Life Income Management™

Creating income for life.

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FINANCIAL OUTLOOK

MAY 2023

GET THESE DECISIONS RIGHT

The sheer number of financial decisions required to manage our finances can seem overwhelming. But often we spend an inordinate amount of time on small stuff — getting the bills paid on time, reconciling bank accounts, and calling to have a late charge waived. While those things need to get done, how do we judge whether we're on the right course? There are six basic financial decisions that can determine the course of your financial life:

1. HOW YOU EARN A LIVING. Sure, we all want to enjoy our work. But within that parameter, why not choose a job that will pay more than another? Investigate your options:

❍ Are you sure you're being paid a competitive wage with competitive benefits? Pay attention to what is going on in your field.

❍ Do you have an interest or hobby that can be turned into a paying job? This could be a good way to supplement your current salary.

❍ Can you get some additional training to help secure a promotion or qualify for another job? If you don't enjoy your current job, you have even more incentive to implement these suggestions.

2. HOW YOU SPEND YOUR INCOME. The amount of money left over for saving is a direct result of your lifestyle choices, so learn to live within your means. To get a grip on spending, consider these tips:

❍ Analyze your spending for a

CONTINUED ON PAGE 2

TAKE TIME TO REASSESS

Periodically, you should reassess your portfolio, finding ways to increase your comfort level with your stock investments. Consider the following tips:

❍ **DEVELOP A STOCK INVESTMENT PHILOSOPHY.** Approach investing with a formal plan so you can make informed decisions with confidence and know you have carefully considered your options before investing.

❍ **REMIND YOURSELF WHY YOU ARE INVESTING IN STOCKS.** Write down your reasons for investing in each individual stock, indicating the long-term returns and short-term losses you expect. When market volatility makes you nervous, review your written reasons for investing as you did. That reminder should help keep you focused on the long term.

❍ **MONITOR YOUR STOCK INVESTMENTS SO YOU UNDERSTAND THE FUNDAMENTALS OF THOSE STOCKS.** If you believe you have invested in a company with good long-term prospects, you are more likely to hold the stock during volatile periods.

❍ **REVIEW YOUR CURRENT ASSET ALLOCATION.** Revisit your asset allocation strategy and compare your current allocation to your desired allocation. Now may be a good time to rebalance your portfolio, reallocating some of those stock investments to other alternatives.

❍ **DETERMINE HOW RISKY YOUR STOCKS ARE COMPARED TO THE OVERALL MARKET.** You can do this by reviewing betas for your individual stocks and calculating a beta for your entire stock portfolio. Beta, which can be found in a number of published services, is a statistical measure of how stock market movements have historically impacted a stock's price. By comparing the movements of the Standard & Poor's 500 (S&P 500)

CONTINUED ON PAGE 3

FR2022-1212-0035

Decisions Right

Continued from page 1

month. In which categories do you spend more than you expected? Are you wasting money on impulse purchases? Give serious thought to your purchasing patterns, trying to find ways to reduce spending.

- ❍ One of your most significant spending decisions will be your home. Many people purchase the largest home they can afford, often straining their budget. Purchasing a smaller home will reduce your mortgage payment as well as other costs associated with owning a home.
- ❍ Prepare a budget to guide your spending. Few people enjoy setting or sticking to a budget, but inefficient and wasted expenditures can be major impediments to accomplishing your financial goals. A budget gives you a roadmap for spending your income. Start by setting a budget for a couple of months, tracking your expenses closely over that time. You can then fine-tune your budget for an annual period.

3. How much you save. You should be saving a minimum of 10% of your gross income. But don't just rely on that rule of thumb. Calculate how much you need to meet your financial goals and how much you should be saving on an annual basis. If you can't seem to save that much, go back to your spending analysis and make cuts to your spending. First, look for ways to reduce your spending by lowering the cost of your purchases. Perhaps you can refinance your mortgage, find insurance for a lower premium, or use strategies to reduce taxes. At some point, however, you may need to cut your discretionary spending, such as entertainment, dining out, clothing, and travel.

4. How you invest. The ultimate size of your portfolio is a function of two factors — how much you save and how much you earn on those savings. Even small differences in return can significantly impact your investment portfolio. Typically, investments with potentially higher rates of return have more volatility than investments with lower rates of return. While you don't want to take on excessive risk, you also don't want to leave all your savings in investments with little growth potential. Your portfolio should contain a diversified mix of investment categories, based on your return expectations, risk tolerance, and time horizon for investing.

