go.

Your priorities should focus on creating a safety net to avoid taking on potentially crippling debt in case of dire need and jump-starting your retirement savings so it has as much time to grow as possible.

You should focus on building a readily available emergency fund equal to three to six months of living expenses. This means it should be liquid, in short-term savings vehicles like a bank account.

Begin putting money into a 401(k) plan or individual retirement account (IRA). Even if you can only contribute small sums, the long-term effects of compounding will work in your favor down the road.

Additionally, it is a good idea to start saving for a down payment on a house. Housing prices and interest rates will only continue to rise.

So if you believe you will be in the same place for at least the next 2-5 years and your area's housing market can bring a mortgage payment in at or under your current rent payment, you may as well begin to build some equity in home ownership.

When You're in Your Thirties and Forties

Priorities in this stage of life begin to diverge a bit more. If you have children, it is important to begin saving for their education. Tax-advantaged 529 college savings plans are not very flexible, but they score high marks when it comes to state and federal tax breaks, high contribution limits, and age-based options. An Education Savings Account (ESA) has lower

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Frankly Speaking

Where are we now?

The S&P 500 has started the year positive in January and February 28 times since 1950. The benchmark average was positive over the next 12 months in 26 of those instances. On average, when the first two months have been positive, the S&P 500 has delivered a return of 19.9% for the year. -Yahoo! Finance, March 4, 2024

"There will always be bull markets followed by bear markets followed by bull markets."-Sir John Templeton

Where do YOU think we are now: Bull or Bear market?

Have you examined your life insurance policies recently? Will you leave your family in need, or comfort upon your demise? Please call me to discuss your situation in time to prepare for the inevitable. Best to leave them with fond memories and the means to enjoy life as they know it. ❍❍❍

Saving and Life

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contribution limits, fewer state tax breaks, and no real age-based options.

Although it ultimately depends on which state you live in, a 529 college savings plan is a good way to combat the rising tuition costs.

When You're in Your Fifties

This is usually the peak of your earning years and when many parents have started weaning their children off full financial support.

This means that retirement contributions should be the largest yet, and federal limits on annual contributions have a higher ceiling to accommodate this greater amount of saving.

In 2024, the limit for IRA contributions for those under 50 is $7,000, but those 50 and older can contribute up to $8,000. The limit for 401(k) plans is even more generous, with under-50-year olds able to contribute up to $23,000 while the rest do not reach their ceiling until $30,500.

If you are in your fifties and you're worried that you have only saved half of what you'll need by 65, you are not alone. This high-earning, high-contributing time is when many people make up the difference and still retire with a well-funded account.

When You're in Your Sixties/Getting Close to Retirement

At this time, you should still be contributing more than ever to your accounts and acquiring assets for your retirement.

With less than five years left before you retire, consider changing your portfolio in favor of more lower-risk investments.

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

Lessons Learned from the Stock Market

If you pay attention to the stock market, you can learn some valuable lessons:

✔ **The market tends to revert to the mean.** There is a tendency for the stock market, when it has an extended period of above- or below-average returns, to revert back to the average return. Thus, following an extended period of above-average returns in the 1990s, the stock market experienced a significant downturn, helping to bring the averages back in line.

✔ **Don't chase performance.** Investors often move out of sectors that are not performing well, investing that money in investments that are currently high performers. But the market is cyclical and often those high performers are poised to underperform, while the sectors just sold are ready to outperform. A classic example is technology stocks in early 2000. Many investors rushed to purchase technology stocks just as they peaked and were headed for a long slide down. Rather than trying to guess which sector is going to outperform, make sure your portfolio is broadly diversified across a range of investment sectors.

✔ **Avoid strategies designed to get rich quick in the stock market.** The stock market is a place for investment, not speculation. When your expectations are too high, you have a tendency to chase after high-risk investments. Your goal should be to earn reasonable returns over the long term, investing in high-quality stocks.

✔ **Don't avoid selling a stock because you have a loss.** When selling a stock with a loss, an investor has to admit that he/she made a mistake, which is psychologically difficult to do. When evaluating your stock investments, objectively review the prospects of each one, making decisions to hold or sell on that basis rather than on whether the stock has a gain or loss.

✔ **Make sure an investment will add diversification benefits to your portfolio.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor.

✔ **Check your portfolio's performance periodically.** While everyone likes to think their portfolio is beating the market averages, many investors simply don't know for sure. So thoroughly analyze your portfolio's performance periodically. Compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

✔ **No one knows where the market is headed.** No one has shown a consistent ability to predict where the market is headed in the future. So don't pay attention to either gloomy or optimistic predictions. Instead, approach investing with a formal plan so you can make informed decisions with confidence.

Please call if you'd like to discuss strategies for your investment portfolio. ❍❍❍

Managing Bond Risks

All investments are subject to risk, although the types of risk can vary. While you can't totally eliminate those risks, you can develop strategies to minimize them. For bonds, consider these strategies:

Interest rate risk — Interest rates and bond prices move in opposite directions. A bond's price will rise when interest rates fall and decline when interest rates rise. This occurs because the existing bond's price must change to provide the same return as an equivalent, newly issued bond paying prevailing interest rates. The longer the bond's maturity, the greater the impact of interest rate changes. Also, the effects of interest rate changes tend to be less significant for bonds with higher-coupon interest rates.

To reduce this risk, consider holding the bond to maturity. This eliminates the impact of interest rate changes, since the total principal value will be paid at maturity. Thus, selecting a maturity date that coincides with your cash needs will help reduce interest rate risk. However, you may still receive an interest income stream that is lower than current rates. Selecting shorter maturities or using a bond ladder can also help with this risk.

