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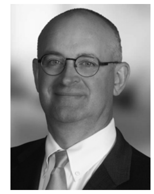
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5 Steps to Create an Investment Plan

Like anything in life, having a plan for your investments will help you reach your investment goals. Below are five steps for crafting your plan.

1. Determine Your Goal

Every good investment plan begins with a clear goal in mind. Ask yourself: "Why am I investing? What do I hope to do with the money I save and earn?" For example, you might invest to: fund a child's college education, retire comfortably, buy a house, start a new business, leave a charitable bequest to a favorite cause, or pay for a wedding.

Write down your investment goals. Make them as specific as possible. Think about the kind of lifestyle you want in retirement, the cost of your dream vacation home, the cash you'll need to start your business, or the cost of tuition where your children might go to college. Write down a realistic estimate of how much you think you'll need. After all, if you don't know where you're going, you'll never get there.

2. Decide on Your Time Frame

After you outline your goals, you need to establish your time frame for investing. Typically, your goals will fall into one of three categories:

✔ **Short-term:** Short-term goals are those you expect to achieve in five years or less.

✔ **Mid-term:** Mid-term goals are those you expect to achieve in five to 10 years.

✔ **Long-term:** Long-term goals are those you expect to achieve in more than 10 years.

Your investing time frame has a direct relation to the investments you'll choose. Generally, the shorter your time horizon, the less risk you want to take. If you will need your money in three years to pay for your daughter's college education, then putting all your money in riskier investments is probably not wise, as the chances of losing money are greater. Instead, less risky investments, like bonds, will likely make up a larger portion of your portfolio. But if you're investing for the long haul (say, for a retirement that's 30

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Staggered Retirements

Often, spouses don't retire at the same time. Frequently, one spouse may retire before the other due to health problems or a layoff, not necessarily because the spouse chooses to retire early. Keep these points in mind if you are in that situation:

✔ **Try to minimize withdrawals from retirement accounts.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working.

✔ **Utilize all available benefits from the working spouse's employer.** Find out if the retiring spouse is eligible for health insurance benefits through the working spouse's employer.

✔ **Delay Social Security benefits.** Because the surviving spouse can elect to receive 100% of the other spouse's benefit, it typically makes sense for the higher earning spouse to wait until age 70 to claim Social Security benefits, to provide the spouse with the highest possible benefit after his/her death.

✔ **Consider all defined-benefit plan payment options.** Make sure to consider all the payment options carefully before selecting one. Your choice will typically be irrevocable. ❍❍❍

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5 Steps

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years away), you can invest in higher risk investments, since you'll have more time to recover from a loss.

3. Evaluate Your Tolerance for Risk

All investments come with risk — the chance you could lose your money. But riskier investments also come with the possibility of greater return. As an investor, you must decide how much risk you're willing to accept. Your personal risk tolerance is closely related to your goals and your time frame, as well as your experience with investing and your feelings about the possibility of losing money.

4. Decide How Much You Want to Invest

Once you've considered your time horizon, goals, and risk tolerance, you can consider how much money you want to invest. You should keep a portion of your savings in a stable, easily accessible account to use for emergencies and other immediate needs.

Once you have the funds for your initial investment, you need to decide how much you want to invest on an ongoing basis. This number will be determined by your budget, your investment goals, and your time frame. For smaller, short-term goals, determining ongoing investment amounts is fairly easy. If you want to buy a home in five years, you might open an account with $2,000 you've already saved, and then invest $400 a month for the next five years.

Deciding how much to invest for longer-term goals can be more challenging. When saving for retirement, you need to consider how much yearly income you'll need, your anticipated investment returns, when you want to retire, how long you expect to live, the impact of inflation, and the money you'll receive from other sources, like Social Security. It can be a complicated equation, which is why many people turn to a financial advisor for help running the numbers.

5. Choose Your Investments

Given the thousands of possible options, choosing investments can be overwhelming. But completing the first four investment planning steps should help you make those decisions. Again, your goals, risk tolerance, and time frame will point you in the right direction, such as toward target-date funds designed for retirees or college savers, or a money market fund for short-term goals. But if you're baffled by all the options, it's always a good idea to seek a second opinion. Please call if you'd like help with your investment plan. ❍❍❍

6 Questions to Ask before Investing

Gathering as much information as you can before you choose an investment will protect you and your money. To help you do that, here are six questions that everyone should ask before they invest.

