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THE ADVISOR

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Skeletons Are Piling Up in the World's Closet as Fall Arrives

The Summer that began with so much optimism is coming to an end. While Wall Street is still clinging to optimism, its grip may be severely tested this Fall. A host of issues have emerged that could impact all the financial markets just as we head into a season already known for market turmoil. Are you prepared?

You're most likely well aware of the issues. One, of course, is Covid-19. The reason Summer started with so much optimism is that coronavirus infection rates were falling, and the U.S. economy was fully reopening. However, as Summer wore on, new Covid-19 variants emerged, and infection rates began climbing again. The trend has only gotten worse, and in some areas of the U.S., hospitalization and infection numbers are now higher than they've been at any time during the pandemic.[1]

The situation is even more troubling when you consider that one variant — the lambda variant — may be vaccine-resistant and more deadly than the original virus.[2] If it becomes more widespread, could it lead to a de facto economic shutdown in which people are simply afraid to go out? It's a troubling question as we head into Fall, when fewer businesses will be able to offer outdoor service options in many parts of the country.

New Terrorist Fears

On top of that, we could see another threat worsen to the point where many Americans are afraid to go out: terrorism. Though it's heartbreaking to think about, the fact is that as the 20th anniversary of 9/11 approaches, the Taliban has reemerged as a threat to national security. We've already seen one terrorist attack kill American soldiers in Afghanistan. Will the situation worsen, and if so, will it shake up the markets as this issue usually does?

In addition to all this, we also have the delicate state of the economic recovery itself. So far this year, that has been the only issue to cause any real stock market volatility — specifically the threats of inflation and rising interest rates. However, even that volatility was fleeting, and ultimately all three major

Continued on page 2

Saving Based on Personal Goals

To effectively save money, you need to develop a financial plan based on what you want to achieve in your lifetime. The foundation of your financial plan is the personal goals you establish.

You will want to develop short-, intermediate-, and long-term goals. Each goal should also have a defined dollar amount and specified time frame for when you want to meet it.

Deciding on Your Goals

Examples of goals would include:

- Short-term goals could include saving for an emergency fund, a car down payment, small home improvements, buying furniture, or a vacation.
- Intermediate-term goals would include saving for a home or starting a business.
- Long-term goals typically include saving for a child's education, a vacation home, and retirement.

Once you've established your goals, you will then want to identify a dollar amount that you need to complete each goal. An annual vacation may be a $5,000 goal, while retirement may be more like a $1,000,000 goal.

What's Most Important

Now that you have your goals, their dollar amounts, and time frames, the next step is to decide the importance of each goal so you can structure your savings plan according to your priorities. For example, if your first priority is saving for retirement, you will want to put money away for this before anything else by

Continued on page 3

Skeletons Are Piling

Continued from page 1

market indexes have hit numerous new record highs this year. Will that trend continue, or will the Federal Reserve undo it by mistiming its next big move? If the Fed raises short-term rates or unwinds quantitative easing too early, that could send us back into a recession. If it waits too long, inflation could worsen. Either scenario could send the markets reeling — and it wouldn't be the first time that poor timing by the Fed triggered a correction.

No one knows for sure what will happen, but there are some important points to keep in mind. One is that for all the stubborn optimism of the stock market, the bond market tells a different story. After rising steadily early this year, the yield on the 10-Year Treasury rate leveled off this spring and has trended mostly downward ever since.[3] This suggests an increasingly high demand for bonds and the security they provide relative to stocks. In other words, the bond market has appeared much less optimistic than the stock market for most of the year, and it remains that way as we head into Fall.

The October Effect

Another important point is that, historically, fall is often seen as a challenging time for the financial markets. This perception is based largely on the October Effect, which is the idea that financial declines and market crashes occur in the 10th month of the year more than any other. The panic of 1907, the great crash of 1929, and 1987's Black Monday all happened in October. Even though Wall Street has enjoyed plenty of strong Octobers, the October Effect can still have an impact because the markets are so emotional. In other words, just the fear of an impending market drop can be what causes the drop.

This year it seems fitting that October is also the month of Halloween, and that one of the iconic symbols of Halloween is the skeleton. Between Covid-19, Afghanistan, inflation, and several other factors, we now have quite a few "skeletons" in the world's geopolitical closet, any one of which could suddenly fall out and shake up the financial markets in a major way. So, it's important to be able to answer that question from the first paragraph: are you prepared?

If you're not sure, here's the good news about Summer ending and Fall beginning: it's back-to school season. It's time to study and get serious again, and that means getting serious about your finances — especially if you've taken a break from thinking about them all Summer. That hasn't cost you anything because the markets have cooperated, but that situation could change quickly in the months ahead, and — as we've seen — there are plenty of catalysts to trigger that change. With that in mind, are you still comfortable with your allocation? Has your risk tolerance changed based on what's happening in the markets, the world, or with changes in your own life or to your goals?

