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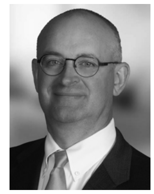

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Tips for Getting Your Finances in Order

If you're serious about pursuing your financial goals, you need to get your finances in order. Some tips to help in that process include:

✔ **Get organized.** It's difficult to assess how much progress you're making toward your goals if you don't know basic facts like how much your net worth increased during the past year, how you are spending your income, or how well your investments have performed. Organizing your finances will assist in tracking this information.

✔ **Budget your expenditures.** While many people dread the process of analyzing and budgeting expenditures, inefficient and wasted expenditures are often major obstacles to saving for financial goals. Analyzing your expenses will help you find ways to reduce spending and increase your savings.

✔ **Develop explicit written financial goals.** Goals help set our financial priorities and provide motivation for reducing spending and saving for the future. Quantify your ultimate goal and interim goals so your progress can be tracked.

✔ **Pay yourself first.** If you wait until the end of the month to see how much money is left over for saving, you'll probably find that the answer is nothing. It's often easier to pay yourself first, and then find ways to reduce spending to pay the rest of your bills.

✔ **Establish an emergency cash reserve.** This will give you funds to deal with short-term emergencies, such as a temporary job loss, a short-term disability, a major home repair, or a large medical bill. How much you need in the reserve will depend on your age, health, job outlook, and ability to borrow quickly.

✔ **Get your debt under control.** Take steps to reduce your consumer debt as much as possible — any interest payments are just reducing the amount available for saving. There are a variety of strategies you can use to either reduce your debt or lower the cost of that debt.

✔ **Invest automatically.** One of the best ways to invest consistently is to make investing

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Your 401(k) Contribution Amount

Before deciding how much to contribute to your 401(k) plan, find out three key figures:

What is the maximum percentage of your pay that can be contributed? The maximum legal contribution limit in 2022 is $20,500 plus an additional $6,500 catch-up contribution for participants age 50 and over, if permitted by the plan. However, most employers set limits in terms of a percentage of your pay to comply with government regulations. This limit ensures the plan does not discriminate in favor of highly-compensated employees.

How much of your contribution is matched by your employer? Employers are not required to provide matching contributions, but many do. A common match is 50 cents for every dollar contributed, but many other variations also exist.

Up to what percentage of your pay does your employer match? Most plans only match contributions up to a certain percentage of your pay. For instance, the plan may only match contributions up to a maximum of 6% of your pay. ❍❍❍

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Finances in Order

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automatic. Make arrangements to have a specific amount deducted from your checking or saving account periodically and transferred to an investment account. *(Keep in mind that an automatic saving plan, such as dollar-cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investment, consider your financial ability and willingness to continue purchases through periods of low price levels.)*

Develop an investment strategy. Your strategy will depend on a variety of factors unique to your situation, including your risk tolerance, return expectations, investment period, and investment preferences. Developing an investment strategy requires evaluating many factors, but it can give you a well-thought-out strategy to help pursue your long-term goals.

Assess your insurance needs, including life, health, disability, long-term care, homeowners, automobile, and personal liability. Over time, your insurance needs are likely to change. Insurance companies offer innovations and riders that might be applicable to your situation. Reevaluating your insurance can lead to lower premiums with coverage better suited to your situation.

Take active steps to reduce your taxes. There are a variety of strategies that can help you reduce your income taxes, thus freeing money for saving. The key is to review those strategies now, so you have plenty of time to implement them.

Review your estate plan. If it's been a few years since you've reviewed your estate plan, take time to go over your documents to make sure they still reflect your wishes for your estate's disposition. If you don't have an estate plan, get one in place.

While many of these tips may sound familiar, it is the rare individual who takes advantage of all of them. If you'd like help putting these tips into practice or would like to discuss your finances in more detail, please call. ❍❍❍

Are You Saving Enough to Retire Well?

Are you saving enough to retire well? It depends on what your definition of retire well is.

So how much might the average worker *actually* need?

Assume a current income of $50,000 per year, an 8% return on your savings before retirement, 35% of your portfolio invested in stocks after retirement, inflation of 3% per year, and a life expectancy of 90 years. Not counting any other forms of retirement income (Social Security or pension benefits, for example), you'll need between $1.3 and $2.5 million in your account when you're ready to retire.

