



MITCHELL INVESTMENT ADVISORS, LLC

INVESTMENTS & FINANCIAL PLANNING

Jennifer G. Mitchell

112 Beech Street • PO Box 580 • Cadillac, MI 49601

(231) 775-8700 • (231) 775-8701 Fax

www.mitchellinvest.com



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Rules for Retirement Investing

When you start planning for retirement, you will need to determine the lifestyle you want to live and the income you will need. That way, you can define specific goals of how you are going to get there. You can increase your chances of living the retirement you want by being informed and engaged in your retirement planning process. Following are some basic rules that can help you prepare for retirement planning.

Investment Options

The first step is to understand your investment options. When building a retirement portfolio, you should take advantage of plans offered by your employer as well as individual investments. You will want to make sure you understand both the risks and the rewards of various types of investments and how they fit in your portfolio. Here are the retirement vehicles to consider:

✓ **401(k) plans and Roth 401(k) plans** are employer-sponsored plans that offer tax advantages, and in many cases, matching contributions from your employer.

✓ **A traditional IRA** is a retirement savings account that allows you to invest with pretax income and grows tax deferred until you take distributions.

✓ **A Roth IRA** is also a retirement savings account allowing you to invest with after-tax money, and then qualified distributions can be withdrawn tax free.

✓ **A SEP** is a plan for the self-employed where investments are immediately 100% vested.

✓ **A SIMPLE IRA** is a retirement plan for small businesses with fewer than 100 employees.

Start Investing Early

The sooner you start investing for your retirement, the greater chance you have of building a significant portfolio. Time is your friend when it comes to investing because you have many years to invest, the time to rebound from losses, and most importantly, you have the power of compounding.

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Don't Underestimate Inflation in Retirement

To combat the effects of inflation on your retirement income, consider these tips:

- ✓ **Use a conservative inflation rate for planning purposes.** Since your retirement can span decades, consider inflation over the long term.
- ✓ **Consider investment alternatives likely to stay ahead of inflation.** A significant portion of your portfolio may be invested in stocks.
- ✓ **Invest in tax-advantaged investment vehicles.** Look into 401(k) plans, individual retirement accounts, and other retirement vehicles.
- ✓ **Keep fixed expenses as low as possible.** Try to enter retirement with as few debts as possible.
- ✓ **Decide how you will deal with healthcare costs.** While Medicare will help once you turn age 65, look into Medigap policies and prescription coverage to help with non-covered expenditures.
- ✓ **Minimize withdrawals from your retirement assets.** To ensure you don't run out of funds late in life, make minimal withdrawals during the early years. ○○○

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Retirement Investing

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If you are younger, you should consider higher-risk investments, such as stocks, because of the potential for higher returns. You will also have a longer period of time to recover from any losses.

Know Your Numbers

To make good financial decisions, you need to know where you stand financially and also where you need to be by retirement. You should regularly calculate your net worth, which is the difference between your assets and your liabilities. Your assets should include cash, investments, property and personal property, such as jewelry, art, cars, etc. Liabilities include the debt you owe, such as mortgages, auto loans, credit cards, student loans, and medical bills. Once you understand your financial position, it will help you determine what you will need to do to reach your retirement goals.

Set Goals

When setting goals for your retirement, you'll want to be as specific as possible, so that you can measure your progress. You should review your goals on a regular basis, because they may change over time as your life takes twists and turns and your financial situation changes.

Don't Let Emotions Rule

Emotions are probably the biggest nemesis to investing. When your investments are doing well, you may become greedy and underestimate risks. When your investments perform poorly, fear may cause you to pull out of the market so you can't take advantage of any recovery.

It is important to keep your emotions under control during periods of volatility so that you can make good decisions and rebound from losses. Try to maintain a bal-

anced portfolio that will better weather both the ups and downs of the market.

Read the Fine Print

Make sure that you understand the fees associated with your investment and retirement accounts, including transaction fees, expense ratios, administrative fees, and loads. Your account statements will show the fees you are paying and the prospectus for the funds you own will show information on

expense ratios. While a prospectus is not necessarily a fun read, you should take the time to review it carefully because it provides a lot of important information about your investments.