These are just a few important questions to make sure you can answer as back-to-school season begins. If you're not sure of the answers, call our office to schedule a portfolio review. The sooner the better, because the last thing you want is to get caught flat-footed if one of these skeletons should tumble out of the closet and send the markets tumbling with it!

[1]"In Florida, the Pandemic is Worse Now Than it Has Ever Been Before," New York Times, Aug. 26, 2021

[1]"It's Time to Pay Close Attention to the Lambda Variant Now Devastating South America," Forbes. Aug. 10, 2021

[2]YCharts.com

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Effective Strategies to Increase Savings

Most people know that they should probably be saving more, but it often feels painful. Here are some relatively easy strategies that you can use to help increase your savings and reduce the savings pain:

Set savings goals. Start with specific goals with an attached dollar amount and a defined time period. Vague goals rarely get achieved because you can't track your progress. For example, instead of save for a vacation, a more specific goal would be, save $3,000 in an 18-month time frame for a trip to Mexico. Don't forget to think long term too. You'll want to develop specific goals for retirement, such as saving $1,000,000 for retirement by the time you reach 65 years old.

Save automatically. You know that old adage about paying yourself first? Well, an automatic savings plan can help you do just that. Before you spend a dime out of your paycheck, have a specific dollar amount automatically deducted and directed to a savings account, IRA, or 401(k) plan. This is the easiest way to develop a savings discipline.

Adjust withholding. Most people pay the majority of their taxes through payroll deductions. But if you consistently get a large tax refund, you should adjust your withholding exemption to better match your tax liability.

Use cash. Many studies have shown that people are likely to spend more if they use credit cards instead of cash. By using cash, you only spend what you actually have versus what is available to you on your credit cards. While it may be hard to determine how much you are saving, you will know for sure that you will not be paying interest on credit card balances.

Take full advantage of your 401(k) plan. If you have access to an employer-sponsored 401(k) plan, contribute as much as you possibly can, especially if your employer matches your contribution. Think of it this way. If you pay 30% of your income in federal and state taxes, for each $100 you contribute to your 401(k) plan, it is only costing you $70 due to tax deferral. If your employer matches your contributions at 50 cents on the dollar, you now have $150 in savings for your $70 contribution.

Look at insurance deductibles. Increasing your insurance deductibles on both your home and auto insurance can save you a significant amount of money on your premiums. If you have saved enough in your emergency fund to cover a $1,000 deductible versus $250 if you make a claim, you could be saving as much as 25% on your insurance premiums.

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

Personal Goals

Continued from page 1

having a percentage of your paycheck earmarked for a 401(k) plan, IRA, or Roth IRA. Only after this money comes out of your paycheck can you earmark other funds to meet other goals, such as saving for a new car or house.

Get Your Financial House in Order

Two of the most important short-term goals on your list should include creating a budget and specific line items in your budget for savings. Create your budget by identifying all of your monthly expenses and organize them on a spreadsheet or in an online budget tool. In addition to your monthly bills, you should also identify all your other expenses, such as dining out, movies, daily coffee, clothing, prescriptions — basically everything that you spend should be recorded on the budget. You will then be able to see how your expenses compare to your income.

Most financial experts say that your savings line items should be between 10% to 25% of your income and should include specific line items for both short- and long-term goals. If you find saving that much is not doable, you will need to take a long, hard look at your entire financial situation to identify non-essential expenses and ways to improve your savings.

A good first step is to identify the wants versus needs of your budget. What expenses can you reduce? What expenses can you eliminate all together? Think about all of those other expenses on your budget, such as meals out, morning coffee, and those expensive shoes. Also, look at your essential expenses to see what can be reduced. Do you really need a landline phone? Can you reduce the data package on your cell phone? Is there another cable package or provider that could save you money? You should also consider using cash or your debit card instead of a credit card, which will remove the temptation of overspending.

The next step is to look at all of your debt, including credit cards, student loans, car loans, mortgages, etc. You may want to make one of your short-term goals to eliminate or reduce the balances on your credit cards, since they carry higher interest rates if you are not paying them off on a monthly basis. Other debt, such as a mortgage or a student loan, has lower interest rates and can be paid down while you are saving and investing. All of the expenses you reduce or eliminate can now be put toward the savings portion of your budget.

Make It Automated

Almost all financial institutions offer automated transfers between your checking and savings accounts so you can set-up how much you want to transfer on a monthly basis. You can also set-up an automated savings deposit through your employer so the money is automatically deducted from you paycheck into your savings. Either way, the automation makes it easy and helps reduce the temptation to overspend.

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

5 Reasons to Start Saving

Saving money is a bit like exercising. We all know how important both are, but it can be hard to actually get into the habit of doing either. Here are five reasons to help keep you motivated.

