**WIDMANN FINANCIAL SERVICES**
4321 Northview Drive, Bowie, MD 20716
www.widmannfinancial.com
(301) 262-2919 (voice)  (301) 262-3481 (fax)

Art Widmann, CFP®  art.w@widmannfinancial.com

Michael Marshall  mike.m@widmannfinancial.com
David Wolf  david.w@widmannfinancial.com
Bob Ready  bob.r@widmannfinancial.com
Laura Ruiz  laura.r@widmannfinancial.com
Felicia Snyder  felicia.s@widmannfinancial.com



# Financial Briefs

MAY 2017

## How Flexible Is Your Financial Plan?

When it comes to flexibility in a financial plan, it's a delicate balancing act: it is important to maintain enough flexibility so your financial plan can accommodate unexpected events that are out of your control (like the loss of a job, unexpected illness, market downturn, or tax rate increase). On the other hand, a sound financial plan needs to be firmly grounded by factors you can control (like how much you save and spend) so even in the face of unexpected events, following your financial plan gets you to where you want to be.

**Be Flexible: Assumptions Will Need to Be Made about Uncontrollable Factors**

When you develop a financial plan, you must make certain assumptions, many of which are out of your control:

**Taxes —** The notoriously complicated U.S. tax code will affect your financial plan in a number of ways. For one, your effective tax rate will change as your income changes. Also, changes to the tax code itself can affect your financial plan, often dramatically. Fortunately, changes aren't typically made every year; and because Congress sets tax policy, most changes in the tax code are announced in advance of taking effect — allowing you time to plan how those changes might affect your financial plan.

**Income —** We all hope our income will rise as we move forward in our careers. Typically, those kinds of income changes are predictable — maybe it's a 3% raise every year or a 10% raise every three years. More dramatic yet still predictable income changes can happen when one spouse voluntarily stops or starts working. The loss of a job or dramatic decrease in work hours can cause unexpected changes in income.

**Health —** Your and your spouse's health are significant

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## Guarding Your Financial Information

An estimated 17.6 million Americans were victims of identity theft in 2014, with 86% experiencing the misuse of an existing credit card or bank account. Approximately 4% of victims had their personal information activity stolen to open a new account or other fraudulent activity (Source: Bureau of Justice Statistics, September 2015).

Protecting your financial accounts and information is extremely important. Here are some steps to help you guard against becoming a victim:

**Passwords and PINs** — Create strong passwords that contain numbers, letters, and symbols, and don't share them or store them on your computer. If you need to write down your passwords and PINs, put them in a secure place. While it can be a hassle, you should change your passwords and PINs on a regular basis.

**Keep your computer secure** — It is best to always use your own computer or device to access your financial accounts. Make sure your computer has up-to-date security software, including antivirus, antispam, and spyware detection that is configured for automatic updates.

**Completely log out —** After completing financial transactions, always click the log out button to terminate your session. Access to your account may not be terminated by closing your browser or entering a new web address.

**Use secure wireless connections —** Only use secure wireless connections when accessing your financial accounts, as they provide much more security than unsecured Wi-Fi connections. Be cautious of using hotspots in public areas, like airports, hotels, and restaurants, because they often reduce their

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## How Flexible?

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factors in your financial plan for two reasons: first, because health is a big determinant of one's ability to earn income; and second, because health care costs are often a large expense, especially for the elderly. As you age, it's important to think about changing your assumptions regarding your health. Maybe you reduce the income you expect because you won't be able to work long hours anymore. Or you increase the health-care related expenses you plan for. You can also take steps to mitigate the impact of health changes by saving for medical expenses in a tax-favored health plan like a health savings account (HSA) or flexible spending arrangement (FSA) and by buying disability and long-term-care insurance.

