TRAPHAGEN
CPAs & WEALTH ADVISORS

234 Kinderkamack Road
Oradell, NJ 07649
201.262.1040 • www.tfgllc.com

front from left: Eric, Tiera, Alex, Marissa, David, Kate
back from left: Kathy, Jeff, Peter Jr., Peter Sr., Eric M., Emily, Chris

The Wealth Advisor

SPRING 2022

5 Steps to Create an Investment Plan

Like anything in life, having a plan for your investments will help you reach your investment goals. Below are five steps for crafting your plan.

1. Determine Your Goal

Every good investment plan begins with a clear goal in mind. Ask yourself: "Why am I investing? What do I hope to do with the money I save and earn?" For example, you might invest to:

- ❍ Fund a child's college education
- ❍ Retire comfortably
- ❍ Buy a house
- ❍ Start a new business
- ❍ Leave a charitable bequest to a favorite cause
- ❍ Pay for a wedding

Write down your investment goals. Make them as specific as possible. Think about the kind of lifestyle you want in retirement, the cost of your dream vacation home, the cash you'll need to start your business, or the cost of tuition where your children might go to college. Write down a realistic estimate of how much you think you'll need. Making these estimates can be challenging, but it's an essential investment planning step. After all, if you don't know where you're going, you'll never get there.

2. Decide on Your Time Frame

After you outline your goals, you need to establish your time frame for investing. Typically, your goals will fall into one of three categories:

- ❍ **Short-term:** Short-term goals are those you expect to achieve in five years or less.
- ❍ **Mid-term:** Mid-term goals are those you expect to achieve in five to 10 years.
- ❍ **Long-term:** Long-term goals are those you expect to achieve in more than 10 years.

Your investing time frame has a direct relation to the investments you'll choose. Generally, the shorter your time horizon, the less risk you want to take. If you will need your money in three years to pay for your daughter's college education, then putting all your money in riskier investments is probably not wise, as the chances of losing money are greater. Instead, less risky investments, like bonds, will likely make up a larger portion of your portfolio. But if you're investing for the long haul (say, for a

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Reassess Your Retirement Plans

Approximately five years before you plan to retire, thoroughly reassess your retirement plans and ensure that all significant financial pieces are in place. Once you retire, you probably won't have the option of going back to your former job. So consider these points first:

- ❍ **Take a serious look at your retirement plans.** You're close enough to retirement that you should have a good feel for your expenses and expected income. While you may be anxious to retire, remain flexible about your retirement date. Working an additional year or two can add substantially to your savings and may boost your retirement benefits.
- ❍ **Get a fix on your Social Security and pension benefits.** Make sure you know exactly how much you can expect from Social

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5 Steps

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retirement that's 30 years away), you can invest in higher risk investments, since you'll have more time to recover from a loss.

3. Evaluate Your Tolerance for Risk

All investments come with risk — the chance you could lose your money. But riskier investments also come with the possibility of greater return. As an investor, you must decide how much risk you're willing to accept. Your personal risk tolerance is closely related to your goals and your time frame, as well as your experience with investing and your feelings about the possibility of losing money.

4. Decide How Much You Want to Invest

Once you've considered your time horizon, goals, and risk tolerance, you can consider how much money you want to invest. You should keep a portion of your savings in a stable, easily accessible account to use for emergencies and other immediate needs.

Once you have the funds for your initial investment, you need to decide how much you want to invest on an ongoing basis. This number will be determined by your budget, your investment goals, and your time frame. For smaller, short-term goals, determining ongoing investment amounts is fairly easy. If you want to buy a home in five years, you might open an account with $2,000 you've already saved, and then invest $400 a month for the next five years.

Deciding how much to invest for longer-term goals can be more challenging. When saving for retirement, you need to consider how much yearly income you'll need, your anticipated investment returns, when you want to retire, how long you expect to live, the impact of inflation, and the money you'll receive from other sources, like Social Security. It can be a complicated equation, which is why many people turn to a financial advisor for help running the numbers.

5. Choose Your Investments

Given the thousands of possible options, choosing investments can be overwhelming. But completing the first four investment planning steps should help you make those decisions. Again, your goals, risk tolerance, and time frame will point you in the right direction, such as toward target-date funds designed for retirees or college savers, or a money market fund for short-term goals. But if you're baffled by all the options, it's always a good idea to seek a second opinion. Please call if you'd like help with your investment plan. ❍❍❍

Asset Correlation

Asset correlation is the measure of how assets move in correlation to one another. Highly correlated assets move in the same direction at the same time, while negatively correlated assets move in the opposite direction from one another — one moves up as the other moves down.