1. Do I understand this investment? Before deciding to invest, make sure you're clear on what you're investing in, how it makes money, and how easy it is to sell.

2. What's the potential reward, and am I prepared to accept the risk involved to get it? Usually, an investment that comes with a big potential reward also comes with big risk. That doesn't necessarily mean it's a bad choice, but it does mean you should go into it fully informed.

3. What's the cost of this investment? You should also find out if there are fees and expenses associated with the investment. Also important are the taxes you'll have to pay when you sell as well as any potential penalties.

4. Does this investment fit with my goals? Shorter-term goals, like saving for a down payment on a house or accumulating funds for a child's college education, require a different investment strategy than if you're investing for a retirement that may be 20 or 30 years away. Lower-risk investments are usually more appropriate for shorter-term goals, while riskier investments can be fine for longer-term goals. A financial advisor can help you determine which investments fit with your particular goals.

5. How easily can I get out of this investment? Money that you've invested isn't liquid. In the case of stocks, you can always sell without too much difficulty, but you may take a loss. But with other investments, like real estate and certain types of life insurance, it's harder to get your money out. If you think you're going to need to access your investment in the near future, make sure you know how easy it is to access those funds.

6. What is this investment's history? Some investments have a long history that you can look to when making a decision about whether to get involved. The U.S. has never defaulted on its debt, for example, and there's little chance that it will in the future, and that long history allows you to make certain informed predictions about the future performance of this investment. Likewise, certain companies have a solid history of strong performance. While past performance is no guarantee of future results, it is useful information to consider. Newer companies and investments obviously don't have that clear history for investors to study. That doesn't mean they're always bad investments, but it does mean you should be skeptical of any claims of out-size returns. ❍❍❍

Watch Out for Estimating Mistakes

When determining how much to save by retirement age, several variables must be considered, some requiring estimates that will span decades. Err significantly on those estimates and you can end up with little or no money left during the later years of your life. Three of the most significant estimating mistakes to watch out for are:

✔ **Underestimating how much income you'll need in retirement.** The entire point of your retirement savings is to ensure you have sufficient income to spend your retirement how you'd like, so make sure you have a good estimate of how much that will cost. Various rules of thumb indicate you'll need anywhere from 70% to over 100% of your preretirement income. At first glance, it seems like you'll need less than 100%, because work-related expenses, lunches out, professional clothes, and commuting costs will be gone. But look carefully at your current expenses and how you plan to spend your retirement years before deciding how much you'll need. If you pay off your mortgage, remain in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, you might need less than 100% of your preretirement income. However, if you plan to travel extensively, must pay for health insurance, and carry significant debt, you may find that 100% of your preretirement income is not enough. You need to look closely at your current expenses and planned retirement activities to come up with a reasonable estimate.

✔ **Underestimating how long you'll live.** Today, the average life expectancy is 84.3 years for a 65-year-old man and 86.6 years for a 65-year-old woman. But don't use those figures without further analysis. Average life expectancy means the woman has a 50% chance of dying before age 86.6 and a 50% chance of living past age 86.6. Since you can't be sure which will apply to you, you should probably assume you'll live at least a few years beyond your life expectancy. When deciding how many years to add, consider your health and how long other family members have lived.

✔ **Overestimating how much you can withdraw annually from your retirement savings.** With a retirement that could span decades, it's important to withdraw a reasonable amount so you don't deplete those savings too soon. A number of factors can make that a difficult number to calculate. First, as noted above, you can't be sure how long you'll be making withdrawals. Live significantly beyond your average life expectancy and you could find yourself with little in the way of savings. Second, inflation over such a long period means you'll have to withdraw increasing amounts just to maintain the same purchasing power. Third, your rate of return on your investments will significantly affect how much you can withdraw annually. When withdrawals are being made, down markets can have a devastating effect on your savings. Not only will your investment value go down, but you will be withdrawing the same amount from a smaller balance. Thus, when the market rebounds, you'll have less capital available to participate in that rebound. Especially if a major market downturn occurs early in your retirement, withdrawing an amount that may have been reasonable during an up market may quickly deplete your assets. Thus, it's generally prudent to keep your withdrawal percentage as low as possible, perhaps 3% or 4% of your balance. With that level of withdrawal, your funds should last for decades.

