Life Income Management™

Creating income for life.

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FINANCIAL OUTLOOK

MARCH 2022

HOW TO SAVE MORE: STEP BY STEP

For many of us, saving money is very difficult. The truth is that most people don't keep careful track of how much they spend and don't do enough to find ways to save. If that describes you, here's an eight-step program to help you find more savings in your household income.

STEP 1: CREATE A BUDGET. Don't think of a budget as a way to scrimp, but as a log that keeps you aware of where your money is going and enables you to manage it better. The key is to keep it organized and in a format that you can return to again and again.

Make a single sheet for each month. Organize it into two sections, one for expenses and the other for income. Divide the expenses section into two parts: the ones you pay for out of your checking account and the ones you pay for at a cash register. Then create a line for every kind of recurring expense you have, from your mortgage or rent, to your utilities, phone, and cable, your memberships and subscriptions, life insurance, and payments for loans and credit cards.

For out-of-pocket expenses, make estimates in advance and create line items for lunches out, personal care like the hairdresser or beauty shop, gas and oil, prescriptions, clothing, and entertainment. In each part, do your best to include everything, but your budget is a living document that you can add to as you remember items.

Devote another column to the net income you expect to receive from all sources. Then, subtract your total expenses from your income. If the result is negative, you've discovered a problem. Fixing it, either by spending less or earning more, will bring your spending in line with what you make.

STEP 2: TRACK YOUR SPENDING. What you've just created in the first step is a master budget. Now, you have to start tracking what you actually spend. That's not too hard when

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WATCH OUT FOR PORTFOLIO MISTAKES

Investing is a gradual process — purchasing some investments and selling others as the years go by. After a period of years, this can result in a mixture of investments that don't fit your overall strategy. Thus, periodically review your portfolio, watching out for these mistakes:

- **YOU DON'T USE AN ASSET ALLOCATION STRATEGY.** Many investors select individual investments over the years, not considering their portfolio's overall makeup. Add up all your investments and calculate what portion is invested in each category. The basic categories are stocks, bonds, and cash, but each of these also has many subcategories. Assess your current allocation and determine whether it fits your personal situation.
- **YOU HAVE TOO MANY INVESTMENTS THAT AREN'T ADDING DIVERSIFICATION TO YOUR PORTFOLIO.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments to their portfolio that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor. Before

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How to Save More

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it comes to making payments out of your checking account. The challenge is when you spend at a cash register, whether you use cash or a card.

Keep all your receipts and make a daily record for any expenses. Then, once a week, enter what you actually spent into your budget. Look for how your actual spending affects the balance between your expenses and total income for the rest of the month.

Step 3: Set a saving goal. As you make your master budget, you need to think about a goal for the extra savings you want to achieve. Enter that amount as a line item in your column of recurring monthly expenses.

Step 4: Make the savings automatic. The key to actually saving what you intend to save is to make the transfer from your paycheck automatically. It's best, then, to do one of three things: increase the amount that you contribute to a workplace savings plan by payroll deduction, authorize a deduction every month from your checking account, or write and deposit a check into your saving account as soon as you get paid.

Step 5: Cut down on discretionary spending. The places you'll find savings are the things you can really do without. These range from snacks at vending machines to meals out, movies, shows and concerts, premium TV channels, expensive smart phone data plans, and even your vacations. It can be difficult, at first, to say no to yourself, but with practice it gets easier, especially when you see your savings balances start to grow faster.

Step 6: Review your big-ticket finances — mortgage, car loans, or lease. You can find your largest savings by carefully reviewing your biggest expenses. With mortgage rates near record lows, refinancing could save you hundreds of dollars a month. If you're leasing a luxury vehicle, consider going down a notch or two when it expires, or buy a recent-year used car — you'll save thousands on the depreciation and could lower your monthly spending significantly.

Step 7: Avoid late payment penalties and overdraft fees. Pay all your bills on time, so you avoid being charged costly late charges and fees. Keep your checkbook up to date to avoid overdraft charges.

Step 8: Buy only with cash. As much as possible, make your purchases with cash instead of using high-interest credit cards. The idea is to force yourself to postpone impulse purchases that increase your balance and rack up interest charges.

