Fall 2022

Financial planner

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Fall 2022 Newsletter Topics

10 Things You Should Know About Recessions

THE ECONOMY IS NOT THE STOCK MARKET. IN FACT, STOCKS HAVE GENERATED POSITIVE RETURNS ON AVERAGE DURING ECONOMIC CONTRACTIONS.

ONE. What's in a name? A recession is an extended period of declining economic output, wages, employment, industrial production, and retail sales.

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Start Investing Early and Stick With It, Especially When Stocks Fall

We wouldn't wish this bear market on anyone.

This is, in short, a rough moment for the economy and the markets, and may seem to be the wrong time to put fresh money into the stock market. Yet that is exactly what we are suggesting, not just for people who have become accustomed to buying shares steadily over many years, but for those who are just starting out and are likely to have decades of investing ahead of them.

In fact, when you are young, investing during a bear market can be great for your future wealth, and, perhaps, your eventual retirement.

This may seem counterintuitive but the logic is simple. Buying low and selling high is the core of successful investing. If you invest when stock prices are falling, yet have considerable time for a rebound, you are likely to prosper.

What's more, if you do this repeatedly over many market cycles, the benefits of compound returns will kick in. You will be earning money on top of the gains of previous years.

Invest this way and you can accumulate a remarkable nest egg.

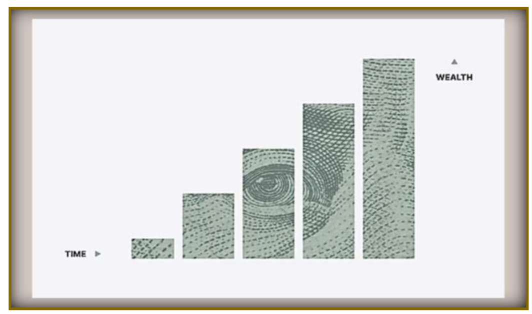
Consider these steps for getting started at a time like this:

- Pay your bills first, and set aside enough money for an emergency before putting any money at risk.
- Invest excess cash in mutual funds or ETFs that meet your risk tolerance and goals
- Treat investing as a marathon with a 10-year horizon at a minimum and, preferably, with a much longer goal.

Inevitably, this thumbnail summary omits many things. Consider these things when starting as an investor:

- You benefit from the market's ups and downs through what is known as dollar-cost averaging.
- Take advantage of workplace retirement plans.
- Invest with your goals in mind.

Veteran investors: **don't worry!**



Early price declines help Dollar-cost averaging entails putting money into the market regardless of whether stocks and bonds rise or fall. Your average cost will drop during a bear market, and this will bolster your long-term returns.

If you do this deliberately and understand the benefits of buying shares when they are cheap, you may be able to avoid the terrible feeling that other people have during market declines.

Consider what would have happened if you had started to invest in the first commercially available stock index fund, the Vanguard 500 stock index fund, in July 1980. You would have experienced a nasty bear market that began in November 1980 and lasted until mid-August 1982. The S&P 500 index lost 27.1% in that stretch. You might have been tempted to sell all your shares and forget about stock investing entirely.

But suppose that you had stuck with it, not only through that bear market but through the six others that followed over the next 40 years, including this one.

According to FactSet, your initial investment would have grown 6,600%, including reinvested dividends. And if you had funneled money from your paycheck into the

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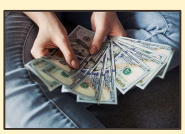
TWO. A recession is not the same as a down market: The stock market is based on expectations for the economy in six to 12 months, so stocks can move up during a recession – or down when the economy's expanding. By contrast, economic recessions or expansions may not be identified until months after they begin.

THREE. Internal versus external shocks: Recessions can be started by imbalances in the economy, such as a financial crisis; these imbalances usually must stabilize for the recession to end. They can also be started by the economy's reaction to external shocks, such as a pandemic, war, or terrorist attack.

FOUR. The customer is always right: Consumer spending is the largest driver of US economic growth. Today, it accounts for about 68% of US economic activity.