The theory of asset correlation is that you can reduce risk and increase returns by investing in asset combinations that are not correlated. The basic rule has been that equities go up when economies do better, and bonds do better when economies go down. Their low correlation to one another is why this has been effective over the years.

Having a mix of bonds and stocks in portfolios has always been a basic investing concept, but today's market is not as predictable, and the way they move is changing. Bond markets have become more highly correlated to equities.

This change in correlation has become a new risk factor that investors need to consider with their asset allocation. It's not just about the percentage of bonds in your portfolio anymore, but the type of bonds as well. The new thinking is that you have to plan your whole investment strategy around volatility because of the change in bond behavior.

Diversification Is Still the Key

With correlations increasing among equity classes, investors need to be diligent about their portfolio strategies to ensure sufficient diversification. You may want to do some research on your portfolio to see how your asset correlation has shifted over time, so that you can focus your rebalancing efforts on these fluctuations.

The bottom line is that traditional asset allocation has to be done in a smarter way to reduce the risk and increase the returns of your portfolio. Please call if you'd like to discuss asset correlation in more detail. ❍❍❍

Reassess

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Security and defined-benefit plans. How much will your benefits increase if you delay retirement by one year, five years, etc.? If you retire before full retirement age for Social Security purposes, do you plan on working? Be aware that for those under full retirement age for Social Security purposes, earnings over $19,560 in 2022 will cause you to lose $1 of benefits for every $2 of earnings over this threshold. Make sure you understand your distribution options for any defined-benefit plans. In most cases, those decisions are irrevocable, so you'll want to take some time to assess those options.

❍ **Determine how much income your retirement investments will generate.** As a general rule of thumb, you can multiply your retirement investments by 4% to get an idea of how much you can withdraw annually. You can go through a more detailed analysis, reviewing a wide range of variables, for a more precise answer. However, the younger you retire, the more conservative your withdrawals should be, since your funds will have to last for a longer time period.

❍ **Investigate work options.** If you plan to work at least part time during retirement, have you decided what you'll do and how much it'll pay? Make sure you investigate your options, including asking your current employer about part-time opportunities after retirement.

❍ **Finalize living arrangements.** Determine whether you want to stay in your current home or move to another one, either in the same city or a different location. At this point, you should be able to determine whether you'll have a mortgage and how much equity you'll have in your home. While most retirees continue to live in their current home, explore whether it makes sense to downsize, freeing up home equity for investments or retirement income.

❍ **Deal with health insurance and long-term-care costs.** Two of the most significant costs in retirement are medical care and long-term care. Make sure you have plans to deal with both. If you are retiring at age 65 or later, you'll be eligible for Medicare, although a spouse under age 65 will not be eligible. You will probably need supplemental coverage with Medicare. If you are retiring before age 65, make sure you know exactly how much coverage will cost you, especially if it is not provided by your employer. Now is also a good time to take a look at long-term-care insurance, since premiums get significantly more expensive as you age.

❍ **Live with your retirement budget for a couple of years.** Want to really make sure your retirement budget is reasonable? Try living with your retirement budget for a couple of years before retirement. If you can do so without increasing your debt, you can be reasonably confident that your budget will work during retirement.

Please call if you'd like help assessing your retirement plans before you actually retire. ❍❍❍

A Budget for Your College Student

Many students will first handle money without parental supervision during college. To help keep expenses down and avoid conflicts, you might want to develop a budget to guide your child's spending. As you go through the process, consider the following:

❍ First consider all potential expenses, including food, travel, clothing, entertainment, phone, periodicals, computer expenses, medical and dental expenses, and insurance.

❍ Develop a preliminary budget for the first couple months of college. You may find that you forgot about certain items. After your child has lived on his/her own for a couple months, you can develop a more realistic budget.

❍ If your child has trouble sticking with the budget or can't account for large sums, have him/her keep a journal for a couple of weeks that details all expenditures. Go over the journal together to determine how expenses can be reduced.

❍ Consider providing your child with a debit card rather than a credit card. Since your child's spending will be limited to the amount on deposit, it is harder to overspend.