It's always better to err on the side of saving too much than too little. Gauging just how much you really need to save, however, can be subjective, so please call if you would like to discuss this in more detail. ❍❍❍

Basics of Asset Allocation

Your asset allocation strategy will depend on your risk tolerance, return needs, and time horizon. While each person's asset allocation strategy will be unique, you should consider these tips:

❍ **To moderate your portfolio's risk, invest in both stocks and bonds.** Stocks tend to have a low positive correlation with corporate and government bonds, meaning that on average, movements in stock prices will only moderately match movements in bond prices. Thus, owning both reduces risk.

❍ **With a long time horizon, you can increase your allocation to stocks.** By staying in the market through different market cycles, you reduce the risk that volatility will adversely affect your equity performance. Those with a time horizon of less than five years should not be invested in stocks.

❍ **Diversify within as well as among investment classes.** For instance, in the stock category, consider value and growth stocks, small and large capitalization stocks, and international stocks. Bonds could include long-term bonds, intermediate-term bonds, high-quality bonds, lower-quality bonds, Treasury securities, municipal bonds, and international bonds.

❍ **Make sure you have reasonable return expectations for various investment categories.** Basing your investment program on return estimates that are too high could cause you to increase the risk in your portfolio.

❍ **Once you develop an asset allocation strategy, rebalance it at least annually.** You need to periodically rebalance so your allocation does not get out of line.

❍ **Make sure you have enough cash to handle short-term needs.** That way, you won't have to sell investments at an inappropriate time.

❍ **Evaluate new investments carefully, ensuring they add diversification benefits to your portfolio.** Don't keep adding similar investments, such as several stocks in the same industry. Not only does this not add much diversification, but it makes your portfolio more difficult to monitor.

❍ **Avoid following the market too closely.** Your asset allocation strategy is designed to guide your portfolio's long-term makeup. Don't rethink that strategy simply as a result of a market downturn. ❍❍❍

Watch Out

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adding an investment, make sure it will further diversify your portfolio.

❍ **Your portfolio's return is lower than benchmark returns.** Review the return of each component of your portfolio, comparing it to a relevant benchmark. While you may not want to sell an investment that has underperformed for a year or two, at least monitor closely any investments that significantly underperform their benchmarks. Next, calculate your portfolio's overall rate of return and compare it to a relevant benchmark. Include all your investments — those in taxable accounts and retirement accounts. Also be sure to compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

❍ **You trade too frequently without adequate research.** With so many choices and so much information, it's tempting to trade often based simply on other people's recommendations. Yet, besides the tax and costs associated with trades, frequent traders often underperform those who trade less frequently. Instead, purchase investments you are willing to hold for the long term.

❍ **You don't consider income taxes when investing.** Ordinary income taxes on short-term capital gains and interest can go as high as 37%, while long-term capital gains and dividend income are taxed at rates not exceeding 20%. Using strategies that defer income taxes for as long as possible can make a substantial difference in your portfolio's ultimate size. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently in your tax-deferred accounts.

To help maximize your portfolio's value, avoid these investment mistakes. Please call if you'd like help reviewing your investment portfolio. ❍❍❍

Don't Make These Selling Mistakes

An important part of any investment strategy is developing a methodology for ultimately selling your investments. Unfortunately, many investors sell based on emotional factors, making one of several mistakes:

❍ **Holding on to an investment with a loss.** Psychologically, it's difficult for investors to sell an investment with a loss. Many prefer to wait until the investment at least gets back to a breakeven level. However, that may never happen or may take a long time to do so. Take a hard look at the investment and consider selling if you can reinvest elsewhere with better prospects.

❍ **Hanging on to capture more gain.** When an investment has increased dramatically, you may be reluctant to sell. There's always the risk you'll sell and the price will keep going up. But sometimes it's best to protect your gains.

❍ **Not setting price targets.** One way to take the emotion out of selling is to set high and low price targets for reevaluating an investment. You don't have to sell when the investment reaches those targets, but at least review whether you should sell.

❍ **Trying to time the market.** It's difficult to predict when the market will rise and fall. Even if the stock market is following a general trend, there will be up and down trading days.

❍ **Worrying too much about taxes.** Taxes can consume a significant portion of your investment gains. Even if you have long-term capital gains, up to 20% of your gains will be taxed. However, avoiding taxes may not be a good reason to hold on to an investment. There are typically strategies that can be used to help offset the tax burden, but there's not much you can do about a loss in investment value. If it's time to sell an investment, you should probably do so, even if you have to pay taxes on your gains.

