MITCHELL INVESTMENT ADVISORS, LLC
INVESTMENTS & FINANCIAL PLANNING

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What Should Your Financial Plan Include?

At the core of achieving your financial goals is a solid financial plan. Many people are not exactly sure what a written financial plan should include, so the following provides an overview.

Goals — If you don't have goals, you won't know what you are aiming to achieve with your finances. Do you have children to send to college? Do you want to buy a house? Do you want to get out of debt? When do you want to retire? Identifying your goals is what sets the plan in motion.

Budget — Your budget will help you understand how much you are spending monthly compared to what you are earning. When you have a better understanding of where your money is going, you can then figure out how to redirect the money to help achieve your goals.

You will want to set up your budget based on necessities and discretionary expenses. Your necessities are payments you have to make, such as your house payment, taxes, insurance, and other debt payments. A secondary necessities category should include items such as utilities, groceries, and transportation. The reason to split these expenses into two categories is that the first category includes nonnegotiable expenses, while you have more control over the secondary expense category. The final category is discretionary expenses, such as entertainment, vacations, and shopping. This category should include things that can be cut without seriously impacting your life.

Now you will know what expenses you can reduce and others that you can eliminate, so that you can put more money toward your goals.

Emergency Fund — Setting up an emergency fund is often ignored so that money can go toward other goals. But this step is imperative, because you never know when you are going to be hit with unexpected expenses. You should set up an account that is earmarked for emergencies only. Most experts agree that you should have three to six months of income in your emergency fund to cover the unexpected.

Tackling Debt — You can only

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Can You Really Save 50% of Your Income?

It may seem like an extreme money saving idea, but some people can achieve saving half of their after-tax income, allowing them to build an emergency fund, aggressively pay off debt, and increase a retirement portfolio. Here are a few tips:

Live on One Income — If you and your spouse both work, the easiest way to start is to live on only one person's income.

Find Ways to Boost Your Income — If you make $100,000 a year, saving half is more achievable, but if you make $25,000, it will be much more difficult. In this case, you'll need to earn more money.

Focus on the Biggest Expenses — For most people, housing, transportation, and food are the largest expenses. You may need to move to a smaller home, which will allow you to reduce your mortgage or rent, but you will also be able to save on other expenses. Another idea is to rent out part of your home. The rent you receive will likely cover most of your mortgage. You can save money on transportation by living close to work and walking or cycling. To save money on food, you can avoid restaurants, clip coupons, and buy in bulk. ❍❍❍

What Should?

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cut your budget so far to free up money for your goals, so you will need to pay off debt to really make progress toward saving. You can apply the money you were directing to your emergency fund to reducing your debt.

Tackle one debt at a time. You may want to start with the debt that has the highest interest rate and then move on to the next debt. Each time you pay off a debt is a victory, because you can then apply that payment toward reaching your goals.

Saving for Retirement — For the majority of people, this is their most significant goal. This is one goal you should start saving for as soon as possible. As you pay off your debt and get pay increases, you can then start putting more money toward your retirement savings. Start by trying to contribute 10% of your annual salary and then increase that percentage as more cash becomes available. Hopefully, your employer offers a retirement savings plan such as a 401(k) plan, but if not, you should set up your own traditional IRA or a Roth IRA.

Other Goals — Chances are you have other goals to save for in addition to retirement. Regardless of what they are, you will want to prioritize your other goals in order of importance, so as other funds become available, you can apply them to what matters most.

You should consider setting up automatic deductions from your paycheck or checking account directly to your savings accounts. Doing this will help you save for your other goals and it will be less tempting to spend the money elsewhere.

Insurance — Most people cannot save enough money for all the things that can go wrong, so insurance needs to be a fundamental part of your financial plan. You will most likely need life insurance, health insurance, auto insurance, and homeowner's insurance.

Insurance is designed to protect your assets. If your home is damaged from a fire or a storm, your insurance will cover the repairs and you won't have to use your financial resources. Likewise, auto insurance will pay repair claims that you would otherwise have to find the funds for. Life insurance is an important way to protect your family if something were to happen to you.

