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Answers to Important Financial Questions

Although every person has specific questions regarding their personal financial situation, there are several that are pretty universal when it comes to finances. Following are answers to these important financial questions.

When should I start saving and investing? This is probably the most frequently asked question about personal finances. And it has a very simple answer — it is never too soon to start saving. The minute you begin making money is also the time when you should start saving for both short- and long-term goals by making them part of your budget.

If your employer offers a retirement plan such as a 401(k), contribute as much as you can up to $19,500 in 2020. If you can't manage to contribute that much, at least contribute enough to get matching funds if your employer offers them.

You should also save money for emergencies, such as medical bills, a job loss, or a major house repair. Most experts agree that you should have six months of income saved to cover unexpected expenses.

If you have additional cash, you should then develop an investment plan with an asset allocation strategy to help meet both short- and long-term goals.

How much debt is acceptable? It depends on the type of debt you are carrying. If you have debt that is paying for valuable things such as a home or a college education, this is the type of debt that can help further your progress in life. If you have high interest debt, such as credit cards, then you need to be more cautious.

You should know what your debt-to-income ratio is for this riskier type of debt. Excluding your mortgage, calculate how much debt you have compared to your income. Most experts agree that if it is 15%

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Market Timing vs. Buy and Hold

The fact is that the market is an incredibly complex system, with investment returns dependent on a wide range of factors. Market timers retort that they have built complex models that analyze all factors affecting a stock's price. Sometimes, these models do accurately predict the movement of a stock price. But too often, unforeseen factors can quickly send a stock's price up or down.

For the average investor, a buy-and-hold strategy is much more practical. While buy-and-hold investors will suffer in market downturns, by staying invested in the market, their investments will recover when the market recovers. While there is no guarantee this will happen, historically, the general direction of the market has been upward. The benefits of a buy-and-hold strategy over a market timing strategy include:

- ✔ It doesn't require constant monitoring of the stock market or the financial news.
- ✔ It's less complex. You'll typically make far fewer trades with a buy-and-hold strategy.
- ✔ There are fewer tax consequences. Since you have fewer trades, you'll have fewer taxable transactions. ❍❍❍

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Financial Questions

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or less, it is an affordable amount of debt. If it is over 15%, you should act to reduce the amount of higher risk debt you are carrying.

How much house can I afford? Whether you rent or own your home, it is most likely your largest monthly expense. The general rule of thumb is your housing costs should not exceed 30% of your pre-tax income. For example, if you make $75,000 per year, you are making $6,250 per month prior to taxes. Using the 30% rule, you should not spend more than $1,875 a month on housing.

Am I earning enough money? It really depends on your goals, but to reach a comfortable retirement takes a lot of money. You can only cut expenses so much to save for retirement and other goals. At some point, you will most likely need to make more money. This may mean you need to change jobs or embark on a new career. It may be as simple as asking for a raise.

If your company does not schedule an annual review in conjunction with a raise, then you should ask. Be prepared to justify why you deserve to earn more money. If the answer is no, you'll know that looking for another job is a priority.

What if something happens to me? Preparing for the unexpected is imperative to your financial health. Ask yourself some important questions: How would I pay the bills if I lost my job? How would I pay the bills if I could no longer work? How will I replace things if they are stolen or there is a fire?

The first place to start is to develop an emergency fund. You will want to have cash on hand so that your credit cards become your last source for paying unexpected expenses. You should also look at developing an insurance plan to help cover bigger emergencies. This may include life insurance, renter's insurance, or disability insurance.

To protect your loved ones, you should also have a healthcare proxy, a living will, and updated beneficiaries on all of your financial accounts.

Please call if you'd like to discuss your financial questions in more detail. ❍❍❍

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 to 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 talk honestly about your finances. Consider having a monthly check in, 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. If you're both working together toward the same goals, you're much more likely to get 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, other family, and loved ones what medical interventions you want (or don't 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. Both of you should still be present at meetings with your financial advisor. You're a team, and your advisor will be better able to provide appropriate advice if he/she can hear from both of you. ❍❍❍

7 Psychological Traps

Sometimes, when it comes to investing, volatile markets aren't your worse enemy. You are. Unfortunately, our brains often play tricks on us, causing even the savviest of investors to make decisions that don't really make a lot of sense, such as panic selling or ignoring opportunities.

