

Life Income Management™

Creating income for life.

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FINANCIAL OUTLOOK

JULY 2024

STOCKS ARE RISKY: WHY INVEST?

It is said that Albert Einstein once remarked that the most powerful force in the universe is compound interest. Whether it came from Einstein or not, compound interest is an incredibly powerful phenomenon, the driving force behind our ability to build a nest egg to sustain us in our old age. Here are some key principles:

1. START EARLY. Compounding is often referred to as your money

working for you. And it is — while the money you invest is sitting in the market, it is building and building on itself. Take Lisa and Larry, for example. Lisa begins investing \$2,000 per year in a tax-deferred account at age 28. Larry, who is the same age as Lisa, begins investing the same amount in the same account (both earning 8%) two years later. When Lisa and Larry are ready to retire at age 68, Lisa has \$518,113 in her ac-

count, while Larry has \$440,632. The two years that Larry was not investing cost him \$77,481.*

2. INVEST CONSISTENTLY. Investing consistently is an important key to getting all the benefits of compounding. Take Brittany and Bob, for example. Bob invests \$1,000 in the stock market every year, beginning at age 28 and ending at age 68; he earns annual returns that average 8%. Over the 40 years that he invests, his \$40,000 investment compounds to become \$259,057. Brittany, on the other hand, is not a consistent investor. She invests the same amount, \$40,000, and earns the same average annual return. But instead of investing \$1,000 per year for 40 years, she invests nothing until age 48, when she puts \$20,000 into the market. She invests another \$20,000 at age 58. When she is ready to retire, she has \$136,397. Even though they both invested the same amount over time, Bob's consistency, combined with the power of compounding, has earned him \$122,660 more.*

3. RETURN MATTERS. Just as compounding magnifies the impact of time, so does return. Over a period of five years, the difference in earnings generated by the stock market

THE BASICS OF STOCK MARKET INDEXES

Historically, stock market indexes have been closely watched as an indicator of the market's overall performance. While that role is still important, the number of stock indexes has grown dramatically as mutual funds and investment managers search for relevant indexes to use as benchmarks to compare performance. Indexes are also increasingly used as the base for investment products, allowing investors to invest in defined segments of the market without purchasing all of the underlying stocks in the index.

Indexes can be computed in different ways. Some, like the Dow Jones Industrial Average (DJIA), are

calculated using an arithmetic average. The price of stocks are added and then divided by the number of securities in the index, although the divisor is adjusted over time for splitting of shares, distribution of stock dividends, and to account for company substitutions in the index. These indexes do not adjust for the company's total market value, so stocks with the highest share prices have more impact on the index. Other indexes, such as the Standard & Poor's 500 (S&P 500), use market-value weightings, factoring in the differences in individual stocks' market value by multiplying the price of each by the number of shares

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WHY INVEST?

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and the bond market might not be that great. But compounded over the long term, the difference can be huge. Take, for example, Sarah and Sam. Sarah begins investing at age 28, with the goal of saving enough to retire at age 68. She puts \$2,000 a year into the stock market, where she earns an average annual return of 8%. Sam also begins saving at age 28, also with the goal of retiring at age 68. He also invests \$2,000 per year, but he earns an average annual return of 4%.

After the first five years of investing, Sarah's account is just \$900 larger than Sam's. But at age 68, when the two are ready to retire, Sarah has a nest egg of \$518,113. Sam has just \$190,051.*

HOW TO MANAGE RISK

Most stocks are by their nature riskier than most bonds — bonds are like loans with a promise to repay whereas stock is ownership in a company. When a company goes under, bondholders are repaid well before stockholders are. That's not to say that bonds carry no risk, because they do, and the riskiness of a bond depends on the type of bond it is.

So when thinking about how to balance risk and return in your portfolio, remember that the bond versus stock discussion is not black and white. Instead of going all-or-nothing one way or the other, the most effective investment strategy is one that incorporates diversification.

Diversification means you invest in some combination of asset types — stocks, bonds, cash equivalents, even real estate and commodities. That way, you spread out the risk of losses in any given asset class. Your portfolio should also be diversified across asset subclasses; so among stocks, you own some blue chips, some growth stocks, and a mix of domestic and international stocks.

While every portfolio should be diversified, your exact mix of asset classes and subclasses depends on

REASONS TO REVISE YOUR ESTATE PLAN

While experts agree you should review your estate plan every two to three years, there are numerous events that may trigger a need to review your estate plan sooner. If you have one or more of the following changes in your life, it's time to revisit your plan:

