Life Income Management™
Creating income for life.

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Financial Outlook

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A 3-Step Asset Allocation Plan

Perhaps the most important move you can make for your investments is to properly diversify your portfolio. By investing in a mix of stocks, bonds, and cash, you can help manage the risk of a significant loss.

How you combine your diverse mix of investments is called your asset allocation. Asset allocation is a highly individual determination that's based on your risk tolerance, financial goals, and age. Asset allocation will spread out your investments among a mix of three types:

- **Stocks** — Stocks tend to be the riskiest investment. However, while they have the highest potential for loss, they also offer the greatest potential for gain.
- **Bonds** — Bonds tend to be less risky than stocks but more risky than cash equivalents.
- **Cash** — Cash equivalents, such as savings accounts, certificates of deposit, and money market accounts, typically offer the lowest risk and the lowest potential returns.

The benefits of allocating your assets across the three types of investments include:

- Proper asset allocation diversifies your portfolio among the three types of investments, reducing your risk.
- Allocating your assets among the three types allows you to tailor your portfolio to your specific goals.
- You can help manage the level of risk and volatility of your returns.

Considerations

To properly allocate investments across stocks, bonds, and cash, consider this three-step approach to asset allocation:

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Watch Out for Portfolio Mistakes

Investing is a gradual process — purchasing some investments and selling others as the years go by. After a period of years, this can result in a mixture of investments that don't fit your overall strategy. Thus, periodically review your portfolio, watching out for these mistakes:

- **You don't use an asset allocation strategy.** Many investors select individual investments over the years, not considering their portfolio's overall makeup. Add up all your investments and calculate what portion is invested in each category. The basic categories are stocks, bonds, and cash, but each also has many subcategories. Since subcategories can have very different risk levels, review those as well. Assess your current allocation and determine whether it fits your personal situation.
- **You have too many investments that are not adding diversification to your portfolio.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments to their portfolio that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor. Keep in mind that diversification does not ensure a profit or protect against loss in a declining market.
- **Your portfolio's return is lower than benchmark returns.**

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A 3-Step Asset

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Step 1: Be honest about your level of risk tolerance.

Some people think that investing in a relatively unknown start-up company with a great idea is a sound investment, while others prefer to stick with stable companies with household names. In other words, people's risk tolerance varies.

If you don't mind the more dramatic ups and downs associated with higher-risk investments, you may see higher return potential. But if you can't stand the thought of putting your hard-earned money in an untested company, you're probably better off sticking with relatively low risk allocations, even though you may see more modest returns.

Step 2: Write down your financial goals.

What are the purposes of your investments? Are you saving to buy your first home? Planning to send your children to college? Looking to retire early? Whatever your financial goals, knowing them will help you determine how to allocate your assets to help you meet them.

Step 3: Consider your time horizon for meeting those goals.

How much time do you have before you need your money for your goals? Is retirement a long-term goal, with 30 years to go? Or is it a short-term goal, with only five years to go? If you're just starting a career, do you have short-term goals, like buying a house, as well as intermediate-term goals, like sending your children to college?

There's no consensus on exactly how much of your portfolio should be in any of the three investment categories at any time. However, broadly speaking, the farther away in time you are from your financial goals, the more aggressively you can be invested.

If your financial goal is retirement, for example, and you're just starting out, you'll want to have a higher percentage of your assets invested in stocks and the lowest percentage in cash. As you near retirement, though, you'll want to reallocate your assets more conservatively, so that a larger percentage is in bonds and cash than in stocks.

Please call so we can help you allocate your assets given your unique situation. ❍❍❍

Don't Touch Your 401(k) Plan

You have three options to keep your 401(k) funds in a tax-deferred vehicle until retirement:

❍ **Leave the funds in your former employer's 401(k) plan.** Generally, you can leave the funds in your former employer's plan if your balance is at least $5,000. However, most plans will not allow you to borrow from your account once you leave the company.

