In This Issue...

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Financial Outlook

SUMMER 2021

Paying Off Debt Isn't Saving

Save your money or pay off debt? It probably comes as no surprise that the answer varies. But one thing is certain: paying off debt is *not* the same as saving. Here's why.

The rational objective for all sound financial planning is to increase your net worth, which is the true measure of your financial health. Calculating your net worth is simple: total up the value of everything you own and subtract from that all of your debt.

Net Worth = Assets – Debt

When you pay off debt, it feels good. And, in fact, it almost always improves one aspect of your financial wellbeing: it lowers your monthly bills, which means you can either spend or save more. But if you look carefully at the formula for net worth, it's clear that paying off debt doesn't immediately increase your net worth, because it reduces your assets by as much as it reduces your debt. So, by itself, paying off debt doesn't advance your goal of building wealth. It only helps if you save the amount you no longer have to send to your creditor.

Higher Priorities Should Come First

Paying off debt can also make your financial situation more precarious. For example, if you deplete your savings, you may be in a worse position to cover your expenses in the event of an emergency. In fact, it's one of the principles of good planning to maintain an emergency savings account equal in value to your living expenses for three to six months. So unless you already have enough tucked away in your emergency fund, you should think twice about using any free cash to pay off debt. And if you have a partner and dependent children, maintaining a life insurance policy sufficient to meet their needs should also be a higher priority than paying off debt.

But let's say that you have both

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Money Personalities and Saving

Everyone approaches their finances differently, but there are common mistakes that certain money personalities make. The following highlights five different money personalities, the mistakes they make, and how they can improve their financial picture.

Entrepreneur

Because they put all their financial resources and energy into their business, entrepreneurs may make mistakes such as cashing out their retirement plans to fund their business, holding too much debt, or even getting behind on self-employment taxes.

Entrepreneurs would be best served by developing a business plan with income and expense projections to ensure they use debt wisely to fund their business. They should also make contributions to a retirement plan annually, even if it's only a few thousand dollars. And finally, entrepreneurs should work with a tax professional to help reduce their taxes as much as possible, while making sure quarterly tax payments are made.

The Saver

This is the person who follows all the rules and does it just right. They fully fund their retirement accounts each year, don't carry much debt, and have plenty of savings in the bank for any unexpected

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Paying Off Debt

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of these objectives covered. Does it make sense to be aggressive in paying off your debts? It can. It generally (but not always) comes down to comparing the potential return on your investing choices to the *effective* interest rates you're being charged on your loan.

Compare interest rates. If you're paying a higher rate of interest on a debt than you could earn on an investment, it makes sense to pay off that debt as quickly as you can. Such is typically the case with credit cards, where it's rare that interest rates are less than double digits. Making only the minimum required payment is generally a bad idea, because interest and fees can grow faster than you pay down the principal. At the very least you should try to pay more than the minimum — even if you're not trying to be aggressive in paying down the balance.

If you have money left over at the end of the month, you should consider trying to save and paying down your debt simultaneously. This is especially true when it comes to tax-advantaged savings plans, like individual retirement accounts (IRAs) and 401(k) plans. Contributions to these are often made on a pretax basis, which adds to the effective total return you receive. If your employer matches your contributions, you should do all you can to contribute to the maximum match before taking an aggressive stance toward reducing your debt load.

Don't forget the power of compounding. The biggest reason to save *and* pay down debt at the same time is that saving, even relatively small amounts, puts time on your side by harnessing the power of compounding. When you reinvest your returns — whether it's interest, dividends, or capital gains — your money makes more money, and you can reach your long-term goals faster.

Be careful about paying off mortgages. Owning a home free of mortgage debt remains a fond dream that influences the decisions many Americans make. It explains why 15-year mortgages seem more appealing to some than 30-year mortgages: not only are the interest rates for 15-year mortgages generally lower, but it takes less time to pay them off, and the accumulated interest you pay is much less.

But it's not necessarily a smart idea to take out a 15-year mortgage because the required monthly payments are generally 20% to 30% higher than the payment on the same principal amount for a 30-year loan. That means that you have less free cash flow to devote to saving in a retirement plan, and if you lose your income for an extended period of time, it's harder to keep up with the payments.

On top of that, mortgage interest is generally tax deductible. Finally, the interest rates on mortgages are among the lowest consumers face. All of this means that paying off a mortgage more aggressively is one of the last spending options you should consider.

