Life Income Management™

Creating income for life.

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FINANCIAL OUTLOOK

DECEMBER 2022

REDUCING DEBT — WHERE TO START

If you find that you have accumulated too much debt — whether your monthly debt payments have become overwhelming or you'd simply like to clear some of your liabilities — there are various ways to tackle the issue. Here are a few suggestions to get you started.

UNDERSTAND YOUR EXPENSES. You didn't get into debt overnight. First, there was the student loan payment. Then the new car. Then the house. Then the credit card debt, and pretty soon, it all became overwhelming. The first step in reducing debt is to get a handle on it all.

Produce a list of all your expenditures: mortgage, cell phone bill, medical expenses/prescriptions, car loans, dining out, etc. Then categorize them into fixed expenditures (i.e., mortgage and car loans); items that are necessary but not fixed (phone bill, fuel, etc.); and items that are highly variable (clothes, dining out, etc.).

CREATE A BUDGET. After coming to a solid understanding of your expenditures, prepare your monthly budget. Include all of the expenditures you just calculated — everything from that $5 cup of coffee that starts your day to the dry cleaning bill to your monthly car payment. Then make a list of all your debt obligations and the interest you're charged for each.

Create a line item in your monthly budget for debt payoff. This number needs to be above the minimum payments on your credit card statements. If you only pay the minimum amount due on credit card bills, you'll barely cover the interest you owe; it will take years to pay off your balance and, potentially, you'll end up spending thousands of dollars more than the original amount you charged.

Once you determine the maximum amount you can pay off each month, pay down the debt with the highest interest rate first — that usually means your credit card balances. Once the debt with the highest rate is wiped out, put your money toward paying the debt with the next-highest rate, and so on. (One exception: if you have a credit card with a low teaser rate set to spike after a fixed amount of time, try to eliminate the balance before the low rate expires.)

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10 COMMON INVESTOR MISTAKES

The reason that investors often err was well-known even before the new science of investment psychology was born: we're only human, and something happens deep within us when we're handling our own money. When it's our own, it's the vehicle for realizing our dreams, and every decision we could make looms larger than life.

Here, then, are 10 of the most common mistakes that individual investors make:

- **FALLING IN LOVE WITH A STOCK.** There are a host of reasons for this, among them that we or a relative worked for the company, we inherited it, we like being associated with the company's prestige, or simply that it's been a steady performer for a long time. The problem is, however, that the stock won't fall in love with us and won't think twice about losing half or more of its value.
- **CATCHING A FALLING KNIFE.** When a high-flying stock goes bad, it drops fast and hard. But when this happens, there are thousands of

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Reducing Debt

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If you have debt besides your home, don't be over-ambitious in paying off your mortgage. Mortgages tend to have lower interest rates than other debt, and you can deduct the interest you pay on the first $750,000 of a primary-home mortgage loan.

Lower your expenses. After you've created your budget, think about how you can dedicate more money to debt payoff. Cut down on the items in your variable spending category and put the extra money toward your debt payments.

For many people, reining in discretionary spending for a few months goes a long way toward tackling debt. But if that's not enough, move toward reducing your fixed expenses: think about lowering your household bills, refinancing your mortgage to get a lower interest rate, or asking the credit card company to lower your interest rate.

Increase your income. Consider whether there's any way to boost your take-home pay. It can't hurt to ask for that well-deserved raise or to post for an open position within (or outside of) your company. If you get a big tax refund every year, that means you're having too much withheld from your paycheck. If that's the case, you can reduce your withholding by changing your W-4 at work.

What not to do. It may be convenient to borrow against your home equity or your 401(k) to pay off debt, but that can be dangerous. It puts your home at risk and means that you may fall short of your retirement goals. Even if you can't manage your monthly debt payments, lenders are often willing to work with you to create a repayment plan that you can manage (without putting your home or your retirement at risk).

Finally, the best debt-reduction move is to ask for help. Please call if you'd like to discuss this topic in more detail. ❍❍❍

Debt and Your Retirement

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

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.

Reducing Debt before Retirement

If at all possible, you'll want to eliminate your 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 and make extra debt payments. If you have a car loan and are close to retirement, consider selling the car after you quit working.

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. But that accelerated payoff plan might not be right for everyone. If you have a relatively low-interest mortgage, no other debt, and are already maxing out your retirement savings, you may feel comfortable sticking with your standard repayment plan.

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.

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. 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 to reduce debt and minimize the risk of outliving your retirement savings. You could also continue to work part-time. That can bring in extra income, and many people enjoy a more gradual transition to retirement.

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. ❍❍❍

Investor Mistakes

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investors who think it's a steal and buy shares when they see it bounce. What they often learn is that they caught the stock in mid-fall and, like a knife passing right through the palms of their hands, the stock price has a lot farther to fall before finally coming to rest.

❍ **Investing on tips.** The problem with tips is that the average investor hears them after just about everyone else already has. As a result, we buy the stock at its highest price.

