The Monthly Mu$e

Ideas and Concepts to Consider

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HAPPY NEW YEAR!

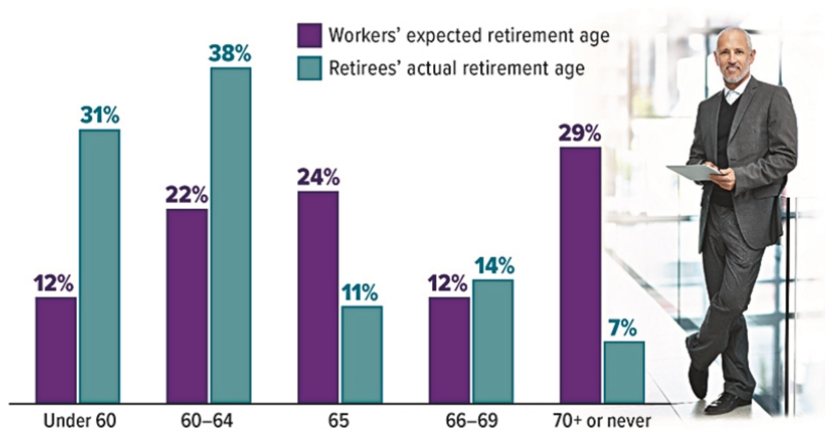
With the start of every new year, people often take stock of many things, including their finances.

We hope the articles in this month's newsletter provide you with ideas and resources you can use.

Please do give us a call if you have questions or want to review your financial plans--we'd love to help you accomplish your goals!

Retirement Age Expectations vs. Reality

Workers typically plan to retire much later than the actual age reported by retirees. In the 2022 Retirement Confidence Survey, 65% of workers said they expect to retire at age 65 or older (or never retire), whereas 69% of retirees left the workforce before reaching age 65. When choosing a retirement age, it might be wise to consider a contingency plan.



Source: Employee Benefit Research Institute, 2022

Balancing Stocks and Bonds in One Fund

Maintaining an appropriate balance of stocks and bonds is one of the most fundamental concepts in constructing an investment portfolio. Stocks provide greater growth potential with higher risk and relatively low income; bonds tend to be more stable, with modest potential for growth and higher income. Together, they may result in a less volatile portfolio that might not grow as fast as a stock-only portfolio during a rising market, but may not lose as much during a market downturn.

Three Objectives

Balanced mutual funds attempt to follow a similar strategy. The fund manager typically strives for a specific mix, such as 60% stocks and 40% bonds, but the balance might vary within limits spelled out in the prospectus. These funds generally have three objectives: conserve principal, provide income, and pursue long-term growth. Of course, there is no guarantee that a fund will meet its objectives.

When investing in a balanced fund, you should consider the fund's asset mix, objectives, and the rebalancing guidelines as the asset mix changes due to market performance. The fund manager may rebalance to keep a balanced fund on track, but this could create a taxable event for investors if the fund is not held in a tax-deferred account.

Core Holding

Unlike "funds of funds," which hold a variety of broad-based funds and are often meant to be an investor's only holding, balanced funds typically include individual stocks and bonds. They are generally not intended to be the only investment in a portfolio, because they might not be sufficiently diversified. Instead, a balanced fund could be a core holding that enables you to pursue diversification and other goals through a wider range of investments.

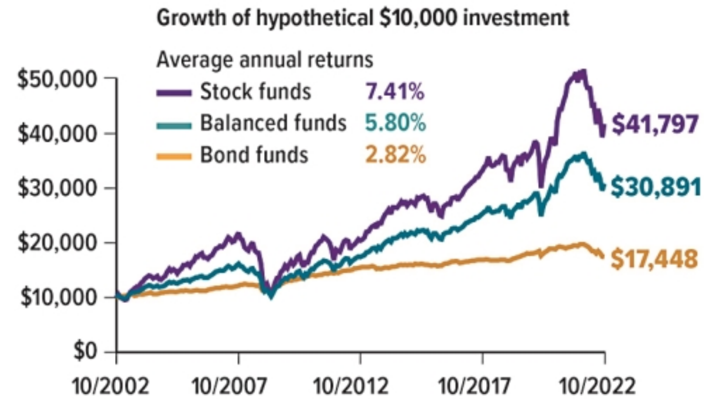
You may want to invest in other asset classes, hold a wider variety of individual securities, and/or add funds that focus on different types of stocks or bonds than those in the balanced fund. And you might want to pursue an asset allocation strategy that differs from the allocation in the fund. For example, holding 60% stocks and 40% bonds in a portfolio might be too conservative for a younger investor and too aggressive for a retired investor, but a balanced fund with that allocation could play an important role in the portfolio of either investor.

Heavier on Stocks or Bonds?