In summary, paying off debt has its advantages, but whether it's the right choice for you depends on your broader financial picture, what kinds of debts you have, what interest rates they carry, and what your saving opportunities are. It can take some careful analysis to make the best decisions. Please call if you'd like to discuss this in more detail. ❍❍❍

6 Signs You Need a Financial Plan

A clear financial plan helps you prepare for the future, brace yourself for the unexpected, and positions you to pursue your goals. Below are six signs it may be time for you to get a financial plan.

You're planning (or just had) a big life change. New job. New baby. New house. All of those milestones and more are signs you should take a big picture look at your finances. Take this opportunity to put your financial house in order.

You're worried about your finances — and your future. If money worries keep you up at night, a financial plan can help ease your mind. Whether you have immediate worries or are just feeling uneasy about what tomorrow may hold, you can regain control over your life by having a clear direction. Your comprehensive financial plan will not only help you see where you stand today, it will also help you plot a path to where you want to be.

You're making good money, but you're not sure where it goes. If you want to turn today's income into tomorrow's wealth, you need a financial plan. Planning helps you assess what you're spending today and then shows you how you can save and invest some of what you earn.

You have financial goals, but you're not sure how to make them a reality. With a financial plan, you'll know what you need to do financially to make those dreams a reality.

You and your partner are fighting about money. Meeting with an objective third party, like a financial planner, can help you both recognize where you stand when it comes to your finances, and then negotiate a path forward that works for both of you.

Your investments and finances are getting so complicated, it's difficult for you to keep track of everything. A financial plan, developed with the assistance of your financial advisor, will help you identify the best ways to save, find ways to reduce taxes, and protect yourself against risk. ❍❍❍

Money Personalities

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expenses. While this money personality may get to retire early, they may want to stop and smell the roses once in a while.

The High-Income Earner

Professionals, such as doctors and lawyers, fall into two groups: savers and spenders. Those who fund a large lifestyle may find they have trouble funding their retirement because they've spent too much.

Big earners need to develop a financial plan so they understand how much money they will need to fund their retirement based on the lifestyle they want to live. They should also pay themselves first with a predetermined amount to saving, before buying nicer cars or bigger houses, as well as considering setting monthly spending limits.

I Need to Save?

This money personality spends their paycheck as soon as it hits their account, and in some cases, live beyond their means. They have no savings if an unexpected emergency comes up, and they are likely carrying too much debt. To be able to retire, this person needs a financial plan with a strict budget to help pay down debt and develop both long- and short-term savings.

Doing Fine and Enjoying Life

This person saves and spends. They want to enjoy life experiences along the way to retirement, such as vacations, maybe a boat, or a cabin. While they contribute to their 401(k) plan, they may not have a financial plan that includes short-term financial goals and how much they need to save for retirement.

While it is great that this money personality saves, they need to ensure that their spending isn't outpacing their savings. By developing a solid financial plan, this money personality can create a more balanced approach to saving and spending.

What's Your Money Personality?

You should determine where you fall on the spectrum of money personalities so you can develop a financial plan that suits your personality, but also helps you secure your future. Please call if you'd like to discuss this topic in more detail. ❍❍❍

Discussing Your Estate with Your Family

Having this conversation before your death, when choices can be explained, will help avoid the potential relationship damage that can happen if no one is aware or understands your decisions.

Choose the Right Person for the Right Job

While you are likely to consider the feelings of your family members, try to take the emotion out of your decisions and select the people who will be best at certain tasks. Once people understand the various roles and what they entail, they tend to understand why a particular person was selected. The roles can range from being the executor of the estate, to the guardian of your children, to making medical decisions on your behalf.

Prepare the Appropriate Documents

Once you have determined who will handle the key roles in your estate, you will want to get the proper paperwork drafted and notarized to officially document your wishes. These documents may include: your will, trust, durable power of attorney, healthcare power of attorney, and guardianship designations. Before you have the conversation, you should have the proper paperwork with copies for all involved individuals, so there is no room for misinterpretation and everyone understands the parameters of your decisions.

Prepare for the Conversation

You'll want to take the time to think through this conversation and anticipate the questions people will have. You will want them to understand what your goals are for the estate plan, what the various roles are and what they entail, and why certain people were chosen for certain roles.

It is important to think through your family dynamic in approaching this conversation. Should it be a more formal conversation that includes an attorney or financial advisor to help explain the roles and your choices? Should it be more casual discussion around the dinner table with only family?