Reinvestment risk — You typically know what interest income you will receive from a bond, but you must then take the periodic income and reinvest it, usually at varying interest rates. Your principal may also mature at a time when interest rates are low.

Staggering maturities over a period of time (laddering) can lessen reinvestment risk. Since the bonds in your ladder mature every year or so, you reinvest principal over a period of time instead of in one lump sum. You may also want to consider zero-coupon bonds, which sell at a deep discount from par value. The bond's interest rate is locked in at purchase, but no interest is paid until maturity. Thus, you don't have to deal with reinvestment risk for interest payments, since you don't receive the interest until your principal matures.

Inflation risk — Since bonds typically pay a fixed amount of interest and principal, the purchasing power of those payments decreases due to inflation, which is a major risk for intermediate- and long-term bonds.

Investing in short-term bonds reduces inflation's impact, since you are frequently reinvesting at prevailing interest rates. You can also consider inflation-indexed securities issued by the U.S. government, which pay a real rate of return above inflation.

Default and credit risk — Default risk is the risk the issuer will not be able to pay the interest and/or principal. Credit risk is the risk the issuer's credit rating will be downgraded, which would probably decrease the bond's value.

To minimize this risk, consider purchasing U.S. government bonds or bonds with investment-grade ratings. Continue to monitor the credit ratings of any bonds purchased.

Call risk — Call provisions allow bond issuers to replace high-coupon bonds with lower-coupon bonds when interest rates decrease. Since call provisions are generally only exercised when interest rates decrease, you are forced to reinvest principal at lower interest rates.

U.S. government securities do not have call provisions, while most corporate and municipal bonds do. Review the call provisions before purchase to select those most favorable to you.

Keep in mind that the assumption of risk is generally rewarded with higher return potential. One of the safest bond strategies is to only purchase three-month Treasury bills, but this typically results in the lowest return. To increase your return, decide which risks you are comfortable assuming and then implement a corresponding bond strategy. Please call if you'd like help with your bond investing strategy. ❍❍❍

Financial Advice for Your Children

It's a common enough goal — to live a better life than your parents. While you may be able to say you accomplished that goal, how likely is it that your children will be able to say the same thing? To help them with that pursuit, make sure to teach them these important financial lessons:

✔ **Graduate from college.** Even if your children are interested in pursuing careers that don't require a college education, encourage them to obtain a college degree first. Financially, college graduates have higher earnings on average than nongraduates.

✔ **Develop written financial goals.** Get them into the habit of saving first, then worry about how to spend the rest of their money. Encourage them to set up a system to automatically divert some of their income to savings.

✔ **Live well within their means.** Make sure they understand the difference between needs and wants, with saving for retirement high on the list of needs. Help them prepare a budget to see how much they can really afford for those items and still have money left over for saving.

✔ **Utilize all retirement vehicles available.** As soon as they become eligible, your children should start contributing to a 401(k) plan at work. If their employer doesn't offer a 401(k) plan, teach your children the benefits of individual retirement accounts (IRAs), both traditional deductible and Roth.

✔ **Use debt sparingly.** Large credit card payments for principal and interest can seriously reduce the funds available to save for other financial goals. Other debt, like car loans and mortgages, should only be taken on after a careful analysis of whether your child can afford the payments and whether the purchase fits in with their financial goals.

Please call if you'd like help imparting these financial tips to your children. ❍❍❍

Avoid Withdrawal Mistakes

✔ **Not understanding all available options.** Each retirement option has different tax and plan rules regarding withdrawals.

✔ **Not using reasonable estimates to calculate your withdrawal amounts.** If you don't use conservative estimates, you run the risk of depleting your assets before you die.

✔ **Not withdrawing funds in a tax-efficient manner.** Determine the most tax-efficient strategy for withdrawals.

✔ **Retiring early without considering the financial implications.** Retiring even a few years earlier than planned can significantly impact the amount needed for retirement.

✔ **Taking a lump-sum distribution in your name.** Transfer the funds directly to your new account's trustee to avoid tax ramifications.

✔ **Not taking required minimum distributions.** Once you reach age 73, you must take required minimum distributions.

✔ **Not selecting proper beneficiaries.** Selection of beneficiaries can make a significant difference in the taxes owed when you die.

✔ **Not seeking advice.** Determining how much to withdraw from your retirement investments and the best way to make those withdrawals can be complicated. Please call to discuss. ❍❍❍

Financial Thoughts

A new survey found that 64% of preretirees are considering delaying their retirement, or have already taken action to do so. The top reason? Financial concerns — specifically, fears over not having enough money for retirement, which impacted about 52% of respondents (Source: F&G Annuities and Life, 2023).

Household wealth in the US surged during the pandemic, jumping 37% in the steepest climb ever seen in the Fed's Survey of Consumer Finances, which it conducts every three years (Source: Federal Reserve, 2023).

As of September 2023, the average household spent more than $700 a month on child care, up 32% from 2019. The sharply higher costs are driving some parents to leave the workforce in order to look after their children (Source: Bank of America Institute, 2023).

One in four workers (25%) would be willing to sacrifice 15% of their annual salary for flexible working hours. One in three workers (33%) spend 31-45 minutes commuting one-way. U.S. employees spend $51 daily, or $1,020 monthly, when they work full time in the office (Source: Owl Labs, 2023). ❍❍❍