The problem of psychological investing traps is so pervasive, in fact, that there's a whole field dedicated to studying it called behavioral finance. Researchers in this discipline look at the way psychology affects how we make financial decisions. Knowing about these traps can help you avoid them and make you a better investor. Here are seven psychological traps to keep in mind.

Sunk Costs Bias — The sunk costs bias has to do with the all-too-common tendency to stick with something, whether a bad boyfriend or a bad investment, long after it's clear that it's not worth it anymore. Still, because you've invested a certain amount of time or money, you're reluctant to give it up. In investing, you might end up hanging on to a stock long after you should sell it in the vain hope that you'll eventually come out ahead. But in these cases, it's better to cut your losses rather than to hang on to a loser.

Familiarity Bias — Most of us are biased toward what is familiar to us. We head to restaurants we've been to before and follow the same roads to work because we know what to expect. With investing, familiarity bias involves favoring investments that are familiar to you. You might prefer to invest in the company you work for or big-name businesses that are in the news. That could cause you to overlook important opportunities you don't know as much about.

Anchoring — Anchoring is the process of getting attached to a particular reference point — such as the price you paid for a stock — and using that to guide future decisions. Or you might fixate on a stock's previous high, even though that price was an anomaly. Anchoring is why buyers think they got a great deal when buying a car for $50,000 when the initial price was $60,000, even though the car's really worth $40,000.

Whether buying stocks or cars, anchoring involves using a single piece of information to determine what a stock or other investment should be worth while also discounting more relevant information, such as a company's fundamentals or broader economic trends. Unfortunately, avoiding anchoring is difficult, but considering all available information before choosing an investment can help.

Focusing Too Much on the Recent Past — Recency bias is the tendency to make decisions or judgments based on relatively new or recent information. For example, during times when the market is up, people may ignore or discount the possibility of a market decline. Or, if a certain category of stocks has done poorly recently, people may conclude that those stocks *always* have negative returns, even if the dip is an anomaly. You can avoid this mistake by doing your best to consider the entire universe of information at your fingertips, not just what happened yesterday.

Following the Herd — While following trends might be fine for fashionistas, it's not always a smart investing move. Yet herd investing is an all-too-easy trap to fall into. If everyone is telling you that now's the time to get into a certain hot investment, you may feel you need to act fast so you don't miss out. But just because something is popular doesn't make it a good investment. Blindly following the herd without first consulting your own financial goals and plan doesn't make you a smart investor.

Overconfidence — Most of us like to think we're smarter than the average person. If you hit it big with a certain investment, you may overattribute that success to your skill rather than what it really is — luck. That can cause you to repeat the same behavior again.

Panic — Investing isn't for the faint of heart. When the market takes a sudden dip, it's easy to panic, which can lead you to make bad decisions, such as selling at a big loss, rather than riding out the natural hills and valleys of investing. Making these emotionally-driven choices costs you a lot of money. When making investing decisions, make sure they're based on evidence, not your initial gut reaction to the day's events.

Avoiding psychological investing traps on your own can be difficult. Please call if you'd like to discuss this in more detail. ❍❍❍

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Client Engagement and Technology

Relationships are the basis of our practice. Beyond providing financial planning and investment advice, we all truly care about our clients as people.

Our desire to build relationships increases as we empathize with each of our client's goals, needs, concerns, and hopes, giving us the privilege of building strong rapport. Personally, this is why I have dedicated my life to this career. Innately, I care about people and I am a disciplined hard worker. As a result, I can create a space for clients to be vulnerable, speak freely of past investment mistakes, and articulate where they want to do better. I am part of a team where quality comes before quantity. It's important to slow down and become a better listener and specialist, as a CERTIFIED FINANCIAL PLANNER™.

This approach to client interaction is what helps to drive meaningful success that has a lasting impact. Each client has unique goals, driven in part by the current life stage. Some are focused on accumulating wealth or striving for the next promotion. While others are transitioning out of full-time employment to a less demanding work schedule. There are clients who are saying "yes" to a lifelong passion as a second career or volunteer work, and parents balancing the demands of raising a family and contributing to household income. There are also retirees choosing to travel more as they visit their grandchildren living in a different state, or want to explore more destinations with their spouse overseas.

