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The Advisor

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Time to Go Over Your Year-End Financial Planning Checklist

For many Americans, the holiday season is a time to throw caution to the wind where their money is concerned. They knowingly overspend on gifts and other seasonal expenses and rationalize it by saying things like, "Well, Christmas only comes once a year." And even though I'm a financial advisor, I'm not about to throw cold water on that tradition. The truth is: we get it, and even I have been known to get caught up in the carefree spirit of the season. That said, we believe everyone would feel less guilty about their seasonal spending sprees if they took the time to give their overall finances an annual year-end checkup.

November and December are the perfect time to do this because there are certain key financial deadlines that fall on December 31. Beat them, and you'll greatly increase the odds of enjoying your holidays knowing you're on track to meet your long-term financial goals — even if you decide to overspend a bit on gifts for the grandchildren in the short-term. (Consider this year-end financial checkup a gift you give yourself!) What follows is a brief checklist of some of the key areas to look at during your check-up — ideally in partnership with your financial advisor:

Get a Jump on Your Taxes – This is definitely the most important and potentially beneficial area to examine before the year ends. One of the most common financial

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Debt and Your Retirement

Most people's vision of retirement not only involves freedom from work but also freedom from debt. A debt-free retirement is a laudable goal, but it's one that has become increasingly difficult for many to achieve.

Mortgage, credit card debt — even student loans — now follow people into their golden years, and that can have serious consequences for their long-term financial health.

The Debt-Free Retirement Goal

When you retire, you stop actively earning income and start living on your savings. If you're still paying off debt, those payments will be another fixed expense, which means you'll have to draw more from your nest egg and have less to spend on things you truly enjoy. By going into retirement debt free, you'll lower your living expenses, which will make that nest egg last longer.

Reducing Debt before Retirement

If at all possible, you'll want to eliminate debt before you retire. Of course, some types of debt are worse than others.

High-interest credit card debt can be a significant burden, so you'll want to eliminate it as quickly as possible. Look for areas in your budget where you can cut back, or consider a second job and make extra debt payments.

If you have a car loan and are close to retirement, consider selling the car after you quit working, since many people find they no longer need multiple vehicles in retirement.

Getting debt-free before retirement may mean aligning your mortgage payoff date with your retirement date; you may be able to bring your mortgage payoff date closer by making extra payments.

Often, retirees want the peace of mind that comes with knowing they'll own their home when they retire. But that accelerated payoff plan

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mistakes people make is waiting until February or March to meet with their CPA or advisor to talk about taxes. By that time, the deadline to correct mistakes or take advantage of any potential savings opportunities may well have passed.

You need to have that meeting in November or December, thus taking a proactive approach to tax planning that better ensures you won't end up giving the IRS any more of your hard-earned money than you absolutely have to. And you should have this meeting every November or December, because tax laws and guidelines change from year to year — as does your own financial situation. A savings strategy that might not have been right for you last year (or for which you may not have qualified) may be a smart move that results in big savings this year. Also, with Trump's tax-reform proposal on the table, now would be a good time to speak with your advisor about what potential new opportunities may lie in store for you down the road!

Consider Estate Planning – If you haven't yet done so, schedule a meeting with your advisor to talk about estate planning. Even if you've done an otherwise great job with your finances, your assets could still be vulnerable if you ignore this important topic. Any number of unforeseen circumstances — from lawsuits to tax penalties to healthcare costs — can jeopardize your assets if you haven't taken the right steps to protect them legally. We coordinate on a regular basis with top estate-planning attorneys to help clients create estate plans that align with their financial strategies and goals. There are many benefits, including avoiding unnecessary legal costs and taxation, protecting yourself against possible Medicaid spend down, and most important, protecting loved ones from legal headaches, arguments, and difficult emotional decisions.

Examine Your Goals – As we often say, the best way to make sure you're on track to meet your retirement goals is to identify specifically what those goals are. Many of you have shared those goals with me as part of the financial planning process — which is as it should be. But goals can change, and sometimes they must be adjusted in response to new circumstances in our lives. By the same token, your financial strategy may periodically need to be adjusted to make sure it still aligns with your goals and is not jeopardizing them, which can happen.

In our experience, most people have "purpose-based" retirement goals, meaning they are saving and investing for a particular purpose, not merely to accumulate the maximum amount of wealth possible. That would be "performance-based" investing, and it's relatively rare. It seems most people simply want to have sufficient retirement income to be able to live comfortably, travel, and enjoy their favorite pastimes without worrying about running out of income or incurring any major financial losses. We feel income-based investing is the approach best suited for helping people achieve purpose-based goals.