**Life —** Beyond job losses and health events that can impact your financial plan, other major life events may have a big impact as well. Whether it's good or bad, expected or unexpected, events like the birth of a child, marriage or divorce, a spouse's death, or a relocation will impact your financial plan. Some you can plan for, some you can't; the point is to be aware that these kinds of events typically require a review of your financial plan.

**Economy** — For most of us, our financial plans are based on the assumption that our investments will earn a certain average return in the market. Those assumptions affect decisions we make about our plans. For example, the amount you need to save every month to retire at age 70 is larger or smaller the higher or lower your assumption about investment returns. The best way to make these assumptions is to base them on long-term historical returns in relevant market indices.

That is not to say, of course, that these assumptions will always be correct; anyone who had money invested in the stock market in the fall of 2008 understands that the stock market can turn those assumptions on their heads in a single day. But given that we have to make assumptions, using historical returns is the best way to do it.

**Be Grounded: Controllable Factors to Keep Your Financial Plan on Track**

Because there are so many factors affecting your financial plan that you can't control, it's critical to know the factors you can control and stay on track with your plan in those areas.

**Live within your means —** When you keep your expenses (including savings and investments) less than your income, you give yourself more flexibility to accommodate unexpected changes that you can't control. If you have some breathing space in your budget every month, you can more easily accommodate a higher tax rate or economic downturn without having to alter your financial plan.

**Have a rainy-day fund —** Have at least 3–6 months worth of living expenses in an easily accessible, liquid fund you can draw upon in the event of a rainy day — an emergency or unexpected situation. This savings should be set aside from all other savings and investments and only used for true emergency expenses — like in case of a job loss or illness. With an adequate rainy-day fund, you can deal with unexpected events without having to dilute or erode your financial plan.

**Revisit your plan regularly —** The number-one key to achieving your financial goals is to review and, if necessary, revise your financial plan regularly — at least once a year. That way you can make adjustments for all factors out of your control that have changed, for better or worse. If you haven't revisited your financial plan in the last year or need to develop one, please call.

# How to Save Without the Pain

Let's face it, many of us think saving is just plain old painful. And it can be if you completely deny yourself, but there are many ways to save without feeling deprived. Following are some painless saving suggestions:

**Direct deposit or automated savings —** One of the easiest ways to save is to make it automatic. Set up a direct deposit from your paycheck to go directly to your savings or use online banking to set up an automatic transfer from your checking to your savings account on a regular basis.

**Check your cell phone plan** — Compare your plan with other providers to see if you can get a similar plan for less money. If changing carriers is not an option, downsize your data plan with your current carrier.

**Rethink cable** — Check with your cable company to see if they offer smaller packages that can save you money. You may also want to consider switching to streaming TV.

**Refinance debt** — Refinancing your mortgage can significantly reduce your monthly expenses, but don't stop there. Check into refinancing your car, student loans, and credit card debt with zero-percent balance transfer cards.

**Raise your insurance deductible —** If you increase your deductible, you can save a lot on your premiums. You should also look into your homeowners insurance for similar savings.

**Other ideas** — Here are a few other easy ways to save:

- Get rid of your landline.
- Pack your lunch instead of dining out.
- Become your own barista by making your own coffee.
- Look for coupons for things on your list.
- Buy store brands, which are considerably cheaper.
- Take the time to comparison shop before making large purchases.

## Guarding

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security settings to make it easier to access their wireless networks.

**Protect your apps —** If you access your financial accounts through an app on your mobile device, make sure you use the highest security setting available and that your device is password protected.

**Check for secure websites —** Most financial institution sites are very secure; but when shopping online with your credit card, make sure the login page indicates that it is a secure site. The address of a secure website connection starts with https instead of just http and has a key or closed padlock in the status bar.

**Never respond to e-mails requesting personal information —** If you receive e-mails that request personal information, such as your Social Security number, passwords, or PINs, do not respond to them. A legitimate company or financial institution would not ask you to provide or verify sensitive information through e-mail.

**Review your statements —** Make sure to review all of your monthly financial account statements to ensure that all transactions are accurate.