That's a big range and the decisions you make can dramatically affect how much you need to save for retirement. If you're 50 when you start saving, for example, you can cut the total amount you'll need to save per month almost in half by delaying your retirement by five years. If you really want to retire at age 65, you can cut how much you need to save substantially if you scale back the retirement lifestyle you're planning.

To determine how much money you'll need to have saved for your retirement, you'll need to consider:

1. How much do you already have saved? If you're 50 years old and you already have $250,000 in your retirement account, you won't have to save nearly as much as if you had no nest egg.

2. How many more years do you plan to work? The longer you are saving and earning returns on those savings, the more money you'll have when you're ready to retire.

3. What is your estimated Social Security benefit? Most Americans will likely receive some sort of benefit from the program. It's important to remember, however, that Social Security is just a supplement to your other retirement savings.

4. How much income will you need in retirement? A huge factor that will determine how you answer this question is whether you'll have a mortgage payment when you're retired. For most people, a mortgage payment makes up about a quarter of their pretax monthly income. So if you plan to have paid off your house by the time you retire, you can keep all of your other expenses the same and still only require 75% of the income you needed when you had a mortgage payment.

Of course, you'll also want to think about the activities you want to pursue. If it's traveling the world, you'll need more income than if your plans are to stay home and golf or spend more time with the grandkids down the street.

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

401(k) Mistakes to Avoid

If you are participating in your employer's retirement plan, you are headed down the right path. But there are 401(k) mistakes that can derail an investor's retirement plan. Here are some of the biggest mistakes and how you can keep things on track:

Not Knowing How Much You Need to Save for Retirement

If you don't have a goal for how much you need to save to live comfortably during retirement, you will probably fall short. The first step is to determine how you want to spend your retirement. Most financial experts agree that you will need at least 70–90% of your preretirement income to live comfortably. But don't just use a rule of thumb; make sure to review your specific situation.

Not Saving Enough

Most experts suggest that you save 10–20% of your income for retirement. Because many companies auto-enroll new employees into their 401(k) plans using a default dollar amount, many employees fail to adjust the dollar amount and end up not saving enough. Others may feel they just don't earn enough to contribute 10% to 20% of their income due to competing demands on their money. If that is the case, at least try to save enough money to get the company match.

Not Paying Attention to Fees

There are typically three types of fees associated with your 401(k) plan, including administration fees, investment fees, and service fees. These fees can eat into your retirement account's potential growth. To understand how much you are paying in fees and expenses, carefully review your regular statements. Also, at the end of the year, you should receive a statement that will show how much you paid in 401(k) fees.

If you have an old 401(k) plan from a previous employer, you should compare that plan's fees to your current 401(k) plan to see if rolling it over to your new plan makes sense. You should also consider an IRA rollover so that you can select the best investment options.

Too Much Stock in Your Company

Having company stock in your 401(k) plan may come with significant growth potential, but it may also increase the volatility of your retirement portfolio. If your 401(k) plan includes company stock, make an assessment of your risk. Most experts agree that your portfolio should not have more than 10% to 15% of any one stock.

Not Rebalancing Your Portfolio

The reason for asset allocation is to balance your portfolio across asset classes such as stock, bonds, or cash so that if one is performing poorly, others will help offset losses. Over time, however, your investments may drift from your original asset allocation.

You should review your portfolio on a regular basis to determine if it needs rebalancing. Some 401(k) plans provide an automatic rebalancing feature that can do the work for you. If you do not have the time or inclination to rebalance your portfolio, you may want to invest in target-date retirement funds or asset allocation funds.

Not Contributing Enough to Get the Company Match

If your employer matches any percentage of your contributions, you should at least contribute enough to get the company match. Look at your benefits package to determine how much your employer will contribute and take full advantage of this benefit.

In 2022, you can contribute up to $20,500 in your 401(k) or up to $27,000 if you are age 50 or older.

Not Considering a Roth 401(k)

With a traditional 401(k), you receive the tax benefits up front because the contributions lower your taxable income during the current tax year. When you begin taking distributions from your 401(k) in retirement, you will then have to pay ordinary income tax on the withdrawals. With a Roth 401(k), you make contributions with after-tax dollars and your earnings grow tax-free, meaning that you will not have to pay taxes when you withdraw your money. Typically, people who don't need to lower their income today or believe they may be in the same or higher tax bracket during retirement benefit from a Roth 401(k) plan.

