Life Income Management™
Creating income for life.

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Financial Outlook

MAY 2024

Calculating Your Financial Ratios

When reviewing the financial health of a company, it's common to look at financial ratios, such as earnings per share, price/earnings ratios, book value, and total return. The reason financial ratios are so popular is they give you a means to evaluate financial information, while allowing you to track changes in a company's performance over time.

Consider using the same concept to assess and track your personal financial situation. At least annually, prepare a net worth statement and then calculate various financial ratios. Comparing those ratios over time will help you assess whether you are making progress toward your financial goals.

You should start by preparing a net worth statement, which lists all your assets and liabilities, with the excess representing your net worth. All assets should be listed, including vested balances in retirement plans and 401(k) plans, personal property, jewelry, and household items. Assets should be valued at the price you would obtain if you sold them now, not the amount you paid for them. You'll also want to list your annual income, for ease in calculating some of the ratios.

Now, ask yourself the following questions about your finances:

❍ **Has your net worth grown by more than the inflation rate?** Calculate the percentage growth in your net worth over the past year and compare that to the inflation rate. To make progress toward achieving your financial goals, your net worth should increase by more than the inflation rate. With recent fluctuations in the stock and housing markets, you may see short-term declines, but make sure you are making progress over the long term.

❍ **What is your ratio of assets to liabilities?** A ratio of less than 1 indicates you have more liabilities than assets — a negative net worth. If that is the case, take active steps to reduce your

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Understanding Stock Market Risk

Investing in stocks involves risk, but just because stocks come with risk doesn't mean they should be avoided. Risk in stocks what makes them a potentially good investment. In exchange for being willing to accept the possibility of loss, you receive the potential of earning significant returns.

Nonetheless, the perception that stocks are inherently risky keeps many people from investing in them. But once you understand what risk means when it comes to stocks, as well as the different types of risk, you'll be more comfortable investing in stocks and have a better idea of how the market works.

Risk and Stocks

Risk and stock investing go hand in hand. When you are buying a stock, you are purchasing a small piece of a company. The value of that stock is not fixed, rather, it rises and falls based on what the market determines it is worth. You can make money if the stock increases in value, and you may lose money if the stock decreases in value. Because you can't know for sure what will happen to the stock's price in the future, the investment comes with a risk.

Types of Risk

Stock values rise and fall for a

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Calculating

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liabilities. This ratio should increase over time, which indicates you are reducing debts.

❍ **What is the trend in your liabilities?** Review the amounts and types of debt outstanding. Mortgages are typically used to purchase a house or other items that appreciate in value, so are considered good debt. Credit card balances and auto loans are used to finance items that typically don't appreciate in value and should be kept to a minimum.

❍ **What percentages of your assets are liquid and nonliquid?** Nonliquid assets include items like your home, other real estate, jewelry, and works of art. Although they may increase in value over time, they can be difficult to sell quickly at full market value. Liquid assets, such as bank accounts and stocks, are more easily converted to cash. You want sufficient liquid assets to cover financial emergencies.

❍ **What is your savings to income ratio?** For this ratio, your savings equal all assets designated to help fund your retirement. It typically won't include your home, since you will likely live there after retirement. First, you need to decide what this ratio should equal at retirement. It is essentially the amount of savings you aim to have at retirement age, determined after analyzing all relevant factors, divided by your annual income. For example, if you aim to have retirement assets totaling $2,000,000 upon retirement, and your current annual income is $100,000, you would need a savings-to-income ratio of 20 at retirement. You might then develop benchmarks over your working years to help you gauge whether you are on track to achieving that goal.

❍ **What is your savings rate?** Calculate what percentage of your income you are saving on an annual basis. Typically, you'll want to save a minimum of 10% a year. This would include 401(k) contributions and individual retirement account contributions. If your employer matches your 401(k) contributions, you may include those contributions as part of your annual savings.

❍ **How have your investments performed?** Now may also be a good time to thoroughly analyze your portfolio's performance over the past year. Measure the performance of each investment, comparing it to an appropriate benchmark. This can help you identify portions of your portfolio that may need to be changed. Also calculate your overall rate of return and compare it to your targeted return. If your actual return is lower than the return you targeted when designing your investment program, you may need to increase your savings, select investments with higher return potential, or settle for less money in the future.

Please call if you'd like help reviewing your personal financial ratios or assessing whether you are on track in pursuing your financial goals. ❍❍❍

Which Goal Is More Important?

With limited resources for saving, which is the most important financial goal — saving for your retirement or saving for your child's college education? While many parents want to pay the entire cost of their child's college education, the reality is that there are a variety of ways to save for that education — personal savings, financial aid, and loans. Unfortunately, there aren't similar options for your retirement. No one is likely to lend you money if you haven't saved enough for retirement. You may want to maximize your retirement savings, realizing there are ways to use those savings to help with education costs. How can this strategy help when it's time to send your child to college?