Each life stage brings joy, new experiences and unique challenges. There are numerous studies that show a positive correlation between overall client satisfaction and proactiveness of financial advisors. This correlation becomes stronger when we contact a client knowing their interests, planning needs and communication preferences. Over time, I have observed that face-to-face meetings with clients have become less of a mandate. I have learned that trust is earned and built over time. As a person who loves having a knee-to-knee conversation in a conference room, office, and even over a coffee table, I have needed to find more creative ways to make this a reality, especially during our stay-at-home order.

Communication comes in many ways — including in person, phone calls, emails, text messaging, and social media. As a professional who cares about seeing a person's facial expression so that I can empathize with their needs, struggles and goals, I have embraced technology for customer engagement. After experiencing a client confirm trade orders through his Apple watch, and being told by a former New Jersey resident who now resides in Florida, "I miss seeing your face, let's do Skype," I knew implementing client reviews using video conferencing was the way back to stronger rapport. I now offer investment reviews and even introductory conversations over ZOOM or Skype, which are two free, user-friendly options for video conferencing. Clients receive an email confirming the date and time of our appointment with a link to our conference call. Clients can access the platforms from their desktop computers, laptops, and even cell phones, as both conferencing platforms work seamlessly across all operating systems. With one click we can join from anywhere and play video with audio without any uploading requirements. We can see one another and communicate.

The feedback I have received has been overwhelmingly positive because it is straightforward and brings us back into a coffee table conversation. For many families, there is a desire for important conversations to be in-person. Meanwhile, retirees may find themselves living in Florida while their adult children and grandchildren live in the northeast. ZOOM and Skype have provided a platform for all family members to collaborate no matter which zip code they choose to reside in. Retirees find the one-click easy to use, and the next generation expresses appreciation for the ability to meet easily without taking a drive or flight. Baby Boomers, Generation X, and Millennials all seem to be managing changing life demands at a very high fast pace. They share a desire to be more involved with important conversations on financial matters, yet they simply do not have the flexibility to allocate the time.

Beyond having audio and "face-time," video conferencing allows for screen sharing, making collaboration easy. As a financial advisor, I enjoy using visuals to tell a story. For every investment review, I highlight performance, asset allocation, equity sector analysis, and fixed income ladders through various charts and other educational visuals to help convey more than a narrative. With integrated screen sharing, I can show a client what is on my computer, whether it be a PowerPoint presentation, videos, or photos. Client satisfaction has improved since implementing technology as a way to stay connected.

For a few years now, John Burke has been appearing live as an expert guest on such TV networks as Fox Business, Forbes, Yahoo Finance, CNBC, Associated Press, CNN Money, The Wall Street Journal, Canada MSN, and BNN. The networks, of course, have studios, complete with professional lighting, cameras and make-up. The amount of time and energy to prepare for a well-executed interview is extensive. The efforts certainly pay off as our team is viewed as experts in the field. Referrals tend to be at their highest after a video clip and market commentary gets sent to our clients. Receiving a referral from a loyal client is a compliment and taken with great pride. As our practice continues to grow and we serve more families, technology has become a way to provide efficiency when it comes to accepting television invitations. Recently, John was interviewed by TD Ameritrade (available on our website). He appeared from our conference room live through my Apple iPhone 12 and a tripod station. We have committed to enhancing these capabilities as a way of improving the client experience.

It turns out that our adoption of these technologies occurred just-in-time. As COVID-19 has required social distancing, preventing face-to-face meetings for the foreseeable future, we have started employing this technology daily. Circumstances have led us to establish these capabilities in our homes, just as many of the network broadcasters have. We ask your patience as we work through some of the growing pains associated with this change.

I am thankful to be on a team where creative ideas can be voiced, current processes can be evaluated, and enhancements implemented.

Thank you for your trust and loyalty. We look forward to seeing you!

Committed to Serve,

Melissa Montalvo

Melissa Montalvo, CFP®
Financial Advisor

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