❍ **Transfer your funds to your new employer's plan.** Find out if your new employer's plan accepts rollovers. If so, you can typically make the rollover even before you are eligible to make contributions. However, first check out the investment options to make sure the new plan has options that will fit your investment goals. Once the funds are in your new employer's plan, you'll be able to take loans if permitted by the plan. Also, if you work past the age of 73, you won't be required to take distributions from the 401(k) plan until you retire. If you decide to transfer the funds to your new employer's plan, get the appropriate paperwork from your new employer so the funds can be transferred directly to the new plan's trustee. Otherwise, if the funds go directly to you, your former employer will be required to withhold 20% for taxes. You must then replace the 20% with your own funds within 60 days or the 20% withholding will be considered a distribution, subject to income taxes and the 10% federal income tax penalty.

❍ **Roll the funds over to a traditional IRA.** Again, you should have your former employer transfer the funds directly to the IRA trustee to avoid the 20% withholding described above. Once the funds are rolled over to an IRA, you can invest in a wide variety of investment alternatives. With a 401(k) plan, you typically have a limited number of options. If you plan on leaving part of your 401(k) balance to your heirs, an IRA usually has more flexible options than a 401(k) plan. After the funds are transferred to a traditional IRA, you can then convert the balance to a Roth IRA. ❍❍❍

Watch Out

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While everyone likes to think their portfolio is beating the market averages, many investors simply aren't sure. Review the return of each component of your portfolio, comparing it to a relevant benchmark. While you may not want to sell an investment that has underperformed for a year or two, at least monitor closely any investments that significantly underperform their benchmarks. Next, calculate your portfolio's overall rate of return and compare it to a relevant benchmark. Also be sure to compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

❍ **You trade too frequently without adequate research.** With so many choices and so much information, it's tempting to trade often based simply on other people's recommendations. Yet, besides the tax and costs associated with trades, frequent traders often underperform those who trade less frequently. Instead, purchase investments you are willing to hold for the long term.

❍ **You don't consider income taxes when investing.** Using strategies that defer income taxes for as long as possible can make a substantial difference in your portfolio's ultimate size. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently in your tax-deferred accounts. ❍❍❍

Assessing Your Risk Tolerance

You need to assess how much risk you are willing to take to obtain potentially higher returns. What you are trying to assess is your emotional tolerance for risk, or how much price volatility you are comfortable with. Some questions that can help you gauge this include:

❍ **What long-term annual rate of return do you expect to earn on your investments?** Your answer will help determine the types of investments you need to choose to meet that target. Review historical rates of return as well as variations in those returns over a long time.

❍ **What length of time are you investing for?** Some investments such as stocks should only be purchased for long time horizons. Using them for short-term purposes may increase the risk in your portfolio.

❍ **How long are you willing to sustain a loss before selling?** The market volatility of the past several years will give you some indication of how comfortable you are holding investments with losses.

❍ **What types of investments do you own now and how comfortable are you with those investments?** Make sure you understand the basics of any investments you own, including the historical rate of return, the largest one-year loss, and the risks the investment is subject to. If you don't understand an investment or are not comfortable owning it, you may be tempted to sell at an inopportune time.

❍ **Have you reassessed your financial goals recently?** Periodically, your financial plan may need to be revamped. Otherwise, you may find you won't have sufficient resources in the future to meet your goals. You may need to save more, change or eliminate some goals, or delay your retirement date.

❍ **Do you understand ways to reduce the risk in your portfolio?** While all investments are subject to risk, there are some risk management strategies:

Diversify your portfolio. You should diversify among several different investment categories, including cash, bonds, and stocks, as well as within investment categories, such as owning several types of stocks.

Stay in the market through different market cycles. Remaining in the market over the long term helps to reduce the risk of receiving a lower return than expected.

Use dollar cost averaging to invest. Rather than accumulating cash so you have a large sum to invest, invest small amounts regularly. Dollar cost averaging is a method of investing a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time, keeping you from making one major purchase at high prices. Since you are investing a set amount, you purchase more shares when prices are lower and fewer shares when prices are higher. While a valuable investment strategy, dollar cost averaging does not ensure a profit or protect against losses in declining markets. Before starting a program, consider your ability to continue purchases during periods of low price levels. This strategy requires the discipline to invest consistently, regardless of market prices, and can help develop a habit of regular investing. ❍❍❍

Dollar cost averaging may help reduce per share cost through continuous investment in securities regardless of fluctuating prices and does not guarantee profitability nor can it protect from loss in a declining market. The investor should consider his/her ability to continue investing through periods of low price levels.