Estate-Planning Documents — Many prefer not to think about this, but you will want to protect your family upon your death. If you fail to develop proper estate-planning documents, your family will end up in probate court trying to figure out how to distribute your assets, which could also end up eating away at your assets.

By developing a will or other estate-planning documents, you will be giving your final direction as to how you want your assets to be handled after you pass away. You may want to consult with an estate-planning attorney to help you set up these documents. Even though this is something you may not relish doing, you will most likely feel great comfort in knowing that your loved ones will be taken care of after your death.

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

Drawdown Retirement Funds Carefully

One of the toughest decisions you'll make when retiring is deciding how much to withdraw annually from your retirement investments. Take too much out and you could spend your later retirement years relying on the help of relatives or enduring a much lower standard of living.

Your withdrawal amount can be calculated based on your life expectancy, expected long-term rate of return, expected inflation rate, and how much principal you want remaining at the end of your life. Guess wrong on any of those variables and you risk depleting your assets too quickly. Yet, these are difficult to predict over such a long time. To help ensure you don't run out of retirement assets, consider these strategies:

✔ **Use conservative estimates in your drawdown calculations.** Add a few years to your life expectancy, reduce your expected return a little, and increase your inflation expectations. That will result in a lower withdrawal amount, but it will also help ensure that your funds don't run out. Take a careful look at any answer that indicates you can take out much more than 3% to 5% of your balance each year, which is a reasonable withdrawal amount if you want your funds to last for several decades. That doesn't mean you can't take out more, but you should be very confident of your assumptions before doing so.

✔ **Review your calculations every couple of years.** This is especially important during your early retirement years. If you find you're depleting your assets too rapidly, you may be able to go back to work on at least a part-time basis. If you find out late in life that you're running out of assets, that may not be an option.

✔ **Place three to five years of living expenses in short-term investments.** That way, if there is a severe market downturn, you won't have to touch your stock investments for at least three to five years, giving them time to recover. ❍❍❍

How to Select Stocks

For novice and experienced investors alike, choosing stocks that best fit your individual needs, goals, and financial portfolio can be overwhelming. So, when it comes to choosing the stocks that you'll invest in, how do you choose? Here, we outline four critical steps.

First, know what's available. There are quite a few different stock sub-classes, each with a different performance history and risk profile. They include (but are not limited to):

✔ *Blue chips* — Blue chips are normally well-known companies that have long histories of solid performance. Compared to other stocks, blue chips are relatively low-risk and often pay dividends.

✔ *Growth stocks* — Growth companies sell stocks to fund their growth. When they take off, they tend to rise quickly. But because they haven't proven a history of solid performance, they also pose more risk than many other types of stocks. Growth stocks do not typically pay dividends.

✔ *Income stocks* — Income stocks may include public utilities or blue chip companies. Though they don't typically rise in value very quickly, income stocks do typically pay substantial dividends and as such can be great for investors who are looking for income over growth.

✔ *Penny stocks* — Penny stocks trade at a relatively low price and small market capitalization. They are typically not sold on the major stock exchanges, and penny stock companies are usually subject to less strict regulatory requirements. As such, they are typically considered highly speculative (high risk).

✔ *International stocks* — International stocks are stocks in foreign companies. Some are household names in the U.S., with stocks traded on U.S. exchanges (e.g. Toyota, Sony, and Nestle). Others are less well known and are focused on their domestic markets. With international stocks, risk comes from the usual places (market trends, company management, etc.) as well as from the economic and political environments in their home countries; that is particularly true for companies in emerging markets, which demands an extra level of caution.

Second, know what you already own. Take a look at the investments — stocks and other assets — already in your portfolio. If you already own a lot of income stocks, you might want to look at blue chips. On the other hand, if you have a bunch of blue chips, you may want to look at growth stocks. Remember, diversification is key: Your portfolio should be well-balanced across asset classes (stocks, bonds, cash equivalents, etc.) as well as among different types of equities.

Third, know your risk tolerance. Your stock choices should depend heavily on your risk tolerance. If you are a conservative investor, blue chips or income stocks may be the way to go. If you are comfortable with a higher level of risk, you may choose international stocks or growth stocks. No matter what your risk tolerance is, owning shares across stock classes is important for diversification; furthermore, it's typically essential to meet your goals (most investors, especially those just starting out, cannot earn high enough returns on conservative stocks alone to meet goals for, say, retirement).