**Secure your documents —** Find a safe location to maintain your financial documents. When disposing of any financial information, make sure you shred the documents before throwing them away.

**Protect your Social Security number —** You should keep your Social Security card in a secure place and not carry it with you. You should also never use your Social Security number as a username or password.

**Check your credit reports —** By reviewing your credit report on a regular basis, you may be able to identify inaccuracies or unauthorized activity. You can obtain a free credit report every 12 months from the three different credit bureaus by visiting AnnualCreditReport.com.

# Financial Rules of Thumb

Financial rules of thumb are designed to provide quick guidelines for your finances. However, you shouldn't blindly follow them without giving thought to your personal circumstances. Some of the more common financial rules of thumb include:

**Save 10% of your gross income.** While this rule will give you a good start, it's typically the minimum, not the maximum, you should be saving. It was devised when most people could count on a defined-benefit pension plan for retirement benefits. Analyze how much you'll need for your financial goals, and then work backward to calculate how much you should be saving.

**Plan on spending 80% of your preretirement income during retirement.** This may be true if you don't plan to be very active during retirement, but more and more people expect retirement to include extensive travel and hobbies. On the other hand, if you've paid off your mortgage and your children have finished college, you may need less than this. Review your individual situation and desires for retirement to determine how much you'll need.

**Set the percentage of stocks in your portfolio to 100 minus your age.** With increased life expectancies, this can result in a portfolio that is too heavily weighted in income investments. Set your asset allocation based on your risk tolerance and time horizon for investing. Stocks should be considered for long-term financial goals of 10 years or more. Even after retirement, stocks may comprise a significant portion of your portfolio.

**Keep 3–6 months worth of income in an emergency fund.** While an emergency fund is a good idea, how much you keep in that fund will depend on your circumstances. You may need a larger fund if you are the sole wage earner in the family, work at a seasonal job, own your own business, or rely on commissions or bonuses. A smaller fund may be required if you have more than one source of income, can borrow significant sums quickly, or carry insurance to cover many emergencies.

**Pay no more than 20% of your take-home pay toward short-term debt.** Once considered a firm rule by lenders, you may now be able to obtain loans even if you exceed this amount. However, don't become complacent if you meet this rule of thumb, since a large percentage of your income is still going to pay debt. Try to reduce your debt or at least reduce the interest rates on it.

**Keep your mortgage or rent payment to no more than 30% of your gross income.** While you can obtain a mortgage for more than that, staying within this rule will help ensure you have money to devote to other financial goals.

**Refinance your mortgage if interest rates decline by 2%.** This rule of thumb assumes you'll pay significant refinancing costs, including points, title insurance, appraisal fees, and other fees. However, many lenders now offer refinancing deals with significantly lower costs. Thus, you should assess whether it makes sense to refinance when mortgage rates decline by as little as half a percent.

**Obtain life insurance equal to six times your annual income.** Different individuals require vastly different amounts of insurance, depending on whether one or both spouses work, minor children are part of the family, or insurance is being obtained for other needs, such as to fund a buy-sell agreement or to help pay estate taxes. Thus, you should determine your precise needs before purchasing insurance.

Most financial rules of thumb should not be followed without first considering your individual circumstances.

# Business Data

| Indicator | Feb-17 | Mar-17 | Apr-17 | Dec-16 | Apr-16 |
|---|---|---|---|---|---|
| | Month-end | | | | |
| Prime rate | 3.75 | 4.00 | 4.00 | 3.75 | 3.50 |
| 3-month T-bill yield | 0.52 | 0.78 | 0.82 | 0.56 | 0.25 |
| 10-year T-note yield | 2.46 | 2.42 | 2.23 | 2.55 | 1.84 |
| 20-year T-bond yield | 2.80 | 2.78 | 2.60 | 2.86 | 2.24 |
| Dow Jones Corp. | 3.17 | 3.22 | 3.09 | 3.17 | 2.80 |
| GDP (adj. annual rate)# | +3.50 | +2.10 | +0.70 | +2.10 | +0.80 |

