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INVESTMENTS & FINANCIAL PLANNING

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How to Save More: Step by Step

For many of us, saving money is very difficult. The truth is that most people don't keep careful track of how much they spend and don't do enough to find ways to save. If that describes you, here's an eight-step program to help you find more savings in your household income.

Step 1: Create a budget. Don't think of a budget as a way to scrimp, but as a log that keeps you aware of where your money is going and enables you to manage it better. The key is to keep it organized and in a format that you can return to again and again.

Make a single sheet for each month. Organize it into two sections, one for expenses and the other for income. Divide the expenses section into two parts: the ones you pay for out of your checking account and the ones you pay for at a cash register. Then create a line for every kind of recurring expense you have, from your mortgage or rent, to your utilities, phone, and cable, your memberships and subscriptions, life insurance, and payments for loans and credit cards.

For out-of-pocket expenses, make estimates in advance and create line items for lunches out, personal care like the hairdresser or beauty shop, gas and oil, prescriptions, clothing, and entertainment. In each part, do your best to include everything, but your budget is a living document that you can add to as you remember items.

Devote another column to the net income you expect to receive from all sources. Then, subtract your total expenses from your income. If the result is negative, you've discovered a problem. Fixing it, either by spending less or earning more, will bring your spending in line with what you make.

Step 2: Track your spending. What you've just created in the first step is a master budget. Now, you have to start tracking what you actually spend. That's not too hard when it comes to making payments out of your checking account. The challenge is when you spend at a cash register, whether you use cash or a card.

Keep all your receipts and make

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A Fundamental Investing Principle

What is the most fundamental investment principle — selecting the proper investments, accumulating the correct combination of assets, timing the market to avoid corrections? Actually, the principle may not even sound like an investment principle at all. To help ensure you meet your financial goals, you must save significant sums of money on a consistent basis. Consider the following example.

Fresh out of college and 25 years old, you decide you'll need $1,000,000 when you retire at age 65. You can save on a tax-deferred basis through your employer's 401(k) plan and expect to earn 8% compounded annually. If you start at age 25, you'll need to invest $3,860 a year for 40 years to reach your goal. At age 35, you now need to invest $8,827 per year for 30 years. Consider that at age 45, you need to invest $21,852 annually. The really bad news is that someone waiting until age 55 will need to invest $69,029 annually to reach that goal.* ❍❍❍

**This example is for illustrative purposes only and is not intended to project the performance of a specific investment. It does not consider the payment of income taxes. Keep in mind that a plan of regular investing does not assure a profit or protect against loss in declining markets.*

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How to Save More

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a daily record for any expenses. Then, once a week, enter what you actually spent into your budget. Look for how your actual spending affects the balance between your expenses and total income for the rest of the month.

Step 3: Set a saving goal. As you make your master budget, you need to think about a goal for the extra savings you want to achieve. Enter that amount as a line item in your column of recurring monthly expenses.

Step 4: Make the savings automatic. The key to actually saving what you intend to save is to make the transfer from your paycheck automatically. It's best, then, to do one of three things: increase the amount that you contribute to a workplace savings plan by payroll deduction, authorize a deduction every month from your checking account, or write and deposit a check into your saving account as soon as you get paid.

Step 5: Cut down on discretionary spending. The places you'll find savings are the things you can really do without. These range from snacks at vending machines to meals out, movies, shows and concerts, premium TV channels, expensive smart phone data plans, and even your vacations. It can be difficult, at first, to say no to yourself, but with practice it gets easier, especially when you see your savings balances start to grow faster.

Step 6: Review your big-ticket finances — mortgage, car loans, or lease. You can find your largest savings by carefully reviewing your biggest expenses. With mortgage rates near record lows, refinancing could save you hundreds of dollars a month. If you're leasing a luxury vehicle, consider going down a notch or two when it expires, or buy a recent-year used car — you'll save thousands on the depreciation and could lower your monthly spending significantly.

