YOUR BEST PATH
FINANCIAL PLANNING

February 2019 Client/Prospect Letter

Topics for this month:

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5 money mistakes and how to avoid them

Have you ever heard someone say that experience is the best teacher? Here's another one–there are no mistakes, just lessons.

Well, I would put it a little differently. Experience isn't always the best teacher. *Someone else's* experience is. Because when you learn from other peoples' mistakes and you can save yourself a lot of grief.

In that spirit, I'd like to review the biggest financial mistakes I've seen and offer you ways to avoid them.

1. **Living paycheck to paycheck**

Too many Americans don't have enough money in savings. According to CareerBuilder, nearly 80% of Americans live paycheck to paycheck to make ends meet. And lest you think this applies only to those who are in low-wage positions, nearly one in ten workers who earn over $100,000 or more are in the same boat. (http://press.careerbuilder.com/2017-08-24-Living-Paycheck-to-Paycheck-is-a-Way-of-Life-for-Majority-of-U-S-Workers-According-to-New-CareerBuilder-Survey)

I'm shining a bright spotlight on this predicament in the wake of the recent government shutdown. During the closure, we were treated to a healthy dose of stories from federal employees who were running out of money after missing one or two paychecks. And these folks were guaranteed back pay and were offered plenty of assistance from banks and credit unions.

I'm not trying to minimize the frustration many of them experienced, and remember that many contractors will unjustly be denied missed pay, but imagine what might happen during an extended period of unemployment.

Don't wait to start socking money away. Pay yourself by stashing away funds after each pay period. I recommend at least three months of living expenses saved in emergency funds for dual income households. I recommend at least six months expenses for single income homes, homes where both people work for the same company or government, or families where one person makes most of the money. A financial house that is in disorder is among the leading causes of stress. Savings will mitigate the emotional and mental burden.

2. **You can't start too early saving for retirement**

I've already broached the subject with my high school-age son. So far, he seems less than enthusiastic. I get that. There are many other things he's focused on today. But when he graduates from college, the seed will have been planted, and he'll be mentally ready to sign up for his 401k or find an alternate vehicle.

I have a friend who is in her early 50s. She can probably retire comfortably by 60. Yet, she regrets waiting until 30 to begin putting money into a retirement account. What if she had started in her early 20s? The same holds true for a friend of a friend who is 52. He's semi-retired today but wishes he had enrolled in his company plan before he turned 26. For most folks, that would be a minor regret.

We all know the reason earlier is better–it's the magic of compounding. Those deposits made in our 20s will have a lifetime to grow. Don't waste the chance to increase your savings now. You'll never get it back.

3. **Do you know where your money goes?**

Without a spending plan that tracks expenditures, you may wonder why there is month at the end of your money, and not money at the end of your month.

I have heard of people who could tell you how much they spent on gasoline in March 2001. That may sound extreme, but there are various guidelines you may use when setting up a budget plan.

Focus on the essentials–rent, mortgage, utilities . Leave room for your financial goals–repaying debts, retirement, emergency funds. And have some fun by budgeting for lifestyle choices–recreation, hobbies, vacation, and so forth.

If you are unsure how you might get started, I can help you develop a spending plan that will help get your financial house in order.

4. **Credit cards and personal debt**

Credit cards are a fantastic convenience and most pay some type of reward. But don't place yourself in bondage to monthly payments. Pay them off monthly or you will suffer from steep interest charges.

If you feel like you're buried under a mountain of credit card debt, an auto payment, student loans, and personal debt, you'll need a plan of attack. Let's talk. It will be the best financial decision you ever made. Just knowing there's a roadmap to debt-free living will be liberating.

5. **Those luxury purchases**

That new car sure is fast, the ride is exceedingly quiet, and it has all the latest gadgets. But the new car smell will eventually wear off. The payments, however, won't. When looking for a new vehicle, what you don't know can hurt you. What is the gas mileage? Does is require an expensive grade of gasoline? What will it cost to insure? And what will the annual license renewal run?

If you can answer these questions and the payments comfortably fit into your budget, you'll sidestep any surprises that could crowd out your hobbies and financial goals.

A tribute to Jack

> "You cannot measure the quality of a man by the size of his bank account, but in Jack Bogle's case, you can measure it by the size of your bank account. No one on this planet has done more to increase the lot of individual investors in the last 50 years than John C. "Jack" Bogle, founder and former chairman of the Vanguard Group and creator of the world's first index mutual fund." – *Forbes*
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> "If there is ever an official investor hall of fame, Jack Bogle would be a lock as a unanimous first-team ballot winner in the inaugural class." – *The Motley Fool*
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> "I don't believe that there has ever been, nor will there ever be, anyone who has given more to investors and taken less in return than Jack Bogle." – *Morningstar*

Jack Bogle may not have the name recognition of the legendary Warren Buffett, but his contribution to the world of investing can't be understated.