5. How you manage debt. Before you take on debt, consider the effect it will have on your long-term goals. If you are already having trouble finding money to save, additional debt will make it even more difficult. To keep your debt in check, consider these tips:

- ❍ Mortgage debt is typically considered acceptable as long as you can easily afford the home.
- ❍ Be careful about taking equity out of your home in the form of a home-equity loan. You might want to set up a home-equity line of credit for emergency use, but make sure it is only used for emergencies. It may also make sense to use a home-equity loan to pay off higher interest rate consumer loans, but then don't run those balances up again.
- ❍ Never purchase items on credit that decrease in value, such as clothing, vacations, food, and entertainment. If you can't pay cash, don't buy them.
- ❍ If you must incur debt, borrow wisely. Make as large a down payment as you can. Consider a shorter loan period, even though your payment will be higher. Since interest rates can vary widely, compare loan terms with several lenders. Review all your debt periodically to see if less expensive options are available.

6. How you prepare for financial emergencies. Making arrangements to handle financial emergencies will help prevent them from adversely affecting your financial goals. Make sure to have:

- ❍ An emergency fund covering several months of living expenses. Besides cash, that fund can include readily accessible investments or a line of credit.
- ❍ Insurance to cover unexpected catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability, and personal liability.
- ❍ A power of attorney so someone can step in and take over your finances if you become incapacitated.

Making the correct choices for these six basic financial decisions will help put you on the right financial course. If you'd like help with these decisions, please call. ❍❍❍

Take Time

Continued from page 1

to the movements of a particular stock, a pattern develops that gauges the stock's exposure to stock market risk. Calculating a beta for your entire portfolio will give you a rough idea of how your stocks are likely to perform in a market decline or rally. If your stock portfolio is riskier than you realized, you can take steps to reduce that risk by reallocating.

❍ **Keep the tax aspects of selling in mind.** While you may be tempted to lock in some of your gains, you may have to pay taxes on those gains if the stocks aren't held in tax-advantaged accounts. You'll have to pay at least 15% capital gains taxes (0% if you are in the 10% or 12% tax bracket) on any stocks held over one year. If your gains are substantial, it may take longer to overcome the tax bill than to overcome a downturn in the market.

❍ **Consider selling stocks if you have short-term cash needs.** If you are counting on your stock investments for short-term cash needs, such as to supplement your retirement income in the next couple of years or to pay for your child's college education, look for an appropriate time to sell some stock. With short-term needs, you may not have time to wait for your stocks to rebound from a market decline.

❍ **Don't time the market.** During periods of market volatility, investors can get nervous and consider timing the market, which typically translates into exiting the market in fear of losses. Remember that most people, including professionals, have difficulty timing the market with any degree of accuracy. Significant market gains can occur in a matter of days, making it risky to be out of the market for any length of time.

❍ **Remember you are investing for the long term.** Even though short-term setbacks can give even the most experienced investors anxiety, remember that staying in the market for the long term, through different market cycles, can help manage the effects of market fluctuations.

Please call if you'd like help implementing strategies that may make you more comfortable with your stock holdings. ❍❍❍

Risk Tolerance and Retirement

Risk is always going to be a factor in the stock market. It's one of the things that first attracts many people to trading — the chance to see large gains over time. As we age, however, risk becomes an even more important factor no responsible investor can afford to overlook. To gain a better understanding of how we're affected by risk when building a retirement portfolio, it's important to learn about risk tolerance and what it means for you as an investor.

Risk tolerance essentially refers to an investor's ability — both emotionally and financially — to deal with major upswings and downswings in the market. This refers not just to highly volatile stocks, but to stocks themselves, which tend to be riskier than most other forms of investment. If a person is said to have high risk tolerance, he or she likely tends not to worry so much about the potential risk of certain stocks or having a large amount of stocks in their portfolio.

Those with low risk tolerance are on the other end of the spectrum, often too cautious to deal with volatile stocks or the market in general.

While plenty of factors must be taken into consideration when considering your own risk tolerance (including personality traits), age is one that can be seen as an important anchor to help risk-takers avoid getting in over their heads. This is especially true of those who are working towards building an effective retirement plan. When people are young, it makes more sense to take risks with investments than when they reach retirement age.

The important thing to recognize here is that risk tolerance *must* shift with age to avoid making costly mistakes at a time when it may be potentially too late to recover.