Step 7: Avoid late payment penalties and overdraft fees. Pay all your bills on time, so you avoid being charged costly late charges and fees. Keep your checkbook up to date to avoid overdraft charges.

Step 8: Buy only with cash. As much as possible, make your purchases with cash instead of using high-interest credit cards. The idea is to force yourself to postpone impulse purchases that increase your balance and rack up interest charges.

It's always better to err on the side of saving too much than too little. Gauging just how much you really need to save, however, can be subjective, so please call if you would like to discuss this in more detail. ❍❍❍

Don't Make These Selling Mistakes

An important part of any investment strategy is developing a methodology for ultimately selling your investments. Unfortunately, many investors sell based on emotional factors, making one of several mistakes:

✔ **Holding on to an investment with a loss.** Psychologically, it's difficult for investors to sell an investment with a loss. Many prefer to wait until the investment at least gets back to a breakeven level. However, that may never happen or may take a long time to do so. Take a hard look at the investment and consider selling if you can reinvest elsewhere with better prospects.

✔ **Hanging on to capture more gain.** When an investment has increased dramatically, you may be reluctant to sell. There's always the risk you'll sell and the price will keep going up. But sometimes it's best to protect your gains.

✔ **Not setting price targets.** One way to take the emotion out of selling is to set high and low price targets for reevaluating an investment. You don't have to sell when the investment reaches those targets, but at least review whether you should sell.

✔ **Trying to time the market.** It's difficult to predict when the market will rise and fall. Even if the stock market is following a general trend, there will be up and down trading days.

✔ **Worrying too much about taxes.** Taxes can consume a significant portion of your investment gains. Even if you have long-term capital gains, up to 20% of your gains will be taxed. However, avoiding taxes may not be a good reason to hold on to an investment. There are typically strategies that can be used to help offset the tax burden, but there's not much you can do about a loss in investment value. If it's time to sell an investment, you should probably do so, even if you have to pay taxes on your gains.

✔ **Not paying attention to your investments.** Your portfolio needs to be evaluated on a periodic basis or you could miss signals that it may be time to sell. You should reevaluate an investment when the company changes management, when the company is acquired or merges with another company, when a strong competitor enters the market, or when several top executives sell large blocks of stock.

Please call if you'd like help evaluating when you should sell your investments. ❍❍❍

Watch Out for These Portfolio Mistakes

Investing is a gradual process — purchasing some investments and selling others as the years go by. After a period of years, this can result in a mixture of investments that don't fit your overall strategy. Thus, periodically review your portfolio, watching out for these mistakes:

✔ **You don't use an asset allocation strategy.** Many investors select individual investments over the years, not considering their portfolio's overall makeup. Add up all your investments and calculate what portion is invested in each category. The basic categories are stocks, bonds, and cash, but each of these also has many subcategories. Since subcategories can have very different risk levels, review those as well. Assess your current allocation and determine whether it fits your personal situation.

✔ **You have too many investments that aren't adding diversification to your portfolio.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments to their portfolio that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor. Before adding an investment, make sure it will further diversify your portfolio. Keep in mind that diversification does not ensure a profit or protect against loss in a declining market.

✔ **Your portfolio's return is lower than benchmark returns.** While everyone likes to think their portfolio is beating the market averages, many investors simply aren't sure. Review the return of each component of your portfolio, comparing it to a relevant benchmark. While you may not want to sell an investment that has underperformed for a year or two, at least monitor closely any investments that significantly underperform their benchmarks. Next, calculate your portfolio's overall rate of return and compare it to a relevant benchmark. Include all your investments — those in taxable accounts and retirement accounts. Also be sure to compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

✔ **You trade too frequently without adequate research.** With so many choices and so much information, it's tempting to trade often based simply on other people's recommendations. Yet, besides the tax and costs associated with trades, frequent traders often underperform those who trade less frequently. Instead, purchase investments you are willing to hold for the long term.