FIVE. What goes up must come down: Recessions and expansions are a normal part of the economic cycle. There have been 13 recessions since 1945, occurring about six years apart on average.

SIX. We grow more than we contract: Excluding the Great Depression, US recessions have lasted an average of about 10 months. The Great Recession, which followed the global financial crisis, lasted 18 months; the expansion that followed it is the longest on record, spanning more than 10 years. The pandemic-induced recession in 2020, which lasted two months, is the shortest on record.

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market throughout those years and resisted the impulse to sell, your money would have grown splendidly.

Key assumptions Obviously, we're making a big assumption: that history will be a rough guide to the future, and that the stock market will rise over the long run.

This is an assumption, but it isn't a crazy one. It assumes that while stock prices reflect the whims of humans over the short term, stocks have an underlying value that eventually dominates.

That value is based on the profits generated by companies as the economy grows. It could well be shrinking now, but we are also assuming that it will keep growing over extended periods, and that market prices will reflect the real values of company shares.

As Benjamin Graham, a Columbia Business School professor and mentor of Warren Buffett, put it, "In the short run, the stock market is a voting machine," but "in the long run, it is a weighing machine."

A handful of people have the time, training, and talent to study individual companies and stocks, and to make canny investments in them, as Buffett has managed to do.

For most people, though, it makes more sense to avoid all of that and invest in the stock market through mutual funds or an index fund that tracks the S&P 500 or another broad list of stocks. If you embrace this approach and do it regularly over many years, you will be engaging in dollar-cost averaging.

Workplace plans Only about two-thirds of employees in the private sector in the United States have access to workplace retirement plans of any kind, according to the Bureau of Labor Statistics.

Traditional pension plans are increasingly rare. They are being supplanted by 401(k) plans and their cousins, all known as defined contribution plans. Unlike traditional pensions, these plans will pay you nothing unless you invest in them. Essentially, the current pension system is pushing working people to become investors.

Social Security remains the most important pillar of retirement for most Americans, and it is the sole support for many people. Fortunately, it does not demand any investing acumen. Work, pay your taxes and you are entitled to Social Security. This pillar is one that we are counting on, though its future will depend on Congress, so there are no guarantees.

You may have heard that the Social Security Trust Funds may be depleted by 2035 if Congress does not act to fully fund them.

We think Congress will act, because cutting the benefits of retired people has been politically impossible in the past. But even if Congress somehow fails to bolster Social Security, there will be enough money coming into the system to pay roughly 80% of the benefits that are now promised. This is an issue that everyone will want to keep an eye on.

That said, if you are lucky enough to work for a company with a defined contribution plan, try to use it. The money invested in these accounts can supplement your Social Security income one day. We recommend to put in at least the amount that will give you the full company match, if there is one. Don't leave any money on the table.

If your company will add money to your account, based on your contributions, then invest as much as you need to get the full benefit. Often, the company match stops at 6% of your salary; the company might contribute 25-50% of the amount that you put in. Whatever it is, try to take advantage of it.

Target-date funds The default option in many workplace retirement accounts is a target-date fund, intended as a set-it-and-forget-it investment that you can keep for years.

Designate a likely year for retirement — say, 2070, if you are starting to work now — and the fund will do the rest. It will probably put your money almost entirely in stocks to begin with, and gradually shift your asset allocation to a larger proportion of bonds as you approach retirement.

We feel most target-date funds are worthwhile. Saving automatically like this is the only way saving gets done for most people.

If you can manage it, do some research. See what is underneath the hood of the target-date plan. Often, what you will find is a variety of index funds, which is great. Check to make sure that the cost, measured as what is known as an expense ratio, is low.

Target-date funds work best within tax-sheltered accounts, including IRAs. So stick to tax-sheltered accounts for target-date funds. Use broad mutual fund and bond index funds as core investments elsewhere.