Either way, you will want to make sure you set ground rules to avoid confrontation. You will want people to express their thoughts, but if it becomes argumentative, let them know the meeting will be canceled until it can be discussed rationally.

Keep the Conversation Going

Let your family know that this will be an ongoing discussion as circumstances change, such as new marriages, new children, divorce, etc. By having regular conversations, you can avoid the "Mom would have wanted this" argument. Setting this expectation can help prevent future family tension. ❍❍❍

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Financial Data

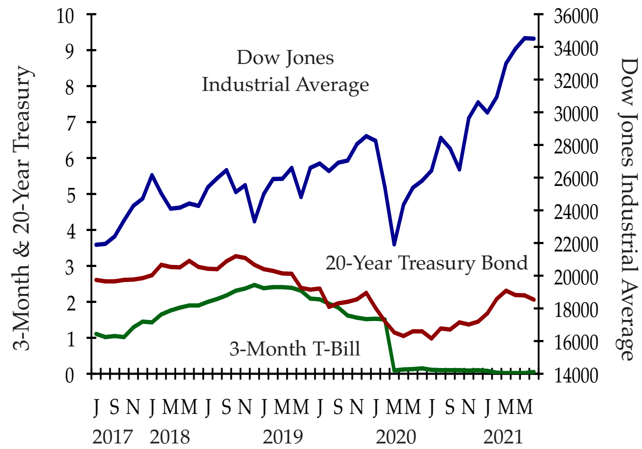
Indicator	Apr-21 (Month-end)	May-21 (Month-end)	Jun-21 (Month-end)	Dec-20 (Month-end)	Jun-20 (Month-end)
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.08	0.08	0.08	0.20	0.28
3-month T-bill yield	0.02	0.02	0.05	0.10	0.15
20-year T-bond yield	2.19	2.18	2.06	1.45	1.18
Dow Jones Corp.	2.37	2.33	2.29	1.93	2.50
30-year fixed mortgage	2.41	2.41	2.44	1.91	2.17
GDP (adj. annual rate)#	+33.40	+4.30	+6.40	+4.30	-5.00

Indicator	Apr-21 (Month-end)	May-21 (Month-end)	Jun-21 (Month-end)	YTD (% Change)	12 Mon. (% Change)
Dow Jones Industrials	33874.85	34529.45	34502.51	12.7%	33.7%
Standard & Poor's 500	4181.17	4204.11	4297.50	14.4%	38.6%
Nasdaq Composite	13962.68	13748.74	14503.95	12.5%	44.2%
Gold	1767.65	1899.95	1763.15	-6.6%	-0.3%
Consumer price index@	264.88	267.05	269.20	3.4%	5.0%
Unemployment rate@	6.00	6.10	5.80	-13.4%	-56.4%

\# — 3rd, 4th, 1st quarter @ — Mar, Apr, May Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

July 2017 to June 2021



Past performance is not a guarantee of future results.

Essential Tips for Saving for Retirement

For many people, saving for retirement is an anxiety-producing process. Some struggle just to pay for monthly expenses, so saving for retirement can seem difficult. Here are four essential tips for saving for retirement.

Start Early — This is perhaps the most important point about saving for retirement. Many people think that starting to save once they're age 30 is a good idea, but the only way to ensure a stress-free future is to start when you're in your 20s if possible. Why start this early? You'll benefit significantly from compound growth, you'll get more out of employer contributions, and you'll be able to save a fair amount of money on your tax bill. Years and years of this can result in a significant retirement fund.

Stick to Your Savings Goals — A common saving mistake people make when getting started is putting money away for a few years and then slowing down with their contributions. Family emergencies, tuition bills for children, and everything in between can add up to create a load of stress that makes saving for retirement seem like less of a priority. Do whatever you can to stick to your savings plan.

Get a Matched 401(k) Plan — A 401(k) plan can be a good tool for helping you to save significant amounts of money for retirement. Why? In many cases, your employer will match a portion of your 401(k) plan contributions. It's without a doubt one of the most effective ways to quickly build a retirement fund, especially if you're able to contribute the maximum amount each month. If your employer offers a 401(k) plan, you'll benefit from getting set up in the program as soon as possible.

Work with a Financial Planner — The job of a financial planner is to help get you set up for retirement in as swift and effective a manner as possible. ❍❍❍

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