✔ **You don't consider income taxes when investing.** Ordinary income taxes on short-term capital gains and interest can go as high as 37%, while long-term capital gains and dividend income are taxed at rates not exceeding 20%. Using strategies that defer income taxes for as long as possible can make a substantial difference in your portfolio's ultimate size. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently in your tax-deferred accounts.

To help maximize your portfolio's value, avoid these investment mistakes. Please call if you'd like help reviewing your investment portfolio. ❍❍❍

5 Reasons to Consider Disability Insurance

1. The odds of becoming disabled before you reach retirement are fairly high. Most people focus all of their planning and savings on the days when they retire, but what happens if you simply cannot work before you retire? According to the U.S. Social Security Administration, one in four 20-year-olds will become disabled before they reach retirement age. Moreover, illness accounts for 90% of all disabilities.

2. The average long-term disability (LTD) claim lasts over two and a half years. When you consider that the average individual disability claim lasts 31.6 months and that one in eight workers will be disabled for five or more years, there's a high probability you may not have enough saved for a disability (Source Commissioner's Disability Insurance Tables A & C).

3. If you're the 1/3 of applicants approved, Social Security Disability Insurance (SSDI) is likely not enough. According to the U.S. Social Security Administration (SSA), the average monthly benefit paid by SSDI as of 2021 is just $1,277. This figure accounts only for the 1/3 of SSDI disabled workers whose applications weren't denied.

4. You'll have additional expenses to account for. Considering that 90% of working-age disability claims are illness related, trips to doctors and/or specialists, tests, and medication will naturally accumulate, and if you're unable to work, you'll have the added expense of seeking private health insurance or going on your spouse's plan. Because a portion of your savings will be allocated to these new expenses, you'll need an additional source of income.

5. You don't want to work in a different, potentially lower-paying field. Depending on the severity of your injury or illness, without proper LTD coverage, you could be forced to find employment outside of the career you've worked so hard to build. For example, if you currently work in a profession such as a medical, artistic, or sales position that requires use of your hands or heavy travel, you may be forced to take a job only somewhat related to your field that doesn't require as much movement, such as teaching. Private LTD insurance can be customized so that unless you are able to work within your specific career, you qualify for benefits.

Please call if you'd like to discuss long-term disability insurance in more detail. ❍❍❍

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Good Investing Habits

Write everything down in a diary. Every time you make a trade, write down why you did so and what was going on in the markets to precipitate that trade. This will force you to develop objective reasons before making trades.

Keep track of your portfolio's performance. Monthly, quarterly, or even annual reviews are adequate. The point is to assess how your investments have performed compared to a relevant benchmark.

Monitor the market and your investments. You can't just purchase investments and then forget about them. Make sure to set aside enough time to review quarterly and annual reports and other major news. You'll also want to read enough to have a general sense of what is going on in the market.

Evaluate your strategies. Once a year, thoroughly review your investment strategies and make sure you are on track in pursuing your financial goals. The other habits will assist in this review. Pull out your diary and the analysis of your portfolio's performance so you can review all your trades and investments in detail. You're looking for trends and trying to analyze what you did right and wrong during the year. If you'd like help with this overall analysis, please call. ❍❍❍

Financial Thoughts

Though inflation erodes purchasing power — the ability to buy goods and services with a set amount of money — it is not as damaging to investment returns, a study finds. The study found that most assets analyzed — U.S. and international bonds, domestic stocks, foreign stocks, real estate investment trusts, and commodities — were able to outperform inflation in the long term. Also, inflation — whether contemporaneous, lagged, expected, or unexpected — is not a major driver of nominal asset returns and factor premiums. For most assets, inflation was just one of several factors influencing returns (Source: *AAII Journal*, September 2021).

Withdrawing 4% from retirement savings and then increasing that amount during each subsequent year of retirement is not appropriate for all retirees. This strategy is based on the retiree having a 30-year retirement horizon. Those facing a longer retirement may need a more conservative withdrawal strategy. The probability of a retiree not exhausting their savings can be improved by reducing management costs, diversifying to include international assets, and adjusting spending dynamically (Source: Vanguard, June 2021). ❍❍❍