TRAPHAGEN
CPAs & WEALTH ADVISORS

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

front from left: Will, Kathy, David, Jennifer, Noah, Isabel
middle from left: Tiera, Nabila, Adrian, Eric, Dean, Kate
back from left: Chris, Eric M., Peter Sr., Peter Jr., Jeff, Alex

THE WEALTH ADVISOR

FALL 2025

Objectives Drive Strategy

No matter the activity you're engaging in, your strategy has to be driven by your end goals — what you want to achieve. In investing, of course, there are myriad objectives — short-term objectives like a trip to Hawaii, medium-term objectives like sending the kids to college, and long-term objectives like a comfortable retirement. Here, we'll take three objectives that are very different, but also very common among investors. We'll show how, based on these different objectives, your investment strategy must change.

Objective: Retire comfortably in 25+ years

If you're young and your primary investment objective is retirement, then your primary strategy should be to take full advantage of the power of compounding. Compounding means you are earning returns on both your principal investment *and* accumulated interest. It's what allows your money to work for you — to really grow over time.

But taking full advantage of the power of compounding requires that you start investing early, you stay invested for the long term, and you maximize the returns your investments generate. In other words, it requires that you invest in the stock market.

And remember, while the stock market has experienced some dramatic swings in the last century, the returns over time have been quite robust. When Jeremy Siegel, a professor of finance at Wharton, analyzed stock market returns over the 200 years ending in 2001, he found that stocks were very volatile, but only in the short term. The longer the term, the greater the return and lower the risk stocks posed. Over every 30-year period, stocks always made money. Why? Because the longer term gives stocks sufficient time to recover from downturns.

Objective: Retire comfortably in 5-10 years

While stocks always made

Continued on page 2

Watch Out for Estimating Mistakes

When determining how much to save by retirement age, several variables must be considered, some requiring estimates that will span decades. Err significantly on those estimates and you can end up with little or no money left during the later years of your life. Three of the most significant estimating mistakes to watch out for are:

❍ **Underestimating how much income you'll need in retirement.** The entire point of your retirement savings is to ensure you have sufficient income to spend your retirement how you like, so make sure you have a good estimate of how much that will cost. Various rules of thumb indicate you'll need anywhere from 70% to over 100% of your preretirement income. At first glance, it seems like you'll need less than 100%, because work-related expenses, lunches out, professional clothes, and commuting costs will be gone. But look carefully at your current expenses and how you plan to spend your retirement years before deciding how much you'll need. If you pay off your mortgage, remain in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, you might need less than 100% of your preretirement in-

Continued on page 3

FR2025-0512-0023

Objectives

Continued from page 1

money over any 30-year period, over shorter time periods, returns were more volatile. No one knows that better than investors who were close to retirement when the financial system imploded in 2008. According to research by the Employee Benefits Research Institute, "many 401(k) participants near retirement had exceptionally high exposure to equities: Nearly 1 in 4 between ages 56-65 had more than 90% of their account balances in equities at year-end 2007, and more than 2 in 5 had more than 70%." Those investors suffered outsize losses as the stock market declined.

So as you get closer to retirement, it's important to move into less risky investments — in other words, fewer stocks, more bonds and cash equivalents. (Though just as a long-term portfolio should not include only stocks, a shorter-term portfolio should not be completely devoid of stocks.) Increasingly prevalent are so-called lifecycle or target-date funds, which automatically adjust a portfolio's asset allocation depending on the investor's age or years until retirement (typically, automatically shifting from stocks to bonds and cash as the investor ages and/or approaches retirement).

Objective: Generate income

Many investors plan to use investment returns (and perhaps even draw down principal) as income during retirement. Once you've reached that phase, your strategy should change again, different than the strategy you employed when you were 5-10 years from retirement. At this point, you'll have to balance the dual goals of generating enough returns that your investments are not eroded by inflation and at the same time lasting your lifetime as you are making withdrawals. Inflation varies, but plan for a rate of about 3% a year, meaning that your investments must generate at least 3% to maintain an even level of purchasing power.

If you're going to also be drawing down the principal of your investments (rather than using just the returns), how much can you withdraw? The answer, of course, depends on the size of your portfolio and your age (and how long you might live).

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

4 Reasons Your Child Should Work Part Time

Don't feel guilty about your child working while attending college or feel that a part-time job will only interfere with their college experience. Working as little as a few hours a week can be remarkably beneficial.