FINANCIAL DATA

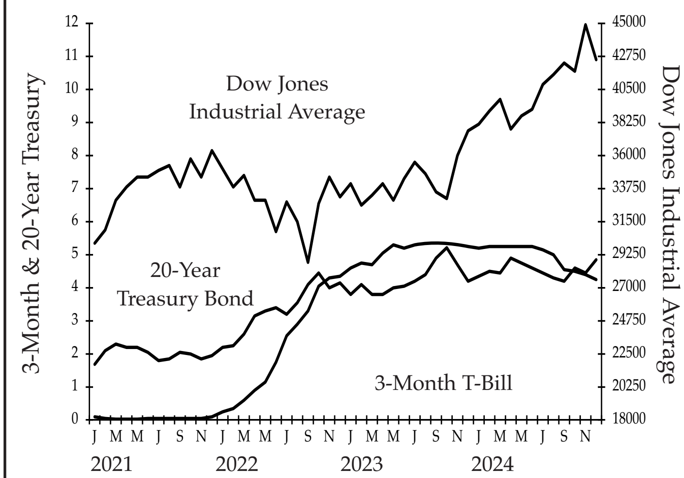
Indicator	Oct-24	Nov-24	Dec-24	Dec-23	Dec-22
	Month-end				
Prime rate	8.00	7.75	7.50	8.50	7.50
Money market rate	0.43	0.43	0.42	0.48	0.33
3-month T-bill yield	4.49	4.42	4.23	5.26	4.35
10-year T-bond yield	4.28	4.18	4.58	3.88	3.88
20-year T-bond yield	4.58	4.45	4.86	4.20	4.14
Dow Jones Corp.	5.22	5.23	5.45	5.17	5.54
30-year fixed mortgage	7.32	7.24	7.33	7.09	6.80
GDP (adj. annual rate)#	+1.60	+3.00	+3.10	+3.40	+2.60

Indicator	Oct-24	Nov-24	Dec-24	2024	2023
	Month-end			% Change	
Dow Jones Industrials	41763.46	44910.65	42544.22	12.9%	13.7%
Standard & Poor's 500	5705.45	6032.38	5881.63	23.3%	24.2%
Nasdaq Composite	18095.15	19218.17	19310.79	28.6%	43.7%
Gold	2734.15	2640.85	2616.45	26.5%	14.1%
Consumer price index@	315.30	315.66	315.49	2.7%	3.1%
Unemployment rate@	4.10	4.10	4.20	13.5%	0.0%

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

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

JANUARY 2021 TO DECEMBER 2024



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

DO YOU REALLY NEED 70%?

A general retirement planning rule of thumb indicates you'll need 70% to 80% of your preretirement income. Many estimates now indicate that amount may be too little for those who want to live an active retirement lifestyle. Consider these tips:

- **PAY OFF YOUR MORTGAGE.** Mortgage payments often consume 30% or more of an individual's gross income. Eliminating this expense can drastically reduce income needed for retirement.
- **GET RID OF OTHER DEBTS.** It's not unusual for consumer debt payments to equal 10% to 20% of an individual's take home pay. Try to enter retirement debt free.
- **KEEP YOUR AUTOMOBILE.** Instead of purchasing a new car every couple of years, keep your current car for as long as it's in good working order.
- **LOOK FOR WAYS TO REDUCE TRAVEL AND LEISURE EXPENSES.** Look for and use senior discounts.
- **CONSIDER RELOCATING.** You may be able to reduce your living expenses substantially by moving to another locale. Also consider whether you want to move away from family, friends, and familiar surroundings.
- **WORK AT LEAST PART TIME.** If you still don't have sufficient funds to support yourself during retirement, consider working at least part time. Even a small amount of annual earnings can help significantly in funding your retirement. ❍❍❍

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