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

A Case For Stocks

Of the stock market, Dick Van Dyke once said "I was 5 years old when the stock market crashed; I lost everything." While funny, it is actually true. Mr. Van Dyke, who is 96 years old, was 5 years old in 1930, which is when the stock market suffered its worst rout ever. Some ask if we might see that kind of crash again. We think not, for reasons we will list below. We believe that investing in stocks remains a compelling idea, despite the increase in risks in the market.

We suggest that, even with stocks being down over 15% and having been in bear market territory, we live in an entirely different world today than when Mr. Van Dyke was 5. Most importantly, unemployment rose from 4.2% in 1928 to 23.6% in 1932. On August 2, 2022, the Job Openings & Labor Turnover report showed that job openings remain very high. In fact, if you have eaten out recently you may have noticed that it is hard for businesses to find labor. It is hard to imagine the turn of events that would lead to a complete turnaround in the job market.

The events that caused the Great Depression include a severe drought for farmers who represented a key source of jobs in 1929, the terrible Smoot Hawley tariffs enacted by Hoover, a collapse of the money supply, and bank failures. The strong jobs environment, relaxation of tariffs, a broadening of money supply in the last two years and sound bank balance sheets, when coupled with FDIC insurance, would suggest that a Great Depression is not likely.

Money supply is the biggest difference between today and 1929 given that it increased by over 40% since the pandemic. If anything, we would fear inflation more than the 1929 evil — deflation. In the hyper inflationary times of the 1970s, the Dow Jones Industrial Average represented one of the best investment choices. We think that not only do stocks look good in inflationary times, if anything investors underestimate their value in portfolios.

According to a Gallup poll taken in 2022, only 58% of Americans owned stocks either through funds or directly — still below the almost two thirds of Americans that owned stocks in 2007. Those investors who sold and never got back in missed out on 9% annualized returns, including the 40% loss in 2008, according to Factset. We'd like to invite them to own stocks once again.

With the increases in real estate valuations, some may view this as an investment alternative to stocks. However, stocks have outperformed real estate over the long run. According to data compiled by NYU professor Aswath Damodaran, known as the "Dean of Valuation," the most widely quoted index of stocks, the S&P 500, returned 12.47% annually from 1972 through 2021, versus 5.41% for residential housing. That said, we do believe that clients are better off owning their homes rather than renting because the asset is expected to appreciate, there are tax advantages to homeownership and because owners avoid rent payments.

Although residential real estate offers a tax advantage in the form of the capital gain exemption available to homeowners, stocks receive favorable treatment as well. In fact, Warren Buffet has taken advantage of the taxation rules on stocks in perhaps the largest tax shelter of all time. Warren Buffet founded a company named Berkshire Hathaway. Buffett, who is 91 years old, will likely not pay taxes on the $94 billion he has accumulated. That is because almost all of his wealth is in Berkshire Hathaway stock and if he holds it until he passes on, no capital gains tax will have to be paid. At death, an individual's cost basis in stocks is stepped up to current values. His heirs will benefit from the higher cost basis.

As if that were not enough of a tax incentive, most dividends are taxed at a lower rate than ordinary income. Berkshire Hathaway does not pay a dividend, but for most investors, dividends are a vital part of their total return. Qualified dividends are taxed at capital gains rates, with a maximum tax rate of 23.8%. Qualified dividends are those issued by most US companies.

In comparison, rental income from real estate is taxed at higher, ordinary income rates. Further, schools are funded through taxation on real estate, otherwise known as property taxes. There is no property tax on stocks.

In mid-1929, a journalist asked a senior financial executive at GM how a typical individual could build wealth by investing in stocks. He forecast that the US was about to experience a huge industrial expansion. He suggested putting $15 per month into stocks and predicted that they would grow the equivalent of 24% annually over the next 20 years. The article was published in early September of that year. Less than two months later the stock market had crashed, beginning the worst slide in market history and lasting almost three years. Bad advice? If an investor had followed his recommendation, the returns would have amounted to more than 7.5% per year.

Julie Andrews played Mary Poppins with Dick Van Dyke. She had a word she used that we think applies to the feeling of being a successful investor — supercalifragilisticexpialidocious, which means "very wonderful." We continue to do our best to help clients achieve success with their portfolios, even in these difficult times.

Sincerely,

John B. Burke

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*Sources; BrainQuote.com, Gallup.com https://news.gallup.com/poll/266807/percentage-americans-owns-stock.aspx, Wikipedia, Barron's April 4, 2022, Another Way to Build Wealth: The Stock Market by Randall W. Forsyth

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