Assess Your Risk – The reality is that everyone really wants the same thing from their investments: maximum return with zero risk. But it's important to ask: "Maximum return for what purpose?" as we already discussed in the "Examine Your Goals" section. It's also important to understand that no investment option is completely risk free. But it is possible to significantly reduce your risk without sacrificing returns, as income-based investors have proven since the turn of the century.

Since 2000, the stock market has risen by around 60% but has also experienced two major drops, from 2000 to 2003 and 2007 to 2009. Ultimately, buy-and-hold investors during that time achieved about a 3% average growth rate and an approximate 5% return with dividends factored in. By comparison, many income-based investors whose portfolios have been properly managed have achieved close to 5% income and greater than a 5% total return. Even better, during those two major drops, they've done it with far less risk of a major loss and without the continued risk of a third major stock market drop.

Now is a great time to assess your risk, because it's also a great time to reduce your risk based on the most basic investment logic: buy low, sell high. The markets are at record highs; and although they could climb slightly higher still, we believe there is also a good chance we could see that overdue third major market correction in the near future.

I'll talk more about this when I share my 2018 market forecast in the very near future. In the meantime, call our office soon to schedule an appointment to go over your year-end financial checklist so you can enjoy the holiday season with peace of mind!

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Debt

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might not be right for everyone. If you have a relatively lowinterest mortgage, no other debt, and are already maxing out your retirement savings, you may feel comfortable sticking with your standard repayment plan, especially if you can get more from investing the money you'd otherwise use to make extra mortgage payments.

One thing you shouldn't do: take money out of your retirement accounts to pay off credit card or mortgage debt. If you focus all your financial resources on paying off your loans, you run the risk of retiring with inadequate savings. Another potential misstep: prioritizing debt payoff over saving. While you don't want to be saddled with excessive debt, you also don't want to end up cash poor in retirement, without enough money to meet everyday expenses.

Debt in Retirement

Unfortunately, many people still end up nearing retirement holding a significant amount of debt. If that's your situation, you have several options. One is to delay retirement for a few years while you concentrate on paying off debt. Plus, if you continue to work, you're not tapping your nest egg and it can continue to grow. In addition, if you delay claiming Social Security, your monthly payment will increase by up to 8% a year until you reach age 70.

If you must enter retirement with debt, you may need to pare down your lifestyle — traveling less frequently, moving to a smaller home, or giving up your boat or RV — to reduce debt and minimize the risk of outliving your retirement savings.

You could also continue to work part-time or as a consultant. That can bring in extra income, and many people enjoy a more gradual transition to full retirement.

Finally, know that going into retirement with debt poses some other specific risks. While most creditors can't garnish your Social Security payments, the federal government is an exception.

If you owe back taxes, student loans, alimony, child support, or certain other types of payments, you may lose up to 15% of your Social Security benefits.

Interested in learning more about what you can do to retire debt before you retire? Please call if you'd like to discuss this in more detail.

How to Avoid Credit Card Dependence

As of the end of 2016, the total average household debt was over $132,000, which has significantly increased from 2002, when it was just over $88,000. Over the past 13 years, income has grown by 28%, while the cost of living has increased by 30% in that same time period (Source: *CNBC*, December 13, 2016).

The discrepancy between the cost of living and income has led Americans to rely more on credit cards. Approximately 70% of Americans have a least one credit card (Source: *creditcard.com*, October 25, 2016), with an average credit card balance of over $16,000. With the average credit card interest rate at 18.76%, the average household is paying almost $1,300 in interest each year (Source: *CNBC*, December 13, 2016).

Are You Credit Card Dependent?

Ask yourself these questions to evaluate your dependence on credit cards:

- Do you rely on credit cards to make it through until your next paycheck?
- Does it seem you always have to put unexpected expenses on your credit card?
- Do you think you spend more than you would with cash because your card has rewards or discounts?
- Do the holidays leave you with a mountain of credit card debt?

If you answered yes to these questions, you are probably relying too much on your credit cards. If you are concerned that you are too dependent on your credit cards, there are steps you can take to become credit card independent.