Admit When You Need Help

Investing is not easy. Don't take risks with your retirement by not seeking help when you need it. Please call if you'd like to discuss this in more detail. ○○○

Dealing with Bond Price Fluctuations

There are two primary factors that affect bond prices — interest rate changes and credit rating changes. Interest rate changes typically will cause a bond's value to fluctuate more than credit rating changes.

As interest rates rise, a bond's price adjusts down, while the bond's price will increase when rates decrease. Simply put, bond prices and interest rates move in the opposite direction. Also, bonds with longer maturity dates are more vulnerable to interest rate changes, since the difference will impact the bond for a longer time period.

Credit ratings also influence a bond's price. When a bond is issued, rating agencies assign a rating to give investors an indication of the bond's investment quality and relative risk of default. Typically, higher-rated bonds pay a lower interest rate than lower-rated bonds. After the bond is issued, the rating agencies continue to monitor it, making changes if warranted. A bond's price tends to decline when a rating is downgraded and increase when a rating is upgraded. Certain downgrades are more significant, such as a downgrade that moves a bond from an investment-grade to a speculative rating, a downgrade of more than one notch, and a

series of downgrades over a short period of time.

If you want to minimize the risk of price fluctuations, consider these tips:

- ✓ If you hold a bond to maturity, you receive the full principal value, so you won't be affected by any price fluctuations.
- ✓ Consider investing in bonds with shorter-term maturities, which are less susceptible to interest rate changes.
- ✓ Design your bond portfolio using a ladder, so you'll have bonds coming due every year or so. This strategy typically lessens the effects of interest rate changes. Since the bonds are held to maturity, changing interest rates won't result in a gain or loss from a sale. Bonds are maturing every year or two, so your principal is reinvested over a period of time instead of in one lump sum. If interest rates rise, you have principal coming due every year or so to reinvest at higher rates. In a declining interest rate environment, you have some funds in longer-term bonds with higher interest rates.
- ✓ Choose bonds that match your risk tolerance. Safer bonds, such as U.S. Treasury bonds or investment-grade corporate bonds, are less susceptible to credit rating risks. ○○○

Reducing Debt — Where to Start

If you find that you have accumulated too much debt — whether your monthly debt payments have become overwhelming or you'd simply like to clear some of your liabilities — there are various ways to tackle the issue. Here are a few suggestions to get you started.

Understand your expenses

You didn't get into debt overnight. First, there was the student loan payment. Then the new car. Then the house. Then the credit card debt, and pretty soon it all became overwhelming. The first step in reducing debt is to get a handle on it all.

Produce a list of all your expenditures: mortgage, cell phone bill, medical expenses/prescriptions, car loans, dining out, etc. Then categorize them into fixed expenditures (i.e., mortgage and car loans); items that are necessary but not fixed (phone bill, fuel, etc.); and items that are highly variable (clothes, dining out, etc.).

Create a budget

After coming to a solid understanding of your expenditures, prepare your monthly budget. Include all of the expenditures you just calculated — everything from that \$5 cup of coffee that starts your day to

the dry cleaning bill to your monthly car payment. Then make a list of all your debt obligations and the interest you're charged for each.

Create a line item in your monthly budget for debt payoff. This number needs to be above the minimum payments on your credit card statements. If you only pay the minimum amount due on credit card bills, you'll barely cover the interest you owe; it will take years to pay off your balance and, potentially, you'll end up spending thousands of dollars more than the original amount you charged.

Once you determine the maximum amount you can pay off each month, pay down the debt with the highest interest rate first — that usually means your credit card balances. Once the debt with the highest rate is wiped out, put your money toward paying the debt with the next-highest rate, and so on. (One exception: if you have a credit card with a low teaser rate set to spike after a fixed amount of time, try to eliminate the balance before the low rate expires.)

If you have debt besides your home, don't be over-ambitious in paying off your mortgage. Mortgages tend to have lower interest rates than other debt, and you can deduct the interest you pay on the

first \$750,000 of a primary-home mortgage loan.

Lower your expenses

After you've created your budget, think about how you can dedicate more money to debt payoff. Cut down on the items in your variable spending category and put the extra money toward your debt payments.

For many people, reining in discretionary spending for a few months goes a long way toward tackling debt. But if that's not enough, move toward reducing your fixed expenses: think about lowering your household bills, refinancing your mortgage to get a lower interest rate, or asking the credit card company to lower your interest rate.