It may seem as if adjusting risk tolerance is challenging, and for some people it certainly can be. That being said, often it simply means taking a realistic approach to your investments. If you're nearing 60, for example, it's generally considered unwise for your portfolio to be comprised of 70% stocks — the number should be closer to 40%. Many successful investors find that moving away from stocks towards bonds is an effective later-in-life strategy, which again will require you to adjust your risk tolerance.

Once you have a general percentage figured out, take a moment to determine how many stocks will actually make up that portion of your portfolio. This can vary significantly in terms of personal preference, but often 10 stocks are mentioned as a reasonable number to hold in your portfolio. Keeping your stock investments to 10 or less allows you to pay closer attention to what's actually happening with your investments.

The best way to get a better sense of what a realistic risk tolerance for you to have at this point in life is to work closely with your financial planner. Please call if you'd like to discuss this in more detail. ❍❍❍

Financial Data

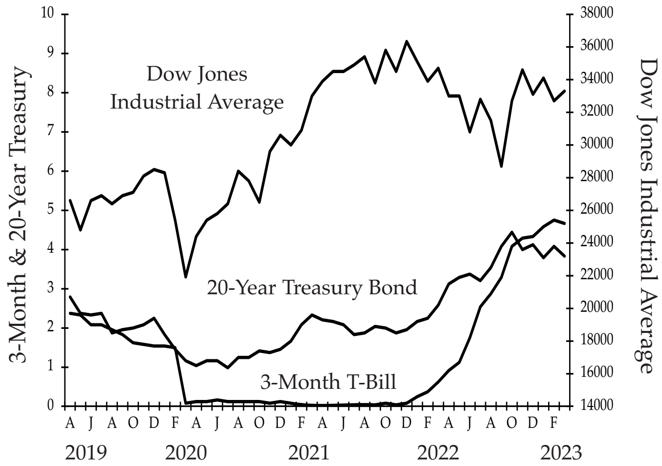
Indicator	Month-end Jan-23	Feb-23	Mar-23	Dec-22	Mar-22
Prime rate	7.50	7.75	8.00	7.50	3.50
Money market rate	0.35	0.47	0.48	0.33	0.07
3-month T-bill yield	4.60	4.75	4.68	4.35	0.61
10-year T-bond yield	3.52	3.92	3.48	3.88	2.32
20-year T-bond yield	3.78	4.10	3.81	4.14	2.59
Dow Jones Corp.	5.09	5.65	5.36	5.54	3.72
30-year fixed mortgage	6.51	7.07	6.93	6.80	4.06
GDP (adj. annual rate)#	-0.60	+3.20	+2.60	+2.70	+6.90

Indicator	Month-end Jan-23	Feb-23	Mar-23	% Change YTD	12-Mon.
Dow Jones Industrials	34086.04	32656.70	33274.15	0.4%	-4.0%
Standard & Poor's 500	4076.60	3970.15	4109.31	7.0%	-9.3%
Nasdaq Composite	11584.55	11455.54	12221.91	17.0%	-14.1%
Gold	1923.90	1824.60	1979.70	9.2%	1.9%
Consumer price index@	296.80	299.17	300.84	1.1%	6.0%
Unemployment rate@	3.50	3.40	3.60	-2.7%	-5.3%

— 2nd, 3rd, 4th quarter @ — Dec, Jan, Feb Sources: *Barron's, Wall Street Journal*

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

April 2019 to March 2023



Past performance is not a guarantee of future results.

News and Announcements

Watching Your Stocks

Here are five things to review as you monitor your stocks' performances:

❍ **Earnings** — Pay attention to the company's quarterly and annual earnings statements. Review the stock's earnings trend and how the company performs compared to analysts' estimates.

❍ **Price and dividends** — Follow the stock's price compared to its 52-week highs and lows. Examine its trailing total returns year to date and over the last one-, three-, five-, and 10-year periods.

❍ **P/E and PEG ratios** — Price to earnings (P/E) and price/earnings growth (PEG) ratios are often better indicators than the stock price as to how relatively expensive or cheap a stock is. The P/E ratio is useful for comparing the stock to other stocks and to the market, while the PEG ratio is a strong indicator of whether the stock is overpriced or underpriced compared to its projected earnings growth.

❍ **Insider transactions and stock buybacks** — A company buying back its own stock or whose senior executives and directors are accumulating more shares is a bullish sign. On the other hand, when insiders are selling major holdings of their own stock, it's quite often an indication of a stock price peak.

❍ **Sudden and large price changes on high volume** — When a stock makes a sudden and high-volume move, it can be the start of a new, long-term trend.

For help monitoring your stocks' performances, please call. ❍❍❍ FR2022-1212-0035