It Boosts Accountability — Whether or not you already have the costs of college covered, encouraging your child to work part-time as soon as possible and setting a portion of their earnings away for college can give them a much better appreciation for their college education. Nonworking students can struggle to understand just how expensive their tuition and living expenses are and the sacrifices involved in paying those costs. In fact, it's not uncommon for many college students to never even see the tuition bills.

Whether they're contributing just $10 to $20 a week from their lawn-mowing or babysitting funds as teens or sorting mail on campus once they're attending college, a part-time job provides them with a stronger sense of the work and sacrifice involved in paying their tuition and other expenses.

It Can Cut Down on Costs — Even the smallest contributions can quickly accumulate, decreasing the balance of their tuition bill, paying for the new laptop they need, or cutting down on the monthly student loan payments they'll owe after graduation. Whether they contribute $50 or $500 a month, it's either money they won't owe after graduation or money saved that you can put toward your retirement or investments.

It Teaches Life Skills — Whether they're answering phones or delivering pizzas, part-time jobs provide teenagers and young adults with a different set of skills than what they'll derive in class. Because they're interacting more with adults in a real-world setting, they'll develop the vital communication and problem-solving skills they'll need in their post-college career much sooner, which could lead to greater opportunities earlier on. Moreover, regardless of whether they're in high school or college, working even a few hours a week while attending school allows them to master work-life balance, so they're better equipped for the realities of adulthood.

It Encourages Networking — There's a well-known saying that success is closely linked with who you know. Sure, they'll make friends in the dorm, but a part-time job encourages them to connect with peers on a different level that could lead to valuable opportunities in the future. A job allows them to further develop their individual talents and strengths. ❍❍❍

Watch Out

Continued from page 1

come. However, if you plan to travel extensively, must pay for health insurance, or carry significant debt, you may find that 100% of your preretirement income is not enough. You need to look closely at your current expenses and planned retirement activities to decide on a reasonable estimate.

❍ **Underestimating how long you'll live.** Today, the average life expectancy is 84.3 years for a 65-year-old man and 86.6 years for a 65-year-old woman. But don't just use those figures without further analysis. Average life expectancy means the woman has a 50% chance of dying before age 86.6 and a 50% chance of living past age 86.6. Since you can't be sure which will apply to you, you should probably assume you'll live at least a few years beyond your life expectancy. When deciding how many years to add, consider your health and how long other family members have lived.

❍ **Overestimating how much you can withdraw annually from your retirement savings.** With a retirement that could span decades, it's important to withdraw a reasonable amount so you don't deplete those savings too soon. A number of factors can make that a difficult number to calculate. First, as noted above, you can't be sure how long you'll be making withdrawals. Live significantly beyond your average life expectancy and you could find yourself with little in the way of savings. Second, inflation over such a long period means you'll have to withdraw increasing amounts just to maintain the same purchasing power. Third, your rate of return on your investments will significantly affect how much you can withdraw annually. When withdrawals are being made, down markets can have a devastating effect on your savings. Not only will your investment value go down, but you will be withdrawing the same amount from a smaller balance. Thus, when the market rebounds, you'll have less capital available to participate in that rebound. Especially if a major market downturn occurs early in your retirement, withdrawing an amount that may have been reasonable during an up market may quickly deplete your assets. Thus, it's generally prudent to keep your withdrawal percentage as low as possible, perhaps 3% or 4% of your balance. With that level of withdrawal, your funds should last for decades.

If you'd like help making these estimates, please call. ❍❍❍

Get Your Share of Merit Aid

The basic premise of financial aid is that it is need based. Families fill out the government's aid form, called the Free Application for Federal Student Aid (FAFSA), so mathematical formulas can determine a family's eligibility for federal financial aid. Colleges can use a different, though similar, methodology to make financial aid awards.

However, it is possible that the same student can obtain very different financial aid packages from colleges with similar costs. If the financial aid process is truly need based, how could that happen? Part of it results from how individual colleges define your assets for financial aid purposes. For instance, some include home equity, while others do not. Another part of the difference results from colleges competing to attract top students. High caliber students increase the college's prestige, making it a more attractive alternative to subsequent years' students. To encourage these students to attend their college, they may give merit scholarships or alter the mix of traditional need-based financial aid. Financial aid consists of grants (which do not have to be repaid), loans, and work study programs. Two financial aid packages may have the same dollar value, but the one with a higher percentage of grants will be more valuable to the student.

What implications does this have for a child approaching college? Consider these tips:

❍ Encourage your child to do well on college entrance exams. Not only will this make him/her eligible for acceptance at a broader range of colleges, it may increase your financial aid package.

