

Life Income Management™

Creating income for life.

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FINANCIAL OUTLOOK

SEPTEMBER 2023

COMING TO TERMS WITH STOCKS

With all of the volatility in the stock market over the past few years, it can be difficult to determine how to devise an investment strategy to help reach your financial goals. To help you determine a reasonable rate of return to expect on your stock investments, it might be instructive to review some facts about the stock market:

○ THE STOCK MARKET'S HISTORICAL RETURN CAN CHANGE DRAMATICALLY DEPENDING ON THE PERIOD CONSIDERED. For instance, from 1926 to 2022, the Standard & Poor's 500 (S&P 500) had an average annual return of 10.1%. From 1998 to 2022 (25 years), the average return was 7.7% and 12.4% from 2013 to 2022 (10 years).*

○ THE MARKET TENDS TO REVERT TO THE MEAN. There is a tendency for the stock market to revert back to the average return when it has an extended period of above- or below-average returns.

○ HISTORY MAY NOT BE A GOOD PREDICTOR OF FUTURE RETURNS. The expected rate of return for your investment program is typically based on an analysis of past returns, since no one can predict future returns. However, realize those returns may not be replicated in the future. During much of the stock market's history, the United States was in a substantial growth phase as it evolved from a struggling nation to a superpower. Growth in the future may not approach those levels.

○ THE PATTERN OF ACTUAL RETURNS AFFECTS YOUR INVESTMENT BALANCE. Even if you get the average rate of return exactly right, your portfolio's balance will depend on the pattern of actual returns during that period. Some years will experience higher-than-average returns, while other years will have lower or even negative returns. If you experience high returns in the early years, your

SAVING AND LIFE PLANNING

Knowing when and how to save for different periods of your life can seem a daunting task. And after all, everyone is different, so how can one plan or system really apply across the board? The truth is that while everyone should have a savings plan customized to their own circumstances, there are some benchmarks and guidelines that are good to follow to meet financial goals.

WHEN YOU'RE IN YOUR TWENTIES

This is the time in which you'll be making the least amount of income, but will have fewer expenses as far as dependents go.

Your priorities should focus on creating a safety net to avoid taking on potentially crippling debt in case of dire need and jump-starting your re-

irement savings so it has as much time to grow as possible.

You should focus on building an emergency fund equal to three to six months of living expenses that is readily available if needed. This means it should be liquid, in short-term savings vehicles like a bank account.

Begin putting money into a 401(k) plan or individual retirement account (IRA). Even if you can only contribute small sums, the long-term effects of compounding will work in your favor down the road.

Additionally, it is a good idea to start saving for a down payment on a house. Housing prices and interest rates will only continue to rise.

So if you believe you will be in the same place for at least the next 2-5

CONTINUED ON PAGE 3

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COMING TO TERMS

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portfolio's value will be lower than if those returns occurred in the later years. If you encounter negative returns in the early years, you will have a higher balance than if those negative returns came in the later years.

- **HISTORICAL RETURNS DO NOT INCLUDE SEVERAL FACTORS THAT INVESTORS MUST DEAL WITH.** Two of the most significant factors are inflation and taxes, which can significantly impact the value of your portfolio.
- **INVESTORS HAVE A DIFFICULT TIME EARNING HISTORICAL RETURNS.** Several studies have found that investors' returns tend to lag the overall market, since investors have a tendency to buy high and sell low.

What does all this mean to an investor? When designing an investment program, use a conservative estimated rate of return, since it may be difficult to earn the historical returns of the past. It's easier to start with a lower expected rate of return and find out later that your actual return is higher, which means you just need to save less. However, if you use a higher estimated rate of return than you actually earn, it may be difficult to increase your savings to make up for that difference. Consider these strategies when designing your investment program:

- **TAKE A FRESH LOOK AT YOUR FINANCIAL GOALS.** Reevaluate your goals, how much you need to reach them, and how much you should be saving annually based on lower expected returns.
- **SAVE MORE OF YOUR INCOME.** If you can't count on returns to provide growth in your portfolio, you should compensate by saving more of your income. That may mean you'll need to work overtime or take on a second job to provide additional income. Another strategy is to reduce your living expenses