- Put your credit cards somewhere for safekeeping to reduce the temptation to use them as your regular form of payment.
- Become more disciplined with spending by enacting a cash-only policy. While many people use debit cards as a convenient way to pay cash; be careful, because many financial institutions will allow you to overdraft your account when you use a debit card and may charge a large fee for this overdraft privilege.
- Consolidate your balances to fewer cards that have the lowest interest rates and close the rest of your credit card accounts to reduce the amount of available credit and, thus, the potential amount of debt you could incur. While closing credit cards can have a negative impact on your credit score, it's still better to have a temporary credit score setback than to go deeper into debt if you can't control your spending. To reduce the impact to your score, you should also consider keeping your oldest credit card in addition to a lower interest-rate card.
- Shock yourself into reality by looking at a few important things on your credit card statement including: how much you are paying in interest on an annual basis, how long it will take to pay off the balance, and how much you will pay in interest if you are only making the minimum monthly payment. This information can be a real eye-opener.

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

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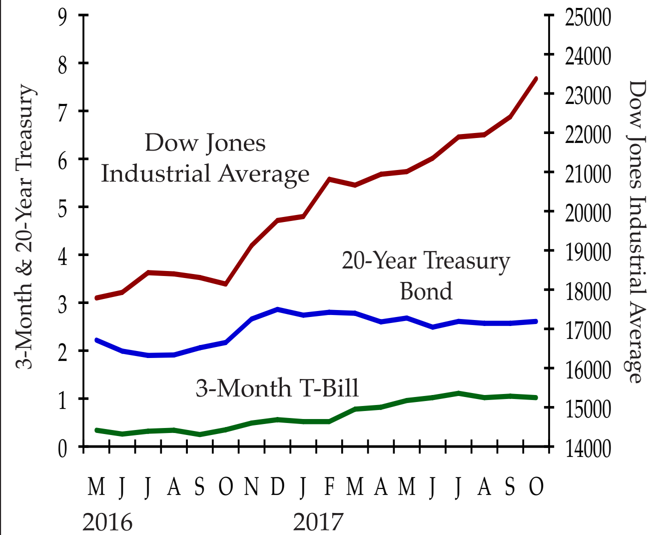
Business Data

Indicator	Aug-17	Sep-17	Oct-17	Dec-16	Oct-16
	Month-end				
Prime rate	4.25	4.25	4.25	3.75	3.50
3-month T-bill yield	1.02	1.05	1.02	0.56	0.35
10-year T-note yield	2.22	2.26	2.33	2.55	1.76
20-year T-bond yield	2.57	2.57	2.61	2.86	2.17
Dow Jones Corp.	2.95	2.97	3.08	3.17	2.76
GDP (adj. annual rate)#	+1.20	+3.10	+3.00	+2.10	+3.50

Indicator	Month-end			% Change	
	Aug-17	Sep-17	Oct-17	YTD	12-Mon.
Dow Jones Industrials	21948.10	22405.09	23377.24	18.3%	28.9%
Standard & Poor's 500	2471.65	2519.36	2575.26	15.0%	21.1%
Nasdaq Composite	6428.66	6495.96	6727.67	25.0%	29.6%
Gold	1311.75	1283.10	1270.15	9.6%	-0.1%
Unemployment rate@	4.30	4.40	4.20	-8.7%	-16.0%
Consumer price index@	244.80	245.50	246.80	2.2%	2.2%
Index of leading ind.@	128.30	128.80	128.60	3.7%	3.4%

— 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
May 2016 to October 2017



Set Your Own Debt Limits

Credit can be a valuable tool that allows you to purchase major items and pay for them over time. But the ready availability of credit also makes it easy to incur more debt than you can comfortably repay. Rather than allowing lenders to set credit limits for you, evaluate your financial situation and determine your own limits.

To find out where you stand with consumer debt, which includes all debt except your mortgage, make a list of your debts and monthly payments. Then calculate your debt-to-income ratio by dividing your monthly debt payments by your monthly net income. The general guideline is that your debt-to-income ratio should not exceed 10% to 15% of your net income, with 20% usually considered the absolute maximum. However, you should consider your own circumstances and decide how much debt you are comfortable with.

Before purchasing something on credit, carefully evaluate whether it makes financial sense to do so. Some questions to ask yourself include:

- Should I wait and save the money so I can pay cash for the item?
- Will the cost of the item increase or decrease in the future?
- Is it really worth paying interest on the item so I can use it now?
- Will I still be within my designated debt limits if I add this new debt payment?
- Will the item still have value after I finish paying for it?

Setting your own debt limit and carefully evaluating whether you should purchase an item on credit should help you keep your debt under control.

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