❍ **Your retirement savings won't be considered in financial aid formulas.** The federal financial aid formula does not consider retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), when calculating your expected family contribution. For other assets, the formula assumes that 5.6% of the parents' assets and 20% of the student's assets will be used annually for college costs. Thus, saving for retirement may potentially increase your financial aid award.

❍ **You can still use these retirement assets to help pay for college costs.** Money in IRAs can be withdrawn to pay higher education expenses before age 59½ without incurring the 10% federal tax penalty, although income taxes will be assessed on the taxable portion of the distribution. If the money is withdrawn from a Roth IRA, your contributions can be withdrawn at any time without penalty or taxes, while earnings can be withdrawn before age 59½ by paying income taxes but not the 10% tax penalty. With 401(k) plans, you typically can't withdraw the money before retirement age unless it is for a hardship withdrawal, but you may borrow funds if permitted by the plan. If you don't need the money to finance college costs, you can leave it in your retirement plans to continue to grow for your retirement.

If you'd like to discuss the role your retirement accounts could have in financing your child's college education, please call. ❍❍❍

Understanding

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variety of reasons. Once you understand the various factors that might affect a stock's price, you'll be better able to understand the risk associated with any particular investment and get a sense of whether it is a good addition to your portfolio. Risks associated with stocks fall into two broad categories:

Systematic risk or market risk: This is the type of risk that affects an entire market. It is typically unpredictable and unavoidable.

Unsystematic risk: This is the opposite of systematic risk. Unsystematic risks affect only certain companies or sectors of the market. For example, changes in energy prices might affect the price of energy stocks, while a political crisis in a certain country might affect stock prices in that region. Or a company might suffer an executive leadership change that causes the stock to drop. It's easier to identify unsystematic risks than to anticipate systematic risks.

Coping with Risk

If you want to invest in stocks, you need to come to terms with risk. The key is to remember that risk or volatility in the stock market is natural. Rather than worrying too much about what the market is doing in the short term, you can insulate yourself by developing a clear investment strategy. Select stock investments based on your long-term goals. Then, keep your hands off your investments, as another major risk that stock market investors face is themselves. Letting emotions drive your investing decisions will typically lead to less impressive returns.

You can also cope with stock market risk by diversifying your portfolio into asset classes other than stocks. By including bonds, cash, and other investments in your portfolio, you'll be better able to cope with the ups and downs of the market. ❍❍❍

Avoid 401(k) and IRA Mistakes

When it comes to saving for retirement, many people take a set-it-and-forget-it approach. But not paying attention to your 401(k) and IRA accounts could cause you to miss valuable savings opportunities. Avoid these seven mistakes:

❍ **Not contributing enough to get your full employer match.** If your employer matches your contributions to your 401(k) plan, you should try to stretch enough to at least meet their maximum match amount. Otherwise, you are essentially leaving money on the table.

❍ **Neglecting to maximize your contributions.** With so many immediate financial needs, investing for a long-term goal like retirement can be hard to prioritize. While you may not be able save up to your 401(k) contribution limits (for most people, that's $23,000 in 2024 plus an additional $7,500 catch-up contribution for those over age 50), you should save as much as you are able. If there's any extra room in your budget or expenses that could be easily reduced, consider dedicating that money to retirement. Or when you receive your annual raise, allocate it to your 401(k) savings.

❍ **Playing it too safe by investing in an overly conservative way.** It can be really scary to take chances with your hard-earned cash, but if you only choose safe investments like cash or CDs, you run the risk of inflation outpacing the low returns.

❍ **Not reviewing your investment allocation regularly.** Your asset allocation will inevitably need to change as you age, as the risk you're willing to tolerate in your twenties will likely not be the same as when you're in your fifties. This means you should review your portfolio at least on an annual basis.

❍ **Not taking advantage of catch-up contribution options.** The closer you get to retirement, the more you may regret not maximizing contributions in the past. Fortunately, once you turn 50 years old, you have the chance to catch up a bit and your maximum annual contributions go up another $7,500 for a 401(k) and another $1,000 for your IRA.

❍ **Forgetting about old retirement accounts.** If you've changed jobs, there is a chance that you left an old 401(k) plan with your former employer's plan provider. Of course, the money is still yours, but it may not be doing as much for you as it could if you rolled it into an account you are actively managing now.