ENCOURAGE ESTATE PLANNING

Parenting is a never-ending job. Even when your children are grown, there will probably be lessons you'll want to teach them, such as the need for estate planning. Some items to include in that lesson are:

- **EXPLAIN WHY ESTATE PLANNING IS IMPORTANT.** Your role is not to dictate what they should do with their estate, just to emphasize the need for estate planning. When your children encounter major life events, such as marriage, divorce, or a child's birth, remind them to review their estate plans.
- **MAKE SURE ALL IMPORTANT ESTATE-PLANNING DOCUMENTS ARE**

IN PLACE. At a minimum, every adult should have a will, a durable power of attorney, and a health care proxy. A durable power of attorney designates an individual to control financial affairs if one becomes incapacitated, while a health care proxy delegates health care decisions to a third person when one is unable to make those decisions.

- **COORDINATE ESTATE PLANNING ACROSS GENERATIONS.** If you have a substantial estate, you may want to coordinate your estate planning efforts with those of your children. A coordinated effort can help minimize estate taxes. ○○○

and save the reductions.

- **INVEST IN A TAX-EFFICIENT MANNER.** Taxes are often a significant investment expense, so using strategies to defer the payment of taxes can make a substantial difference in your portfolio's ultimate size. Utilize tax-deferred investment vehicles, such as 401(k) plans and individual retirement accounts. Or emphasize investments generating capital gains or dividend income rather than ordinary income. Minimize turnover in your portfolio so unrealized gains can grow for many years.
- **ADEQUATELY DIVERSIFY YOUR INVESTMENT PORTFOLIO.** Typically, you do not know which asset class will perform best on a year-to-year basis. Diversification is a de

fensive strategy — it may help reduce your portfolio's volatility. Diversify your investment portfolio among a variety of investment categories such as stocks, bonds, cash, and other alternatives. Also diversify within investment categories.

- **EVALUATE YOUR PORTFOLIO'S PERFORMANCE ANNUALLY.** If returns are lower than you targeted, you can make adjustments to your strategy in the coming year to compensate for these variations in return.

Please call if you'd like to review your investment program. ○○○

* Source: dqydj.com. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future returns.



SAVING AND LIFE

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years and your area's housing market can bring a mortgage payment in at or under your current rent payment, you may as well begin to build some equity in home ownership.

WHEN YOU'RE IN YOUR THIRTIES AND FORTIES

Priorities in this stage of life begin to diverge a bit more. If you have children, it is important to begin saving for their educations. Tax-advantaged 529 college savings plans¹ are not very flexible, but they score high marks when it comes to state and federal tax breaks, high contribution limits, and age-based options. An Education Savings Account (ESA) has lower contribution limits, fewer state tax breaks, and no real age-based options.

Although it ultimately depends on which state you live in, a 529 college savings plan is a good way to combat the rising tuition costs you and your children will face in the future.

WHEN YOU'RE IN YOUR FIFTIES

This is usually the peak of your earning years and when many parents have started weaning their children off full financial support.

This means that retirement contributions should be the largest yet, and federal limits on annual contributions have a higher ceiling to accommodate this greater amount of saving.

In 2023, the limit for IRA contributions for those under 50 is \$6,500, but those 50 and older can contribute up to \$7,500. The limit for 401(k) plans is even more generous, with under-50-year olds able to contribute up to \$22,500 while older individuals do not reach their ceiling until \$30,000.

If you are in your fifties and you're worried that you have only saved half of what you'll need by 65, you are not alone. This high-earning, high-contributing time is when many people make up the difference and still retire with a well-funded account.

WHEN YOU'RE IN YOUR SIXTIES/GETTING CLOSE TO RETIREMENT

At this time, you should still be contributing more than ever to your

4 REASONS FOR GOAL-FOCUSED INVESTING

The fact is, investing isn't just about making your money work for you. It's about making your money work for you for a particular purpose. In other words, you need a goal. Here are four specific reasons why a goal-focused approach to investing is important.

BECAUSE IT PUTS YOU IN CONTROL — When you first start investing, it's easy to get overwhelmed. You may feel like you have little control over what happens to your money. But if you take a goal-focused approach to investing, you're not just watching the value of your portfolio rise and fall based on the whims of the market. You (along with your advisor) are making specific decisions designed to help you reach specific goals. If something's not working, change the plan.