He founded the Vanguard Group in 1974 and pioneered the first index fund two years later, a mutual fund that was tied to the S&P 500 Index (Investopedia). Investors ponied up just $11 million. It was mocked as "Bogle's Folly."

Today, there are over $13 trillion invested in passively managed mutual funds or exchange-traded funds (ETFs) worldwide, according to *Barron's.*

Jack's idea transformed an industry, significantly lowered costs for large and small investors, helped democratize investing, and, let me add, is a staple to the approach we use to assist you as you run the race to your financial goals.

In a CNBC interview last September, Jack said, "If you hold the stock market, you will grow with America." If you attempt to time the market, "Your emotions will defeat you totally."

His long-term approach has paid dividends for disciplined investors.

Jack passed away on January 16. He was 89 years old.

Market Recap: A kinder, gentler Fed

December was a bad month for stocks. There's no way to sugarcoat it. Long-term investors recognize the need for disciplined approach, but that doesn't mean extreme levels of volatility won't create some degree of concern. I get it.

We touched a bottom on Christmas Eve, and shares extended gains into January. In fact, the *Wall Street Journal* ran an article stating the S&P 500's advance last month was the best start to the year since 1987.

Table 1: Key Index Returns

	YTD %	3-year* %
Dow Jones Industrial Average	7.2	14.9
NASDAQ Composite	9.7	16.4
S&P 500 Index	7.9	11.7
Russell 2000 Index	11.2	13.1
MSCI World ex-USA**	7.0	5.1
MSCI Emerging Markets**	8.7	12.3
Bloomberg Barclays US Aggregate Bond TR	1.1	2.0

Source: *Wall Street Journal*, MSCI.com, Morningstar YTD returns: Dec. 31, 2018—Jan. 31, 2019
*Annualized **in US dollars

Much of the data suggests the economy continues to expand, but one important reason the bull market is waking up from its late-year slumber is the Federal Reserve.

In December, the Fed was talking about "gradual" rate hikes–possibly two this year. I placed gradual in quotes because that's how the Fed phrased its guidance.

In late January, just six short weeks later, the Fed said it can be "patient" as it ponders the direction of rates. Yes, that's right–the direction. When Fed Chief Jerome Powell was asked at his late-January press conference whether the next move in rates might be up or down, he didn't tip his hand. Instead, he said it all depends on the economic data.

At this point, the Fed's on hold–no more rate hikes, at least through the shorter term and maybe longer.

It's not that economic growth has stalled or even slowed considerably. The latest 300,000+ payroll number provided by the U.S. BLS would suggest the economy is not weakening.

But various surveys of consumer and business confidence have eased (University of Michigan survey, Conference Board, *Wall Street Journal*), and economic growth has slowed around the globe.

Throw in a cautionary signal from investors late last year (fears the Fed was poised to tip the economy into a recession if it continued to tighten the monetary screws), and the Fed shifted its stance.

A Personal Note

Two weeks ago my brother-in-law came to the end of his life's journey. He was a college professor who taught the 'Great Books' curriculum at St. John's College, including a class on ethics. Whenever we experience the death of someone we know, it is normal to ask ourselves big ethical questions. "Why are we here?" "What will I regret when I get to my end?" "What is important to me?" And so on.

When I ask myself those questions, I think about my ambition to make Your Best Path Financial Planning a values-based operation. I also believe that values are an important part of investing. As I wrote on the home page of my website, "Money is a means to an end - if values don't inform those ends, it is much more difficult to find money discipline." It's a application of the pretty much universally accepted idea that anything hard is more likely accomplished if you have a strong 'Why' driving you on.

For me, the 'Why' has always gone beyond not being evil and instead helping people. I believe that investing can actually be a force for good. To that end I began pursuit of a new professional designation offered by the College of Financial Planning back in October. The Chartered SRI Counselor (CSRIC) is the first financial planning certification covering SRI (Sustainable, Responsible and Impact) investment management. In the coming months I will be writing more about what that means and how investing with purpose is better for the world *and* often more profitable for you the investor. I think my brother-in-law would approve.

Please remember that it is my job to assist you. If you have any questions or would like to discuss any matters, please feel free to give me a call.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor.

All the Best!

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