A goal How much should you be saving? This is a personal issue. If you need the money to pay the bills, do that first. Delay the saving until later if you must. But it's good to have a goal and best to start early. Put aside whatever you can manage. If you're in your 20s, aim for saving a total of 10% of your paycheck. That should put you in good shape decades from now. If you are contributing regularly in a workplace plan, this 10% can include the money your employer is putting in.

You will be in even better financial shape if you plan on working until at least 70. That will allow you to receive maximum Social Security benefits one day. Anything beyond that is a bonus. Start now and you won't need to make bigger contributions later.

This is a lot of information to take in, so keep investing simple at first, and, maybe, always.

We recommend you: Disregard the news about the market, invest regularly, and take advantage of any tax breaks or employer contributions available at work.

10 Things You Should Know About Recessions

SEVEN. Connected, but not always in sync: Even in today's interconnected world, individual countries can enter recessions without involving the global economy. According to the World Bank, there have been six global recessions since 1950 (compared to 13 in the US in the same time frame).

EIGHT. Bad begets good: The Federal Reserve Bank of Cleveland found that the worse a recession, the stronger the expansion that followed it. They didn't find a connection between the length of an economic expansion and the severity of the recession that followed it.

NINE. Not all stocks are created equal: Recessions impact various sectors of the economy, and the stock market, differently. Industries considered "cyclical" are more impacted during economic contractions (think discretionary purchases such as travel), while others are necessities regardless of economic cycle (think utilities).

TEN. Stocks can grow when the economy contracts: Although down markets sometimes coincide with recessions, stocks actually produced *positive* returns during seven of the 13 recessions since 1945. In fact, the S&P 500 Index gained 3.68% on average during recessions.

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5 Lifelong Financial Habits Anyone Can Do

By the time you reached elementary school, you probably already did some good-for-you things by habit, from brushing your teeth to tying your shoes and even saying "thank you" (from time to time).

Research backs up early habit making: A lot of it happens by the time we're about age 9. It stands to reason, then, that when it comes to managing your money and saving for goals, the earlier you can figure out what works for you, the better.

The people who've been able to accelerate their saving and manage their debts don't possess any insider knowledge. What they do know is that a couple of habits, started as soon as possible, make a big difference. You can do them, too.

1. Live within (or below) your means Small changes do make a big impact over time, and that includes creating a budget and managing your expenses so you're always spending less than you earn. Changes that might help:

- Drive older vehicles.
- Own a modest home.
- Travel, but travel less.
- Dine out less.
- DIY when possible.

"It's about making smart financial choices, but not sacrificing quality of life," says Heather Winston, assistant director of financial advice and planning at Principal. "We make time for the things we find most important."

2. Manage your debt Paying for a pair of jeans you like or a new coat you need can be easy to include in a budget. But saving up for big-ticket items like a car can be harder. A lot of people need to borrow: About 44% require a loan to buy a vehicle.

So say you have debt—a car loan, a student loan. You're making room for it in your budget, but you also want to pay it off sooner, if you can. One tip is to always pay off credit card purchases so you don't carry that debt. (Checking your credit score doesn't hurt, either. Learn how to review your credit report.) And then choose one of two debt-payoff options to get through those payments quickly:

- Avalanche: Pay off the highest-interest balance first, then the next highest, and so on.
- Snowball: Pay off the smallest balance first, then the next smallest, and so on.

3. **Plan for retirement** Many people who've accelerated retirement savings put away about 15% of their income. Sounds like a lot, right? But they started as early as they could—their mid-20s—even if it was just a little. These four strategies may help you gradually get to that goal.

- Get the (free) money. Save enough to receive the maximum employer match in your retirement plan if offered.
- Increase your retirement savings, at least by 1%, each year or when you receive a raise.
- Work your way up to 10%–15%. It might take you a few years. That's OK.
- Check your progress at least yearly. Rebalance your funds if needed or consolidate if you have previous savings that you can roll into one account.

"One way to look at it is to treat saving for your future like another bill you pay each month," Winston says. "Automatic withdrawals from your paycheck to your retirement account allow you to pay your future self, first."