BECAUSE IT WILL BE EASIER TO SAVE — Saving money just to save money is no fun for most people. Having concrete goals can turn saving from an abstract concept into a concrete step towards a certain aim — like being able to retire one day, take a trip around the world, or send your grandchildren to college. And studies have shown that the better you are at setting goals, the more you're likely to save.

BECAUSE YOU'LL BE LESS FOCUSED ON HOW OTHERS ARE DOING — A little competition is healthy,

but when it comes to investing, it can get risky. If your father-in-law is bragging about the great return he got on his investments, it can be tempting to drop your plan and copy his moves. If you're investing toward a goal with a clear plan, you'll be able to congratulate your relative on his success while staying focused on your own needs. After all, if you were flying from New York to London, you probably wouldn't suddenly take a side trip to visit Buenos Aires. But that's exactly what you're doing if you get distracted by other people's investing moves.

BECAUSE IT WILL HELP YOU WEATHER THE UPS AND DOWNS OF THE MARKET — The market goes up and the market goes down. Just like a roller coaster, these peaks and dips can make your stomach do flip flops, especially when your life savings is on the line. But having a goal-focused approach can help you cope with those ups and downs. If you know you won't need your money for another 30 years, you can handle some volatility today. But if you're going to need your money in the next couple of years, you can select less volatile investments, so that the day-to-day movements of the market won't stress you out. Knowing your specific goals will help you choose the right investments.

If you need help setting your own investing goals, please call. ○○○

accounts and acquiring assets for your retirement. With less than five years left before you retire, consider changing your portfolio in favor of more lower-risk investments.

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

¹ A 529 plan is a college savings plan that allows individuals to save for college on a tax-advantaged basis. Every state offers at least one 529 plan. Before buying a 529 plan, you should inquire about the particular plan and its fees and expenses. You should also consider that certain

states offer tax benefits and fee savings to in-state residents. Whether a state tax deduction and/or application fee savings are available depends on your state of residence. For tax advice, consult your tax professional. Non-qualifying distribution earnings prior to 2024 are taxable and subject to a 10% tax penalty. Beginning in 2024, unused 529 plan funds may be rolled into a Roth IRA assuming the following conditions are met: 1) must have owned the 529 plan for 15 years, 2) can only convert funds that have been in the 529 plan for at least 5 years, 3) rollover amount cannot exceed \$35,000 and 4) rollovers must be made to a beneficiaries Roth IRA.

FINANCIAL DATA

| Indicator | Month-end | | | | |
|-------------------------|-----------|--------|--------|--------|--------|
| | May-23 | Jun-23 | Jul-23 | Dec-22 | Jul-22 |
| Prime rate | 8.25 | 8.25 | 8.50 | 7.50 | 5.50 |
| Money market rate | 0.53 | 0.54 | 0.56 | 0.33 | 0.13 |
| 3-month T-bill yield | 5.30 | 5.18 | 5.28 | 4.35 | 2.52 |
| 10-year T-bond yield | 3.64 | 3.81 | 3.97 | 3.88 | 2.67 |
| 20-year T-bond yield | 4.01 | 4.06 | 4.22 | 4.14 | 3.20 |
| Dow Jones Corp. | 5.60 | 5.54 | 5.54 | 5.54 | 4.51 |
| 30-year fixed mortgage | 7.24 | 7.24 | 7.38 | 6.80 | 5.43 |
| GDP (adj. annual rate)# | +2.60 | +2.00 | +2.40 | +2.60 | -0.60 |

