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Financial Briefs

MAY 2018

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 basically 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 payments 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 uncomfortable with your debt level, take active steps to reduce

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Finding Ways to Save

If it seems that you're having trouble saving enough from your monthly income, you're not alone. Often, there is too much month by the end of your paycheck.

Nevertheless, if you know that at your current rate of saving you're going to fall short of reaching your goals, you owe it to yourself to find ways to increase your savings:

1. Track your monthly expenses to the penny. Most people don't really know exactly how they're spending their paychecks, especially when it comes to cash purchases. Pay particular attention to nice but not necessary expenses like entertaining, dining out, vacations, memberships, and subscriptions.

If a comfortable retirement or college education is a looming priority, consider cutting back or even eliminating some of these discretionary expenditures. To start, try focusing on just a few of the largest — that can provide bigger savings faster than focusing on a lot of small expenditures.

2. Keep a budget. Make two columns: income and expenses. Then make a line entry for every income source and expense. Add up the columns and compare. If there's more in the income column than the expense column, budget that for savings every month. If there's more in the expenses column or the leftover is too small to meet your savings goals, find ways to cut your expenses. Then treat contributions to your savings accounts as an expense for which there is no compromise.

3. Fool yourself into saving more. The way to save more is to pay yourself first. The problem is that under the pressure of being sure to cover all your bills, it's too easy to treat a commitment to

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Your Financial Road Map

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your debt or at least lower the interest rates.

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, since you'll need to live below your means to find money to save. Commit to saving more immediately and then take steps to make that commitment a reality.

For instance, you may decide to increase your saving by $25 per week through your 401(k) plan at work. To do that, you may need to forgo your daily stop for coffee and a donut, cut back on how often you dine out, and reduce your monthly clothing allowance. Not sure it's worth that much sacrifice to save $25 a week? After 20 years, that weekly $25 savings could grow to $63,811 at an 8% annual rate of return, before the payment of any income taxes. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)*

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 will 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 increases in 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; and 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.

Time — Friend or Foe?

Here's when time is your foe: when you have only a couple of years left to work, and you don't have enough accumulated to retire. And here's when time is on your side: you start saving in your twenties, save every month, and keep saving until you retire. That's when you're putting the power of compounding to work for you.

The sooner you start saving, the less you'll have to put away each month to accumulate the needed funds for retirement. For example, say as a 25-year-old you open an IRA and save $100 a month ($1,200 per year). The IRA earns an average of 6% a year. After 40 years — when you're 65 and ready to retire — your account balance could grow to over $185,000.

But let's say instead, you put off saving until you are 45. At the same rate of saving in an IRA with the same returns, by the time you're 65, your IRA balance would be just about $44,000. Starting when you're 45, you'd have to contribute $420 a month to save about $185,000. At least that would be less painful than if you waited until you were 55. Then to match the end result, you'd have to save $1,175 per month. *(These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

One way people often try to compensate for getting a late start in saving is to shoot for a higher rate of return. Instead of settling for the 6% a year we used in the example above, why not go for 10%? But there are two problems with that strategy. The first is that investments don't always provide consistent returns.

Second, to earn higher rates of return, you have to take on more risk. That's fine when the big returns come in; but in the long run, big returns in some years are usually paid for with big losses in others.

Not everyone realizes that time spent not saving can have a significant cost and there are only so many ways to make up for it. The sooner you start putting more money aside, the better.

Ways to Save

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saving like a New Year's resolution — nice in principle but not in practice. The solution could be to mimic a work place payroll deduction plan: establish automated monthly transfers from your checking account into a savings or retirement account of your own.

4. Maximize your employer's matching contributions. Many employers will match employees' retirement contributions up to a certain percentage of the employee's income. If you're not contributing up to that maximum percentage, you're losing out on free money. This is one of the most powerful ways to boost your savings rate.

5. Don't spend your next raise. The next time you or your spouse get a raise, devote all of it to saving. It's often less painful to forgo spending money you didn't have before than to spend less of what you have now.

6. Avoid tax refunds. If you get a big check from the Internal Revenue Service every spring, it means you've been making tax-free loans to the government all year (through too-high payroll tax deductions or installment payments on self-employment income). So reduce those payments (though you don't want to have too little withheld either — in some cases you could face an underpayment penalty in addition to a big tax bill). Once you have your withholding or installment payments at the right level, direct the extra cash flow to your savings accounts or retirement plans.

7. Deduct every allowable business expense. Experts say many legitimate expenses are not deducted on tax returns. One main reason is using one credit card for both personal and business purchases, which makes it more difficult to ferret out deductible business expenses from nondeductible personal ones. To prevent this from happening, open up a separate business credit card account.

8. Unpremium yourself. Are you able to still feel good about yourself without driving the most luxurious SUV, flying first class, wearing designer-label clothes, and using the most expensive cell phone data plans? Taking these down a notch or two could help you find the missing ingredient for your long-term happiness — a nice nest egg in the bank.

If you'd like some help developing your savings plan, please call.

Financial Planning for Married Couples

Marriage is a partnership. You and your spouse are a team both personally and financially. Even if you've been married for decades, you may need a refresher course on financial planning basics. Here are six financial moves married couples should make.

Start talking — Some couples avoid having conversations about finances because they're boring, while others skip the talk because of money anxiety or conflicts. But your financial lives are deeply intertwined. You and your spouse need to be able to sit down with each other and talk honestly about your finances. Consider having a monthly checkin, where you sit down together and go over important issues.