Increase your income

Consider whether there's any way to boost your take-home pay. It can't hurt to ask for that well-deserved raise or to post for an open position within (or outside of) your company. If you get a big tax refund every year, that means you're having too much withheld from your paycheck. If that's the case, you can reduce your withholding by changing your W-4 at work.

What not to do

It may be convenient to borrow against your home equity or your 401(k) to pay off debt, but that can be dangerous. It puts your home at risk and means that you may fall short of your retirement goals. Even if you can't manage your monthly debt payments, lenders are often willing to work with you to create a repayment plan that you can manage (without putting your home or your retirement at risk).

Finally, the best debt-reduction move is to ask for help. Please call if you'd like to discuss this topic in more detail. ○○○



How to Be a Better Investor

What separates a good investor from a poor investor? A commitment to learning. Anyone can make a great return on a lucky investment, but to consistently be a good investor, you need to research, study, and learn from your mistakes. Here are some tips on how to become a better investor:

Limit the Noise — There are certainly things to learn from watching or reading financial news, but if you're addicted, the emotions they invoke may have you making less than rational decisions. If you want to be a better investor, take some time to learn more about behavioral finance and how it can help you with investing.

Don't Touch Your Money Too Much — Investment changes shouldn't be a quick reaction, but part of a well-designed investment plan.

Learn about Dollar Cost Averaging — This is a strategy that is used to reduce investment risk by automatically investing a specific amount of money at regular intervals. When the market is down, more shares are purchased, and fewer shares are purchased when the market is up. However, it neither guarantees a profit nor protects against loss in a prolonged declining market. Because

dollar-cost averaging involves continuous investment regardless of fluctuating price levels, investors should carefully consider their financial ability to continue investment through periods of low prices.

Don't Gamble with Your Money — If a friend just doubled his money by buying a stock at the right time, does that mean he was smart or lucky? It's better to have a disciplined investment plan that will deliver results. If you like speculative investing, set aside a small amount for that purpose, not a significant portion of your portfolio.

Read Books — The internet is amazing because there is so much information at your fingertips, but it can also be completely overwhelming. To become an educated investor, it is wise to read books that get more in-depth on various investing topics.

Watch for Sales — When stocks experience a substantial price drop, it's time to jump on the sale. You need to develop both the knowledge and discipline to recognize when stocks go on sale.

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

Jennifer

How Much Do You Need in Retirement?

If you are trying to keep your expenses low in retirement, here are a few things to consider:

- ✓ Pay off your mortgage or sell your home to downsize to a cheaper option.
- ✓ Pay off other consumer debt and do not make any large purchases.
- ✓ Drive the same car for a while. Purchasing a new car every few years translates to a lot of unnecessary car payments.
- ✓ Look for housing options in less expensive areas. Whether this means moving to a place with better public transportation so you will not need a car or changing zip codes to avoid higher taxes, it can be financially worthwhile to relocate.
- ✓ Reduce your travel and leisure expenses. Look for and use senior discounts. Plan activities and vacations for non-peak time when there will be fewer crowds and deals to attract offseason visitors.
- ✓ Draw a line in your budget between the essential expenses and the discretionary expenses.

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

Financial Thoughts

Rolling over an employer-sponsored 401(k) retirement account into an IRA that offers the same mutual funds often leads to lower overall returns. This is attributed to different annual fees charged to institutional investors compared to individual investors. When analyzing the fees of the same mutual fund in an IRA versus an employer-sponsored 401(k) plan, researchers found that the annual expenses for median retail

shares were 34% higher than institutional shares. This represents a 37% difference in fees.

The study looked at an example spanning 25 years. What the researchers found was that \$250,000 in a mutual fund in a 401(k) plan with a 5% annualized return and an annual fee of 0.09% saw fees of \$5,725, while the same mutual fund in an IRA had an annual fee of 1.44%, with fees

totaling \$70,545. In this example, rolling over savings into an IRA that offered the same mutual fund would have resulted in \$137,630 less in the investor's portfolio at the end of 25 years.

Before rolling over plan assets, investors should verify that the expenses are the same or lower or ask to keep their funds in the employer's plan (Source: *AAII Journal*, September 2022). ○○○