Fourth, articulate your goal(s). What you're looking to do with your money should be a driving force in your stock investment choices. If your goal is to retire at 65 and you're already 45 with little invested, you will need to invest more in high-growth stocks to generate the returns you'll need to meet your goals. If, on the other hand, you are 60, plan to retire in five years, and already have your nest egg accumulated, you may choose lower-risk, dividend-paying stocks such as income or blue chip stocks.

Once you've taken these four steps, you're well prepared to choose the stocks that make the most sense for you. Please call if you'd like to discuss this in more detail. ❍❍❍

Should You Stay or Should You Go?

Choosing a place to live is one of the most important decisions you can make when planning for retirement, and it's not always an easy choice to make. You'll have to weigh financial, emotional, and lifestyle issues before you can decide. Below are some tips that may help you make your choice.

You can start your retirement housing search by asking yourself these questions:

— Where do I really want to live?

— Where can I afford to live?

— If I'd like to relocate, how much will that cost?

— Will relocating allow me to save money on housing and other expenses?

— Can I save on taxes by moving to another area?

— If I'd like to move, what price can I expect to get for my house?

— Where do my friends and family live?

So, what if your answers to the above questions suggest that relocation is a good idea? Getting a fresh start in retirement is a dream for many. But depending on your current financial situation, it may not be realistic. Many still have hefty mortgage payments heading into retirement. Some people who want to relocate simply may not have the financial ability to do so.

Looking into housing in your ideal location is just the start. You'll also want to think about how much you can get from the sale of your current home. Taxes are another issue. Some retirees can save money by moving from a high-tax state to one that offers tax breaks to retirees. Another aspect to consider? The cost of travel back to your original home if you still have family and friends.

If you're sure that relocating in retirement is the right choice for you, don't rush into a decision. Try a trial run of a month or two in your ideal destination to see how you really like living there. A place that's great to visit for a week might lose its luster after a month. Make sure you think about amenities both fun and not so fun. Are there hospitals nearby? What about public transit? Will you be part of a ready-made retirement community or will you be on your own when it comes to making new social connections? Are the amenities you'd like to use affordable? Knowing the answers to these questions in advance can help you avoid making a costly financial mistake. ❍❍❍

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Fun Ways to Save

You may not think saving money is fun, but there are ways to make it fun for the entire family.

Make It a Competition — You and your spouse or two of your teenagers can challenge each other to a "save-off." Set a time frame and a savings metric to determine the winner. Make sure the prize doesn't claim everything you've saved.

Create a Savings Thermometer — This is a great way to save when you have younger children. Let the kids create a large thermometer out of poster board, then write a saving goal at the top and hang it somewhere in the house where everyone can see it. The top of the thermometer could represent a prize that everyone in the family wants.

Have a Family Garage Sale — A great way to clean out your house is for everyone to go find things they no longer use or need. Let your children help coordinate the garage sale, develop the advertising for the sale, and be part of the sales team.

Find Inexpensive Family Fun — Not every outing with your kids has to include spending money. Go to a local park, plant a garden together, or play a family game of baseball or volleyball. The point is to spend time as a family, not to spend money. ❍❍❍

Financial Thoughts

Deciding what to do with their retirement account is a challenge many people face when changing jobs. The balance can remain in their current plan, roll over to a new account, or be cashed out. Cashing out is the most common choice, especially among those with account balances under $5,000. According to a recent study, 80% of people with an account balance of less than $1,000 cashed out, and 62% of people with a balance of less than $5,000 cashed out. While these may seem like small amounts of money, it can have a sizable impact on the amount of money saved at retirement (Source: *AAII Journal*, June 2022).

Medical expenses are growing faster than income — medical expenses grew 33% in the last decade while median income lagged by 30% (Source: Bureau of Labor Statistics and U.S. Census Bureau, 2022).

Nearly 84% of millennials either own a website or use social media daily as a means to support their income (Source: Pew Research, 2022).

Approximately 50% of households are at risk of not having enough funds to maintain their standard of living in retirement (Source: National Retirement Risk Index, 2022). ❍❍❍

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