❍ Don't enter the college application process determined to attend one particular college. Start with a few colleges that would be acceptable alternatives and apply for financial aid at all of them. You may be surprised at how different the financial aid awards are, especially if your child is a strong student.

❍ What should you do if your child has his/her heart set on going to one college, but you received a better financial aid package from another college? Talk to the financial aid officer. While some colleges are receptive to matching other colleges' offers, others are not. In those cases, your best strategy is to review the financial aid calculations with the officer, looking for ways to increase the award. Many subjective factors go into calculating financial aid awards and you may be able to convince the officer to change some of those so the total award is increased. Perhaps just changing the composition of the award, so more is given in grants, will help. ❍❍❍

Financial Data

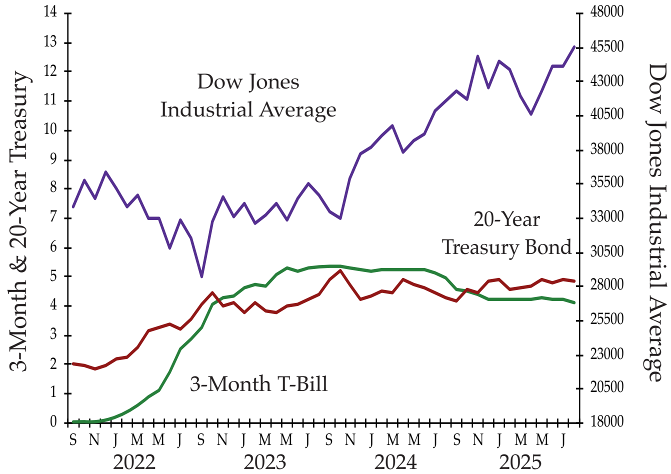
Indicator	Jun-25	Jul-25	Aug-25	Dec-24	Aug-24
	Month-end				
Prime rate	7.50	7.50	7.50	7.50	8.50
Money market rate	0.44	0.44	0.44	0.42	0.47
3-month T-bill yield	4.20	4.24	4.10	4.23	4.98
10-year T-bond yield	4.24	4.37	4.23	4.58	3.91
20-year T-bond yield	4.79	4.89	4.86	4.86	4.28
Dow Jones Corp.	5.18	5.26	5.07	5.45	5.06
30-year fixed mortgage	6.79	6.81	6.60	7.33	6.98
GDP (adj. annual rate)#	+2.40	-0.50	+3.30	+2.40	+3.00

Indicator	Month-end			% Change	
	Jun-25	Jul-25	Aug-25	YTD	12-Mon.
Dow Jones Industrials	44094.77	44130.98	45544.88	7.1%	9.6%
Standard & Poor's 500	6204.95	6339.39	6460.26	9.8%	14.4%
Nasdaq Composite	20369.73	21122.45	21455.55	11.1%	21.1%
Gold	3281.00	3310.00	3409.00	30.3%	35.6%
Consumer price index@	321.47	322.56	323.05	2.4%	2.7%
Unemployment rate@	4.20	4.10	4.20	0.0%	-2.3%

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

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

September 2021 to August 2025



Past performance is not a guarantee of future results.

News and Announcements

Shopping for College Education Value

If you're shopping for college, don't get scared by all the discussion about how expensive it is. While a college education remains one of the biggest investments you and your children will make, there are still bargains out there that deliver a valuable credential for less than top dollar. But you need to know how and where to look. Here are some tips:

Take aim at elite, private schools with super-generous financial aid programs. It may surprise you, but some of the priciest elite schools are considered the top bargains in all of U.S. higher education. That's because, blessed with huge endowments that can run into the billions, they have generous financial aid policies that deeply discount their sticker prices for bright students from moderate- and low-income families. Some even assure that such students won't graduate with a penny's worth of loans to repay. The annual net cost can actually be lower than the full total annual cost of a state university.

Consider top-rated state universities. For state residents, state colleges and universities remain the best bargains among four-year schools. For out-of-state residents, however, costs rival the full price at private colleges and universities.

Reach for rock-bottom state school bargains. Do an internet search for cheapest colleges, and you can find lists of the least-expensive public colleges and universities in the country.

Take the community college route. Since the 1990s, enrollments at two-year community colleges have soared. In the last decade, community colleges have not just been for low-income families, students who can't get accepted to a four-year college, or those who just want an associate's degree. Instead, they are being used by affluent families as a deliberate way of holding down the cost of getting a bachelor's degree. ❍❍❍

FR2025-0512-0023

CPA, PFS, AEP, CFP