- **DID YOU JUST GET MARRIED?** You and your spouse should develop your first estate plan or revise existing plans. If it's a second marriage, you'll want to ensure you add your new spouse and remove your former spouse.
- **DO YOU HAVE A NEW DOMESTIC PARTNERSHIP OR COMMON LAW MARRIAGE?** You will want to make sure you specify your partner in your will.
- **DID YOU HAVE A NEW BABY OR ADOPT A CHILD?** Make sure you include all biological and adopted children in your plan.
- **HAVE YOU GONE THROUGH A DIVORCE?** Amid all the issues to deal with during a divorce, remember to add your estate plan to the list.
- **HAS THE GUARDIAN YOU ORIGINALLY NAMED FOR YOUR CHILD BECOME UNABLE TO SERVE?** Make sure the guardian you selected is still the best person to care for your child.
- **DO YOU WANT TO CHANGE OR ADD BENEFICIARIES?** Make sure you update your will if you want to make changes to the people who receive your assets or if a beneficiary has predeceased you.
- **HAVE YOU BECOME A BLENDED FAMILY?** If you want to provide for stepchildren, you'll need to specify them in your will.
- **HAVE YOU MOVED TO A NEW STATE?** State laws for estate plans vary, so you will need to see if changes are required to your plan to comply with your new state.
- **HAVE YOU HAD ANY HEALTH CHANGES?** Review your health-care directives to make sure they still reflect your wishes.
- **HAVE YOU RECEIVED AN INHERITANCE?** If you receive additional assets, you will want to update your plan to include them.
- **DO YOU WANT A NEW TRUSTEE, POWER OF ATTORNEY, OR HEALTH-CARE ADVOCATE?** Update your plan to ensure the people you appointed are still appropriate to carry out your wishes.
- **HAVE YOU RECENTLY STARTED A BUSINESS OR HAVE A CURRENT ONE?** You will want to develop a succession plan to name someone to run your business.
- **ARE THERE CHANGES IN TAX LAWS?** Tax laws change frequently, so you will want to review your plan to make any necessary changes. ○○○

where you are relative to when you plan to need your investments. Generally speaking, the further away you are from retirement, the more invested you should be in higher-return (and higher-risk) assets. The closer you are to retirement, the more invested you should be in lower-risk (and lower-return) assets.

And because markets fluctuate at different paces, it's important to reevaluate your portfolio diversifica-

tion every year. If your stock investments, for example, have done particularly well while your bond investments fared poorly, you'll end up overinvested in stocks and underinvested in bonds. Please call if you'd like to discuss this topic in more detail. ○○○

** These examples are presented for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.*

THE BASICS

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outstanding. Thus, major corporations have a greater influence on the index than smaller companies.

Another important calculation difference is whether the index is a capital return or total return index. A capital return index, such as the DJIA and the S&P 500, only reflects changes in the shares of the stock in the index. Total return indexes, such as the Russell 2000 and the Dow Jones US Market Index, calculate both share price changes and dividend reinvestment.

Some of the major stock market indexes include:

The **DOW JONES INDUSTRIAL AVERAGE** is comprised of 30 large-company stocks. All of the companies are billion-dollar giants, with no small- or medium-sized firms in the index. The index is the oldest and most widely quoted index.

The **STANDARD & POOR'S 500** is comprised of 500 large-company stocks trading on the New York Stock Exchange, the American Stock Exchange, and Nasdaq, covering a wide variety of industries. This index is considered more representative of the U.S. stock market than the DJIA. Additionally, various component indexes are calculated from this index.

The **NASDAQ COMPOSITE INDEX** follows the stocks that trade on Nasdaq. This index is generally viewed as a good benchmark for technology stocks.

The **RUSSELL 2000 INDEX** is viewed as a good benchmark for the performance of smaller-company stocks. The stocks in the index include the 2,000 lowest-capitalization stocks from the Russell 3000, which includes the 3,000 largest-capitalization stocks in the U.S. stock market.

The **DOW JONES US MARKET INDEX**, formerly the **WILSHIRE 5000 INDEX**, consists of over 6,000 stocks, including almost all stocks traded on the major exchanges and

WAYS TO GET OUT OF DEBT

The first step to getting out of the debt cycle is to take a realistic view of your current financial situation and recognize you are carrying too much debt. Then you can work on ways to pay it off.

DEVELOP A SPENDING PLAN — Once you have a handle on what you're spending versus how much money you're making, you can develop a budget to help you determine what you can spend, how much goes toward paying down debt, and how much you can save.

DITCH THE CREDIT CARDS — If high-interest rate credit cards are the reason you're in a debt spiral, then you have to remove the temptation to stop adding more debt. Use a debit card that is linked to your checking account so you can better control your spending.

WORK ON CHANGING YOUR HABITS — Many times getting out of debt will require that you change your spending habits. Start by making small changes that can really add up to reduce your spending.

PICK UP A SIDE JOB — Think of things you can do to generate more income. Get creative about what you can do to earn more money.

REDUCE YOUR BORROWING EXPENSES — While getting another loan is not ideal, it may be necessary to get your debt under control and reduce your borrowing costs. Look for a debt consolidation loan at a lower interest rate than your current debt, which will reduce your monthly interest payments. Also, try to make extra payments that go directly to the loan principal to accelerate the payoff.