Get on the same page — You're not going to agree on everything money-wise. But when it comes to major financial moves, you should be on roughly the same page (or at least in the same chapter). If you're both working together for the same things, you're much more likely to get to where you want to be.

Be willing to compromise — Ideally, you and your spouse will be of one mind when it comes to money matters, but in reality, you might not always agree. That's where compromise comes in. For example, you may want to keep working until age 70 for maximum financial security, while your spouse may be dreaming of quitting his/her job at 60. You might want to meet in the middle by planning for a retirement that starts at 65 for both of you.

Put it in writing — Don't let inertia lead you and your spouse into skipping key financial- and estate-planning tasks. Even if you want all your money and personal effects to go to your spouse, a will is still helpful in clarifying your wishes should you die unexpectedly. You may also want to set up a financial power of attorney to ensure your spouse can make financial decisions on your behalf if you're incapacitated. Meanwhile, a living will and medical directive can make it clear to your spouse and other family and loved ones what medical interventions you would want (or not want) if you are seriously ill.

Share information — If the worst happens, will your spouse have the information he/she needs to keep the household running? Make sure each of you knows how to access the bank and investment accounts — even the accounts for the household utilities. You each should also know how to locate important documents, like insurance policies, financial records, birth certificates, and the deed to your house.

Meet with an advisor together — It's not unusual for one spouse to take on a bigger role in the day-to-day financial planning process either out of choice or necessity. Even if one spouse takes a hands-off approach to money, both of you should still be present at meetings with your financial advisor. That's because you're a team, and your advisor will be better able to provide appropriate advice if he/she can hear from both of you.

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

Business Data

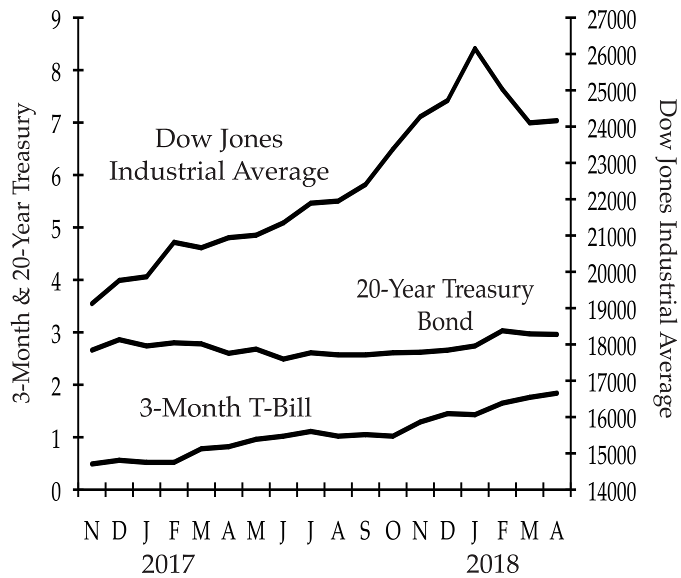
Indicator	Month-end Feb-18	Mar-18	Apr-18	Dec-17	Apr-17
Prime rate	4.50	4.75	4.75	4.50	4.00
3-month T-bill yield	1.65	1.76	1.84	1.45	0.82
10-year T-note yield	2.87	2.86	2.88	2.46	2.23
20-year T-bond yield	3.03	2.97	2.96	2.66	2.60
Dow Jones Corp.	3.63	3.70	3.88	3.13	3.09
GDP (adj. annual rate)#	+3.20	+2.90	+2.30	+2.90	+1.20

Indicator	Month-end Feb-18	Mar-18	Apr-18	% Change YTD	12-Mon.
Dow Jones Industrials	25029.20	24103.11	24163.15	-2.2%	15.4%
Standard & Poor's 500	2713.83	2640.87	2648.05	-1.0%	11.1%
Nasdaq Composite	7273.01	7063.44	7066.27	2.4%	16.8%
Gold	1317.85	1323.85	1313.20	1.3%	3.7%
Unemployment rate@	4.10	4.10	4.10	0.0%	-8.9%
Consumer price index@	247.90	249.00	249.60	1.2%	2.4%
Index of leading ind.@	108.00	108.70	109.00	2.4%	6.2%

\# — 3rd, 4th, 1st quarter @ — Jan, Feb, Mar Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

November 2016 to April 2018



News and Announcements

Straighten Out Your Financial Accounts

It's not uncommon to accumulate things over the years without taking time to straighten them out periodically. That applies to our finances as well as our possessions. How many credit cards do you carry? How many stocks and bonds, brokerage accounts, and individual retirement accounts (IRAs) do you own? It's not just a matter of finding time to keep track of all these different financial assets. Often, these assets are acquired without a clear-cut strategy, so you may own assets with similar investment objectives or that are not compatible with your financial goals. If you feel it's time to straighten out your finances, consider these steps:

- Make a list of all your assets and debts. List each one individually, so you have a sense of how many different accounts you're dealing with.
- Go through each one of your investments. Make sure you understand why you own each one. Are you really adding diversification to your portfolio, or do you have overlapping investments? Assess the prospects of each investment and decide whether you should continue to own it.
- Look for ways to consolidate accounts. Try to get down to one bank account, one brokerage account, and one IRA. This can significantly reduce the time needed to review and reconcile accounts.
- Assess your outstanding debts. Do you really need all those credit cards? Consider keeping only one or two cards, so it'll be easier to monitor balances. Look for ways to reduce the cost of your borrowing. Is it time to take another look at refinancing your mortgage?

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