❍ Explain the basics of credit cards. Make sure your child doesn't use a credit card as a means to overspend. Go over which types of items your child can use the credit card for and which items should not be charged. Make sure your child understands that if the balance isn't paid in full each month, a significant amount of interest will be paid on the outstanding balance. If you teach your child nothing else, try to instill the concept of paying credit card balances in full every month.

❍ Have your child provide you with a written monthly comparison of his/her actual expenses to budgeted amounts.

While the entire process might seem like a lot of work, keep in mind that you are teaching your child money basics that will help him/her for a lifetime. ❍❍❍

Financial Data

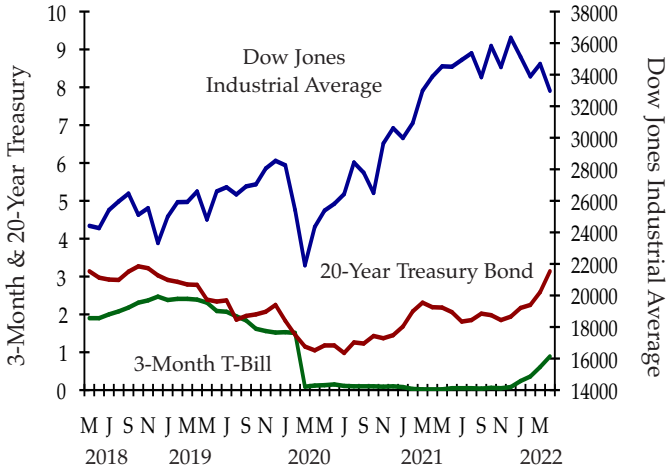
Indicator	Month-end Feb-22	Mar-22	Apr-22	Dec-21	Apr-21
Prime rate	3.25	3.50	3.50	3.25	3.25
Money market rate	0.07	0.07	0.08	0.07	0.08
3-month T-bill yield	0.36	0.61	0.89	0.08	0.02
10-year T-bond yield	1.83	2.32	2.89	1.52	1.65
20-year T-bond yield	2.25	2.59	3.14	1.94	2.19
Dow Jones Corp.	3.31	3.72	4.33	2.48	2.37
30-year fixed mortgage	3.51	4.06	4.67	2.63	2.41
GDP (adj. annual rate)#	+2.30	+6.90	-1.40	+6.90	+6.30

Indicator	Month-end Feb-22	Mar-22	Apr-22	% Change YTD	12 Mon
Dow Jones Industrials	33892.60	34678.35	32977.21	-9.2%	-2.6%
Standard & Poor's 500	4373.94	4530.41	4131.93	-13.3%	-1.2%
Nasdaq Composite	13751.40	14220.52	12334.64	-21.2%	-11.7%
Gold	1909.85	1942.15	1911.30	5.9%	8.1%
Consumer price index@	281.15	283.72	287.50	3.4%	8.5%
Unemployment rate@	4.00	3.80	3.60	-14.3%	-40.0%

— 3rd, 4th, 1st quarter @ — Jan, Feb, Mar Sources: *Barron's, Wall Street Journal*

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

May 2018 to April 2022



Past performance is not a guarantee of future results.

News and Announcements

Staggered Retirements

Often, spouses don't retire at the same time. Frequently, one spouse may retire before the other due to health problems or a layoff, not necessarily because the spouse chooses to retire early. Keep these points in mind if you are in that situation:

- ❍ **Try to minimize withdrawals from retirement accounts.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working. It's a good opportunity to test your retirement budget.
- ❍ **Utilize all available benefits from the working spouse's employer.** One of the most significant retirement expenses is health insurance. So, find out if the retiring spouse is eligible for health insurance benefits through the working spouse's employer. If he/she is not currently on that plan, find out how he/she can enroll.
- ❍ **Delay Social Security benefits.** For a significant number of married couples, the man is older, has higher earnings, and will not live as long as the woman. Because the surviving spouse can elect to receive 100% of the other spouse's benefit, it typically makes sense for the man to wait until age 70 to claim Social Security benefits, to provide his wife with the highest possible benefit after his death. On the other hand, there is usually no reason for the woman to wait beyond ages 62 to 66 to start Social Security benefits, provided she can claim benefits on her own earnings record. While the wife's benefit may be lower when her husband is alive, she will receive his higher benefit after his death.
- ❍ **Consider all defined-benefit plan payment options.** If you are lucky enough to be covered by a traditional pension plan at work, make sure to consider all the payment options carefully before selecting one. Typically, you will have numerous options, but your choice will be irrevocable. ❍❍❍

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