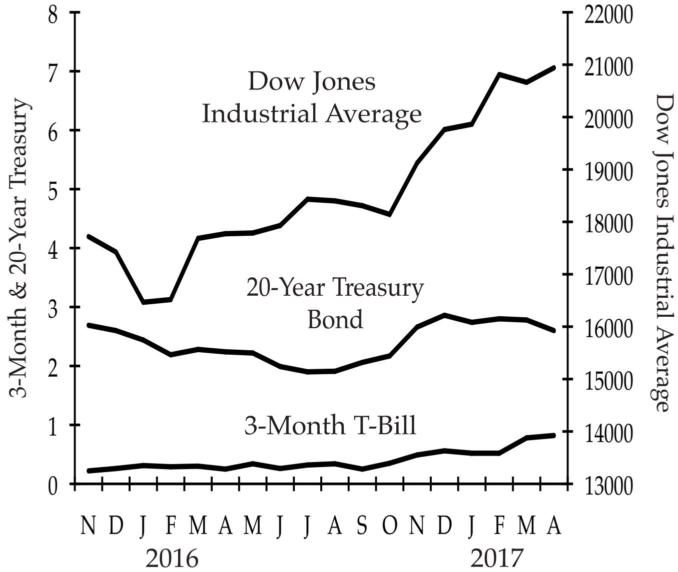
| Indicator | Feb-17 | Mar-17 | Apr-17 | YTD | 12-Mon. |
|---|---|---|---|---|---|
| | Month-end | | | % Change | |
| Dow Jones Industrials | 20812.24 | 20663.22 | 20940.51 | 6.0% | 17.8% |
| Standard & Poor's 500 | 2363.64 | 2362.72 | 2384.20 | 6.5% | 15.4% |
| Nasdaq Composite | 5825.44 | 5911.74 | 6047.61 | 12.3% | 26.6% |
| Gold | 1255.60 | 1244.85 | 1266.45 | 9.3% | -1.5% |
| Unemployment rate@ | 4.80 | 4.70 | 4.50 | -2.2% | -10.0% |
| Consumer price index@ | 242.80 | 243.60 | 243.80 | 1.0% | 2.4% |
| Index of leading ind.@ | 125.50 | 126.20 | 126.70 | 2.2% | 2.7% |

\# — 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 2015 to April 2017




# News and Announcements

### Why Budgets Are Important

For most of us, a budget is arduous and time-consuming, but it is the first step in securing your financial future. Do you want to buy a home? Go on a fabulous vacation? Retire comfortably? Then planning is critical, and you have to know how you are currently spending your money. The merits of a budget include:

**The foundation for establishing and reaching financial goals** — You have to understand your overall financial situation to be able to set financial goals. The first step is to understand your income and expenses. Review your bank, credit card, and income statements for the past six to 12 months. Once you know where your money is going and if you have a surplus or deficit, you can establish goals, such as paying off debt or saving for something you want.

**Helping you spend based on your priorities** — Now that you understand your complete financial picture and have established goals, you can begin to control your money instead of it controlling you. It will help you decide if you need or want to make sacrifices to meet specific goals. It will also help you determine how much debt you can afford if, for example, you are interested in buying a house.

**Building wealth and saving for retirement** — You can also begin to focus on the long term as part of your budget. Identify how much you can put toward savings and investments so that you can reach some of the goals you defined. You will be able to clearly see what spending you may need to reduce or cut in order to save. And retirement warrants special attention, so put away as much as possible. Even $100 a month can increase your savings by tens of thousands of dollars by the time you retire.

**Reducing stress** — This is so important. Feeling confident about your finances will significantly reduce stress and help you enjoy the benefits of your hard work. FR2016-1219-0129