4. Save for emergencies Would a $500 expense throw off your budget in a big way? "If the answer is yes, it's a good idea to set up an emergency fund," Winston says. "That way, the unexpected doesn't derail your long-term plans."

Several months of income is generally the advice for an emergency fund, but just starting with something—even $100 a month—helps create that savings habit. Add to it gradually as you're able, including lump sums, to build toward three to six months of savings for unexpected events.

5. Keep learning about money Those early, easy habits can help you lean into learning about how to achieve bigger, long-term financial goals. Do you want to own a second home, for example? Take big yearly family trips? Retire early? There are lots of ways for you to build on your skills. (You went from teeth brushing to living on your own, after all.)

"Education drives confidence, and confidence drives action," Winston says. "Even investing a small amount of time learning more about personal finance may provide a huge boost to your self-confidence in financial decision making."

4 Mistakes That Can Make It Harder To Build Wealth

The Mistake: Thinking Rent is a Waste of Money
The Fix: Pay Your Landlord – and your IRA

Owning a home has long been viewed as the smarter, more "adult" option for building wealth. But today we're facing a very different (and often more difficult) financial landscape than our parents and grandparents did. We also tend to be a lot more mobile. If you don't stay in a house for at least a couple of years, you won't build much equity, since most of your mortgage payments will go toward interest, says Shand Saavedra, a personal finance expert and the founder of the blog *Save My Cents*. So it might make more sense for some people to rent, while investing extra money in the stock market or a retirement account. "The return on a stock market investment has averaged about 10 percent per year, while the average annual growth in home prices has been 4 percent a year," Saavedra points out. "If owning a home prevents you from contributing to your retirement, that's not adulting."

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As always, we encourage investing with your goals in mind, keeping a reserve for emergency needs.

We are available for in person, phone or zoom reviews. Give the office a ring and we can discuss your investing goals and needs.

The Mistake: Getting Bogged Down by the Word "Budget"
The Fix: Call It a "Say Yes" Plan

The *b*- word brings to mind everything we can't have. Budgets are a prime example of how your mindset, rather than the numbers, can shape your financial decisions. "If you approach money within the framework of 'no' and deprivation, you're not going to want to stick to a plan," Rodriguez says. Instead, Tiffany Aliche, a financial educator and the author of *Get Good with Money*, suggests making it more about what you *can* have. "I look at my budget as my 'say yes' plan," Aliche says. "Can I go on vacation? Yes, when you save this amount of money. Budget, can I buy this car? Yes, if you ask your boss for that raise." View your budget as a course of action – in a way that won't harm your overall finances.

The Mistake: Only Paying Off Debt
The Fix: Pay Bills and Save for the Future

Should you get rid of debt, or contribute to retirement and emergency funds? "The answer is you really have to do it all – they're not mutually exclusive," says Lynnette Khalfani-Cox, a personal finance expert and the author of *Zero Debt*. Chipping away at debt first might feel like the wiser choice, but you'd miss out on the compound interest (a.k.a. free money) that's earned in retirement accounts. Working towards your savings goals also stops you from feeling trapped in debt. It helps you build what Khalfani-Cox calls your "savings muscle," and can help you afford experiences that bring happiness, as well as develop a sense of security that makes your feel financially empowered.

The Mistake: Procrastinating Estate Planning
The Fix: Write It Like A Love Letter

Like budgeting, estate planning can stir up a host of uncomfortable emotions. Because really, who wants to think about buying the farm (figuratively)? It's often hard to get started on grim money matters like wills, powers of attorney, and life insurance. That's why financial activist Dasha Kennedy says to think of end-of-life documents as "the last love letter" you write. See them as a way to give your loved ones financial security, peace of mind, and a road map of your wishes, says Cameron Huddleston, a financial journalist and the author of *Mom and Dad, We Need to Talk*. "With these documents in place, it's not a probate judge deciding who gets what, or your family guessing. It just makes life so much easier for everyone."

Content courtesy of
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