❍ **Taking too much of a do-it-yourself approach.** Managing your own retirement planning can be confusing if you do not have the knowledge and skills to make the best choices. Seeking the help or guidance of a finance professional can remove the doubt and emotion from your investment decisions and ensure you are on track for retirement. ❍❍❍

Roth IRA
401(k)
IRA
Individual

FINANCIAL DATA

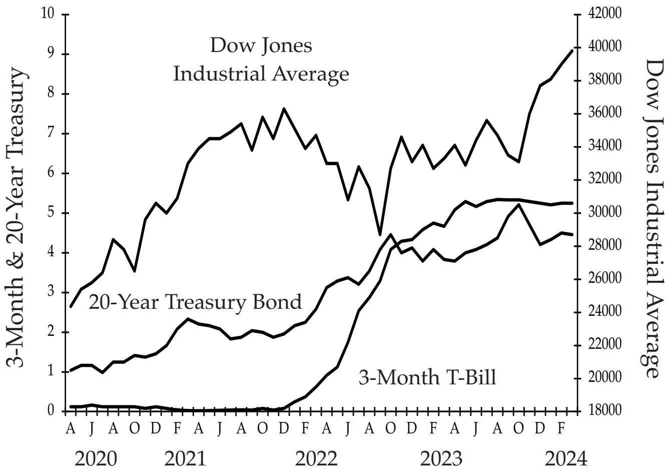
Indicator	Jan-24	Feb-24	Mar-24	Dec-23	Mar-23
	Month-end				
Prime rate	8.50	8.50	8.50	8.50	8.00
Money market rate	0.50	0.51	0.48	0.48	0.48
3-month T-bill yield	5.21	5.26	5.23	5.26	4.68
10-year T-bond yield	3.99	4.25	4.20	3.88	3.48
20-year T-bond yield	4.34	4.51	4.45	4.20	3.81
Dow Jones Corp.	5.31	5.49	5.40	5.17	5.36
30-year fixed mortgage	7.14	7.47	7.37	7.09	6.93
GDP (adj. annual rate)#	+2.10	+4.90	+3.40	+3.40	+2.60

	Month-end			% Change	
Indicator	Jan-24	Feb-24	Mar-24	YTD	12-Mon.
Dow Jones Industrials	38150.30	38996.39	39807.37	5.6%	19.6%
Standard & Poor's 500	4845.65	5096.27	5254.35	10.2%	27.9%
Nasdaq Composite	15164.01	16091.92	16379.46	9.1%	34.0%
Gold	2053.25	2048.05	2214.35	7.0%	11.9%
Consumer price index@	306.75	308.42	310.33	1.1%	3.2%
Unemployment rate@	3.70	3.70	3.90	5.4%	8.3%

# — 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 2020 TO MARCH 2024



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

FACTORS INFLUENCING YOUR ASSET ALLOCATION

While you probably won't make frequent changes to your asset allocation strategy, changes in your personal situation may necessitate periodic alterations.

RISK TOLERANCE — Your risk tolerance is likely to change, either as you become more familiar with investing or as you age. Familiarity with investing typically makes you more risk tolerant, while aging may make you more or less risk averse. Adjust your asset allocation when your risk tolerance shifts, so you don't become uncomfortable with the risk in your portfolio.

RETURN NEEDS — Your need to emphasize income or growth is likely to change over your life. Young investors typically want to emphasize growth, while retirees may want to emphasize income.

INVESTMENT TIME HORIZON — With a short time horizon, your liquidity needs may require avoiding more volatile investments, such as stocks. With a longer time horizon, you can wait out any fluctuations in volatile investments. Typically, young investors have longer time horizons than older investors, so they can invest more aggressively. However, young investors may need to allocate at least part of their portfolio to conservative investments if they are investing for short-term needs, such as for a down payment on a home or to pay for a child's education. ○○○

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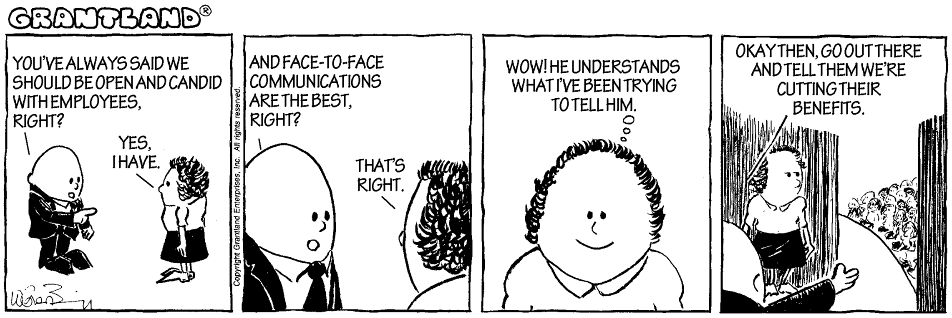

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 actively traded "blue chip" stocks, primarily industrials, but includes financials and other service-oriented companies. The components, which change from time to time, represent 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