❍ **Not paying attention to your investments.** Your portfolio needs to be evaluated on a periodic basis or you could miss signals that it may be time to sell. You should reevaluate an investment when the company changes management, when the company is acquired or merges with another company, when a strong competitor enters the market, or when several top executives sell large blocks of stock.

Please call if you'd like help evaluating when you should sell your investments. ❍❍❍

FINANCIAL DATA

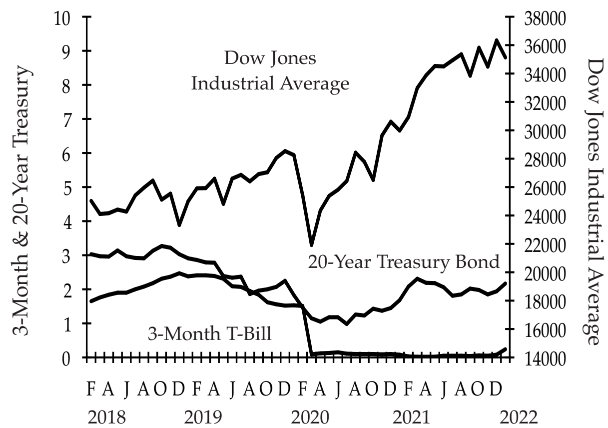
Indicator	Month-end Nov-21	Dec-21	Jan-22	Dec-20	Jan-21
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.07	0.07	0.07	0.20	0.10
3-month T-bill yield	0.05	0.08	0.24	0.10	0.08
10-year T-bond yield	1.43	1.52	1.79	0.93	1.11
20-year T-bond yield	1.85	1.94	2.17	1.45	1.68
Dow Jones Corp.	2.54	2.48	2.85	1.93	2.04
30-year fixed mortgage	2.64	2.63	3.16	1.91	1.97
GDP (adj. annual rate)#	+6.70	+2.30	+6.90	+4.30	+6.30

Indicator	Month-end Nov-21	Dec-21	Jan-22	% Change YTD	12 Mon.
Dow Jones Industrials	34483.72	36338.30	35131.86	-3.3%	17.6%
Standard & Poor's 500	4567.00	4766.18	4515.55	-5.3%	21.6%
Nasdaq Composite	15537.69	15644.97	14239.88	-9.0%	8.9%
Gold	1804.40	1805.20	1795.25	-0.6%	-3.7%
Consumer price index@	276.59	277.95	278.80	0.3%	7.0%
Unemployment rate@	4.60	4.20	3.90	-7.1%	-41.8%

— 2nd, 3rd, 4th quarter @ — Oct, Nov, Dec Sources: *Barron's, Wall Street Journal*

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

February 2018 to January 2022



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

GOOD INVESTING HABITS

Good investing habits will help ensure you follow through on your investment plan. Some tips to hone your habits include:

- **WRITE EVERYTHING DOWN IN A DIARY.** Every time you make a trade, write down why you did so and what was going on in the markets to precipitate that trade. This will force you to develop objective reasons before making trades. The diary will also be useful when evaluating your investment strategies.
- **KEEP TRACK OF YOUR PORTFOLIO'S PERFORMANCE.** Don't get overzealous and review your portfolio's performance daily or even weekly. Monthly, quarterly, or even annual reviews are adequate. The point is to assess how your investments have performed compared to a relevant benchmark. Evaluate all your investments, not just your retirement accounts or taxable accounts.
- **MONITOR THE MARKET AND YOUR INVESTMENTS.** You can't just purchase investments and then forget about them. While you don't have to read everything in print about your investments, make sure to set aside enough time to review quarterly and annual reports and other major news. You'll also want to read enough to have a general sense of what is going on in the market.
- **EVALUATE YOUR STRATEGIES.** Once a year, thoroughly review your investment strategies and make sure you are on track in pursuing your financial goals. The other habits will assist in this review. Pull out your diary and the analysis of your portfolio's performance so you can review all your trades and investments in detail. You're looking for trends and trying to analyze what you did right and wrong during the year. If you'd like help with this overall analysis, please call. ❍❍❍

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