If you'd like help making these estimates, please call. ❍❍❍

Should I Still Own Fixed Income?

It has been my experience that most investors would rather talk about bail bonds than corporate, municipal and Treasury bonds. The latter are certainly less exciting. They are heavy in math and lack the flair of stocks. After all, I have never had a friend ask me for my thoughts on what the municipal bond market is doing. But for those of us in the financial services business, bonds have become anything but boring.

After hitting a new high on the first trading day of the year, the S&P 500 began a trip downward. It has dipped into correction territory, defined as a 10% decline from its recent high, twice this year. Volatility has also increased with dramatic swings in the markets within each trading day. For long term investors, times like these should be expected. Oddly, however, bonds are also down. Often bond values go up when stocks go down. The Barclay's US Aggregate Bond index, a widely used index of bond prices, is down over 6% in 2022, compared to the S&P 500, which is now down around 5%.

Stocks are down… Bonds are down *more…* What is happening?

During the 2008 financial crisis, stocks crashed and bonds went up. During the dot-com crash, stocks crashed and bonds went up. This is because stocks and bonds are commonly viewed as investment alternatives to one another. If an investor believes that the stock market will go down, he or she might opt to sell stock and buy a bond as a relatively safe alternative. If enough investors take this path, stock prices will fall and bond prices will rise. This is common on a short-term basis. Now consider an environment of economic stress. We would expect stock prices to go down due to a slowing economy. In the worst-case situation, like with the Great Depression, we might also expect the price of bonds to go down as a contracting economy might call into question the ability of the entity to pay its bond interest and principal. But normally when the economy contracts, interest rates go down as demand for loans goes down, and with declining rates bond values go up. What is going on today?

We believe that inflation is the underlying issue. The U.S. Bureau of Labor Statistics reported year-over-year CPI inflation of 7.9% in February. This is the highest inflation level since the early 1980s. With higher inflation, bond investors demand a higher rate on their bonds to compensate, yields go up.

As bond yields increase, the market value of existing bonds decreases as we have clearly seen this year. Why? Here is a simple example. Let's say I buy a bond with a yield to maturity of 2%. Now the market yields rise to 3%. How much could I sell my bond for? Buyers are looking for 3%. Assuming all other factors are equal, I would have to lower my asking price.

Despite the recent, sharp rise in the rate of inflation, the Wall Street Journal Economic Forecast Survey (a survey of at least 70 economists) in January reported the average participant inflation projections of 3.11% for 2022, and 2.33% for 2024. While this survey was taken before the Russian invasion of Ukraine, which resulted in spikes in energy and other commodities, it shows that economists expected the factors that have driven up inflation to subside.

If inflation falls, we would expect yields on longer term bonds to also fall. This would result in the value of existing bonds to rise. We do not make calls on inflation, but we believe that a resolution of the Russia-Ukraine war, and relief from the issues that have plagued the global supply chain will help.

Shorter term Treasury bond yields have risen in response to the Fed's well-telegraphed increase to the Fed Funds rate. The Fed is raising rates in an effort to slow inflation. They began communicating it long before the Fed actually started raising interest rates in its March meeting. The Fed has begun raising rates and has recently set the expectation for hikes at all of the remaining FOMC meetings this year. However, the Fed has been notoriously bad at projecting where rates will be in the future.

It may seem like there is no good news here, but there is. If inflation settles in at around 2%, this would generally be seen as good for the economy. Consumers would be inclined to buy now rather than deferring until later when the price has gone up. Also, moderate inflation in a time of economic growth should result in bond yields that are higher than we have seen in years. Higher yields aid in managing cash flows in retirement.

Despite the greater year to date losses in the bond index, bonds still represent our safer investments. They still reduce the risk in portfolios, which is the main attraction to bonds. They still generate reliable income and provide a known in our portfolio to offset the unknowns in equities.

COVID drove bond yields to historically low levels and we thought that this would be temporary. We have generally shortened the average maturities on our bond portfolios. With the 10-year Treasury back over 2%, we may begin making adjustments to portfolios with an eye toward lengthening maturities and increasing credit quality. As always, this will be reviewed on a client-by-client basis.

Please let your Financial Advisor know if you have any questions.

Sincerely,

Christopher M. Trainor

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