HOW TO STAY OUT OF THE DEBT CYCLE — It's a whole lot easier to stay out of debt than it is to dig yourself out of it, so once you are on stable financial ground, you have to stick with your new disciplined approach to spending.

LIVE BELOW YOUR MEANS — Just because you can afford it doesn't mean you should buy it. Take a conservative approach to your spending and live below your means to set yourself up for financial success.

DON'T BUY UP TO THE MAXIMUM — When your mortgage lender provides you with the maximum home purchase price you can afford based on your debt to income ratio, don't spend every dime of it. You will also want to estimate the costs of maintaining the home. You may end up using credit cards to pay for these expenses, and then you are heading down the path to more debt.

BE READY FOR EMERGENCIES — People sometimes end up in debt due to an unforeseen emergency rather than their everyday spending. In some circumstances, going into debt due to an emergency could be avoided if there were savings to cover the expense. You should save about six months of living expenses to cover unexpected expenses. ○○○



gives the broadest view of the U.S. stock market.

If you want to compare your investments' performance to an index, select one that tracks the same types of stocks you hold in your portfolio.

Keep in mind, however, that indexes do not incur any trading or tax costs. If you'd like help comparing your investments to an appropriate index, please call. ○○○

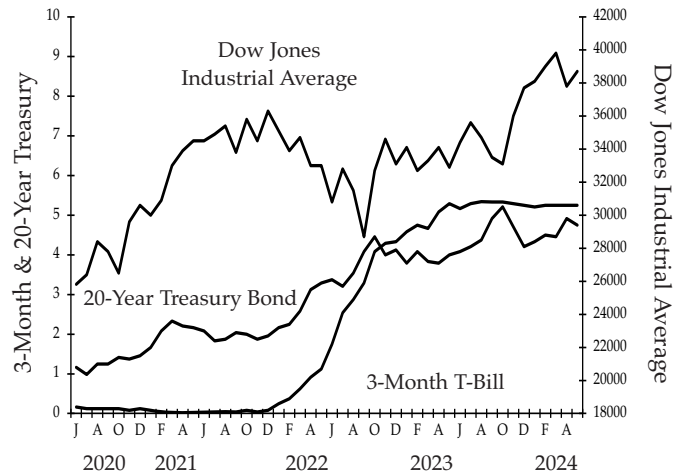
FINANCIAL DATA

Indicator	Month-end				
	Mar-24	Apr-24	May-24	Dec-23	May-23
Prime rate	8.50	8.50	8.50	8.50	8.25
Money market rate	0.48	0.48	0.51	0.48	0.53
3-month T-bill yield	5.23	5.25	5.26	5.26	5.30
10-year T-bond yield	4.20	4.69	4.51	3.88	3.64
20-year T-bond yield	4.45	4.90	4.73	4.20	4.01
Dow Jones Corp.	5.40	5.84	5.65	5.17	5.60
30-year fixed mortgage	7.37	7.65	7.53	7.09	7.24
GDP (adj. annual rate)#	+4.90	+3.40	+1.30	+3.40	+2.20

Indicator	Month-end			% Change	
	Mar-24	Apr-24	May-24	YTD	12-Mon.
Dow Jones Industrials	39807.37	37815.92	38686.32	2.6%	17.6%
Standard & Poor's 500	5254.35	5035.69	5277.51	10.6%	26.3%
Nasdaq Composite	16379.46	15657.82	16735.02	11.5%	29.4%
Gold	2214.35	2307.00	2350.65	13.6%	19.7%
Consumer price index@	310.33	312.33	313.55	2.1%	3.4%
Unemployment rate@	3.90	3.80	3.90	5.4%	14.7%

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

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD
JUNE 2020 TO MAY 2024



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

HOW EMPLOYER 401(K) MATCHING WORKS

When it comes to matching employee contributions, the sponsoring employer determines the specific terms. An employer may have a very generous match or choose not to match at all.

MATCHING FORMULAS — Employers use many different formulas to determine matching contributions, but most match employee contributions up to a percentage of the employee's annual income. However, some employers may not consider income at all and match a certain dollar amount of an employee's contribution.

HOW MATCHING WORKS — Let's assume your employer matches 100% of your annual contributions up to a maximum of 3% of your annual income. If you earn \$60,000, the total potential match you can receive is \$1,800. To receive the match, you must also contribute \$1,800. If you contribute more than \$1,800, your additional contributions will not be matched.

CONTRIBUTION LIMITS — All contributions to your 401(k) plan must adhere to the Internal Revenue Service contribution limits. The total contribution limit in 2024 is \$23,000. If you are over 50, you may make additional catch-up contributions up to \$7,500, if permitted by your 401(k) plan.

VESTING — Your plan's vesting schedule determines the percentage of ownership you have in your employer's contributions based on how many years you've been employed with the company. For example, if your employer requires five years to be fully vested, you may lose all or some of the contributions the employer made if you were to leave or be terminated from the company. Any contributions you make to the account will always be yours with no forfeiture if you leave the company.

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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.

The Russell 2000 measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index.