❍ **Chasing performance.** For many people, stocks only become attractive after they've gone so high and so long that they've reached the end of their run. This is also called rear-view mirror investing, meaning you're more concerned with where the stock has been than where it's going.

❍ **Failing to diversify.** The best way to get rich in the stock market is to put all your money into one stock. But it only works if the stock keeps going up. If it goes in the opposite direction, this is also the best way to become poor. It's smartest to spread out your risk as well as your chances of success, not only among more than one stock, but in more than one industry, sector, country, and asset class.

❍ **Thinking only short term.** This is actually the opposite of investing. It's speculating. The danger is that, just like changing lanes too many times in a traffic jam, you're just as likely to fall behind where you might have been had you just stayed where you were.

❍ **Playing penny stocks.** Inflation hit true penny stocks years ago. The strict definition is stocks priced less than $5 a share, that have daily trading volume of less than 100,000 shares. Usually, the companies have net tangible assets of only a few million dollars and a short operating history. The odds of hitting it big with these are about the same as winning the lottery, if not worse. Owned mostly by individual investors and the founders of the company, penny stocks are notoriously volatile and risky.

❍ **Waiting to break even.** It's been said that more money has been lost by investors waiting to recoup their initial investment than for any other reason. Successful investors know when it's time to cut their losses and look for a better opportunity.

❍ **Being too conservative.** This syndrome is the opposite of most of the previous mistakes. In this case, investors are so afraid of losing money that they fail to put enough funds in growth vehicles to stay ahead of inflation. As a result, the buying power of their portfolio declines year by year, courting the risk they'll have a lower standard of living the older they get.

❍ **Investing without a plan.** This is another way of saying all of the above. Sound financial plans match your income, resources, and risk tolerance with an investment strategy that provides the discipline that can take emotions out of the equation. Please call if you'd like help developing an investment strategy. ❍❍❍

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, your life expectancy, rate of return, and inflation rate 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.

Please call if you'd like help deciding how much to drawdown from your retirement assets. ❍❍❍

FINANCIAL DATA

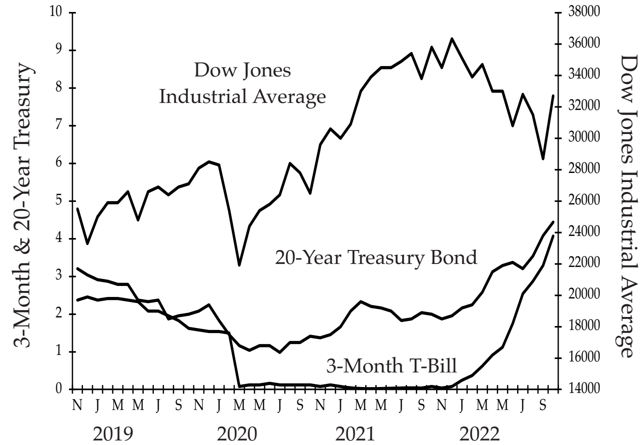
Indicator	Aug-22	Sep-22	Oct-22	Dec-21	Oct-21
	Month-end				
Prime rate	5.50	6.25	6.25	3.25	3.25
Money market rate	0.15	0.20	0.24	0.07	0.07
3-month T-bill yield	2.88	3.27	4.07	0.08	0.06
10-year T-bond yield	3.15	3.83	4.10	1.52	1.55
20-year T-bond yield	3.53	4.08	4.44	1.94	1.98
Dow Jones Corp.	4.76	5.76	5.93	2.48	2.37
30-year fixed mortgage	6.03	6.92	7.16	2.63	2.60
GDP (adj. annual rate)#	-1.60	-0.60	+2.60	+6.90	+2.30

Indicator	Month-end Aug-22	Month-end Sep-22	Month-end Oct-22	% Change YTD	% Change 12 Mon
Dow Jones Industrials	31510.43	28725.51	32732.95	-9.9%	-8.6%
Standard & Poor's 500	3955.00	3585.62	3871.98	-18.8%	-15.9%
Nasdaq Composite	11816.20	10575.62	10988.15	-29.8%	-29.1%
Gold	1715.90	1671.75	1639.00	-9.2%	-7.4%
Consumer price index@	296.28	296.17	296.81	6.8%	8.2%
Unemployment rate@	3.50	3.70	3.50	-16.7%	-27.1%

— 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep Sources: *Barron's, Wall Street Journal*

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

November 2018 to October 2022



Past performance is not a guarantee of future results.

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. For those that are able to do this, significant financial gains can be accomplished quickly. They often can repay their mortgage within five to 10 years, finish saving for their children's education long before they graduate high school, max out their retirement fund, buy large items with cash, and still have money left over for unexpected expenses. If this sounds like something you'd like to try, 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. You can first live on the higher of the two incomes while you are adjusting to the new budget, and then later you can transition to living on the lower 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. Once you start earning more income, you can put all of it directly into your savings.

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 more on utilities and house maintenance. 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.

Please call if you'd like to discuss other strategies to increase your savings. ❍❍❍ FR2022-0713-0057