1. You'll Be Prepared for Emergencies

Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small unexpected expenses, such as emergency room co-pays, minor car repairs, or a broken furnace. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises. Not only are you forced to take on debt, but you don't have time to shop around, making it more likely that you'll end up with an expensive, high-interest loan.

2. You'll Be More Independent

Having savings gives you more flexibility and independence. With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Plus, without savings, you're living on the financial edge, and you're more likely to find yourself stuck in situations that you may not be satisfied with. Committing to savings today, even if it's just a small amount, will start to give you the freedom to make different choices in your life.

3. You'll Be Able to Reach Your Goals

We all have goals. Whatever your dreams, they likely have one thing in common — you're probably going to need some money if you want them to become a reality. Few of those dreams are achievable if you don't save for them.

4. You'll Be Able to Earn More Money

Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving, rather than spending. And because of the power of compounding earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

5. You'll Be Happier

No one wants to suggest money is the only thing that can make us happy. But there's also evidence that *saving* money, even in small amounts, can make you happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to more unhappiness.

Convinced that saving for the future is the right thing to do? Please call to discuss how you can make regular saving part of your financial plan.

Business Data

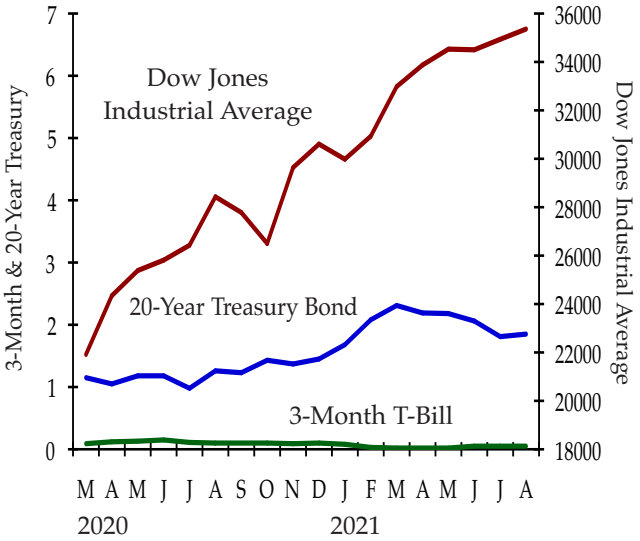
Indicator	Month-end Jun-21	Jul-21	Aug-21	Dec-20	Aug-20
Prime rate	3.25	3.25	3.25	3.25	3.25
3-month T-bill yield	0.05	0.05	0.05	0.10	0.10
10-year T-note yield	1.45	1.24	1.30	0.93	0.72
20-year T-bond yield	2.06	1.81	1.85	1.45	1.26
Dow Jones Corp.	2.29	2.14	2.25	1.93	2.22
GDP (adj. annual rate)#	+4.30	+6.30	+6.60	+4.30	-31.20

Indicator	Month-end Jun-21	Jul-21	Aug-21	% Change YTD	12 Mon.
Dow Jones Industrials	34502.51	34935.47	35360.73	15.5%	24.4%
Standard & Poor's 500	4297.50	4395.26	4522.68	20.4%	29.2%
Nasdaq Composite	14503.95	14672.68	15259.24	18.4%	29.6%
Gold	1763.15	1825.75	1814.85	-3.9%	-7.9%
Unemployment rate@	5.80	5.90	5.40	-19.4%	-47.1%
Consumer price index@	269.20	271.70	273.00	4.9%	5.4%

— 4th, 1st, 2nd quarter @ — May, Jun, Jul 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

March 2020 to August 2021



Time: Friend or Foe?

The sooner you start saving, the less you have to put away each month to accumulate the needed funds for retirement. For example, say as a 25-year-old you open an IRA and save $100 a month ($1,200 per year). The IRA earns an average of 6% a year. After 40 years — when you're 65 and ready to retire — your account balance could grow to over $185,000.

But let's say that, instead, you put off saving until you were 45. At the same rate of saving in an IRA with the same returns, by the time you're 65, your IRA balance would be just about $44,000. Starting when you're 45, you'd have to contribute $420 a month to save about $185,000. At least that would be less painful than if you waited until you were 55. Then, to match the end result, you'd have to save $1,175 per month. *(These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

One way that people often try to compensate for getting a late start in saving is to shoot for a higher rate of return. Instead of settling for the 6% a year we used in the example above, why not go for 10%? But there are two problems with that strategy. The first is that stocks don't always provide consistent returns.

Second, to earn higher rates of return, you have to take on more risk. Whenever you absorb a big one-year loss, it takes a higher-than-normal rate of return in following years to break even.

Everyone knows that time is money. Not everyone realizes that time spent not saving can have a significant cost, and that there are only so many ways to make up for it. It's never too late to increase how much you save, but if you feel like you're not where you should be on the road to retirement, the sooner you start putting more money aside — and investing it wisely — the better. Please call if you'd like to discuss this in more detail.

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