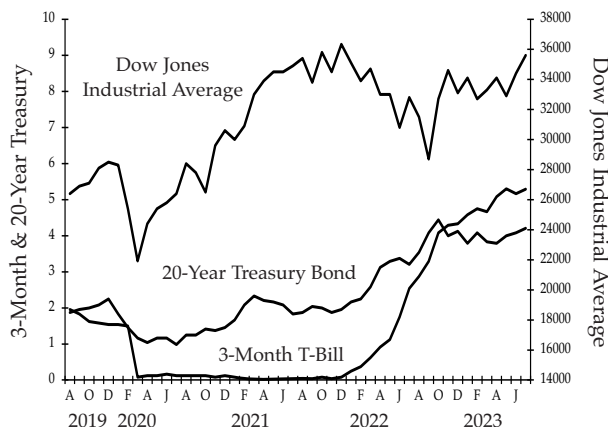
| Indicator | Month-end | | | % Change | |
|-----------------------|-----------|----------|----------|----------|---------|
| | May-23 | Jun-23 | Jul-23 | YTD | 12-Mon. |
| Dow Jones Industrials | 32908.27 | 34407.60 | 35559.53 | 7.3% | 8.3% |
| Standard & Poor's 500 | 4179.83 | 4450.38 | 4588.96 | 19.5% | 11.1% |
| Nasdaq Composite | 12935.29 | 13787.92 | 14346.02 | 37.3% | 15.8% |
| Gold | 1964.40 | 1912.25 | 1970.65 | 8.7% | 12.4% |
| Consumer price index@ | 303.36 | 304.13 | 305.11 | 2.5% | 3.0% |
| Unemployment rate@ | 3.40 | 3.70 | 3.60 | -2.7% | 0.0% |

— 4th, 1st, 2nd quarter @ — Apr, May, Jun Sources: Barron's, Wall Street Journal

Past performance is not a guarantee of future results.

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

AUGUST 2019 TO JULY 2023



NEWS AND ANNOUNCEMENTS

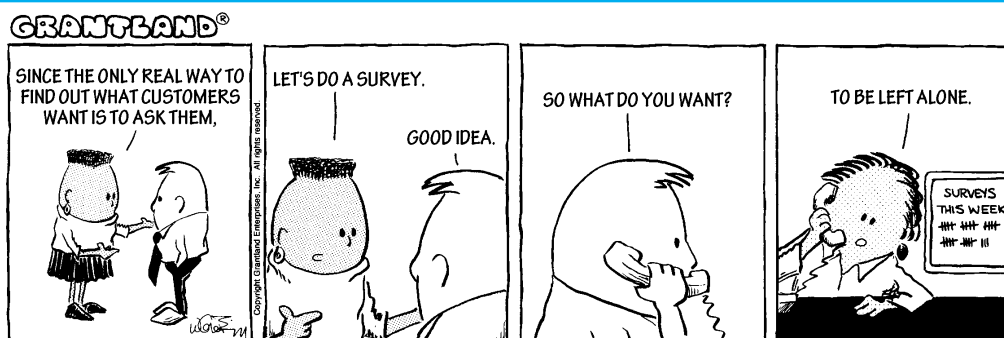
PAY YOURSELF FIRST

The advice sounds simple enough — to force yourself to save regularly, treat those savings as a bill to yourself and pay that bill first every month. But when you're faced with a stack of bills that includes your mortgage payment, your car lease, and groceries to feed the kids, you're likely to skip paying yourself for at least another month. To start paying yourself first, consider the following:

- **REDUCE SPENDING, DIVERTING THOSE REDUCTIONS TO SAVINGS.** One way to accomplish this is to cut back on your spending, perhaps reducing your discretionary expenditures. But for many people, this feels too much like sacrifice. Another alternative is to find ways to spend less for the same items, or find ways to reduce your borrowing costs. Just make sure any reductions in your costs go directly to your savings.

- **SAVE ALL UNEXPECTED INCOME.** Immediately save any money from tax refunds, bonuses, cash gifts, and inheritances. Before you get used to any salary increases, put that raise into savings.
- **MAKE SAVING AUTOMATIC.** Resolve to immediately set up an investment account that automatically deducts money from your bank account every month. Start out with small amounts that aren't even noticeable and as you get used to saving, increase the amount periodically. Another good alternative is to sign up for your company's 401(k) plan. (Keep in mind that any automatic investing plan, such as dollar cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investment, consider your financial ability and willingness to continue purchases through periods of low price levels.). ○○○

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Neither Asset Allocation nor Diversification guarantee a profit or protect against a loss in a declining market. They are methods used to help manage investment risk.

Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 actively traded "blue chip" stocks, primarily industrials, but includes financials and other service-oriented companies. The components, which change from time to time, represent between 15% and 20% of the market value of NYSE stocks. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Nasdaq Composite Index is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks. The index includes all Nasdaq listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debentures.

The Consumer Price Index (CPI) is a measure of inflation compiled by the US Bureau of Labor Studies