Balanced funds typically hold a larger percentage of stocks than bonds, but some take a more conservative approach and hold a larger percentage of bonds. Depending on your situation and risk tolerance, you might consider holding more than one balanced fund, one tilted toward stocks and the other tilted toward bonds. This could be helpful in tweaking your overall asset allocation. For example, you may invest more heavily in a stock-focused balanced fund while you are working and shift more assets to a bond-focused fund as you approach retirement.

Lower Highs, Higher Lows

During the 20-year period ending in October 2022, balanced funds were less volatile than stock funds, while producing higher returns than bond funds.



Source: Refinitiv, 2022, for the period 10/31/2002 to 10/31/2022. Equity funds are represented by the Thomson US: All Equity - MF Index, balanced funds by the Thomson US: Balanced - Domestic - MF Index, and bond funds by the Thomson US: All Gen Bond - MF Index. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. The results do not include the effects of fees, expenses, and taxes. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary. Investments seeking to achieve higher yields also involve a higher degree of risk.

Keep in mind that as you change the asset allocation and diversification of your portfolio, you may also be changing the level of risk. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds, including balanced funds, are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. You should read the prospectus carefully before investing.

Debt Optimization Strategies

To help improve your financial situation, you might consider reducing your debt. Before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including interest rates, payment requirements, and any prepayment or other penalties.

Start with Understanding Minimum Payments

You are generally required to make minimum payments on your debt, based on factors set by the lender. Failure to make the minimum payments can result in penalties, higher interest rates, and default. If you make only the minimum payments, it may take a long time to pay off the debt, and you will have to pay more interest over the life of the loan. This is especially true of credit-card debt.

Your credit-card statement will indicate your current monthly minimum payment. To find the factors used in calculating the minimum payment amount each month, you can review terms in your credit-card contract, which can change over time.

The minimum payment for credit cards is usually equal to the greater of a minimum percentage multiplied by the card's balance (plus interest on the balance, in some cases) or a base minimum amount (such as $15). For example, assume you have a credit card with a current balance of $2,000, an interest rate of 18%, a minimum percentage of 2% plus interest, and a base minimum amount of $15. The initial minimum payment required would be $70 [greater of ($2,000 x 2%) + ($2,000 x (18% ÷ 12)) or $15]. If you made only the minimum payments (as recalculated each month), it would take 114 months (almost 10 years) to pay off the debt, and you would pay total interest of $1,314. For consumer loans, the minimum payment is generally the same as the regular monthly payment.

Make Additional Payments

Making payments in addition to your regular or minimum payments can reduce the time it takes to pay off your debt and the total interest paid. Additional payments could be made periodically, such as monthly, quarterly, or annually.

Using the previous example ($70 initial minimum payment), if you made monthly payments of $100 on the credit card debt, it would take only 24 months to pay off the debt, and total interest would be just $396.

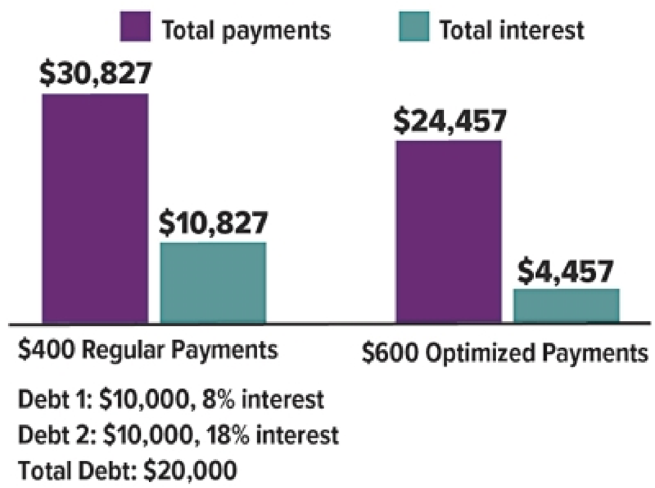
Here's another example. Assume you have a current mortgage balance of $300,000. The interest rate is 5%, the monthly payment is $2,372, and the remaining term is 15 years. If you make regular payments, you will pay total interest of $127,029. However, if you pay an additional $400 each month, it will take only 12 years and one month to pay off the mortgage, and you will pay total interest of just $99,675.

Pay Off Highest Interest-Rate Debt First

One way to potentially optimize payment of your debt is to first make the minimum payments required for each debt and then allocate any remaining dollars to debt with the highest interest rates.

For example, assume you have two debts, you owe $10,000 on each, and each has a monthly payment of $200. The interest rate for one debt is 8%; the interest rate for the other is 18%. If you make regular payments of $400, it will take 94 months until both debts are paid off, and you will pay total interest of $10,827. However, if you make monthly payments of $600, with the extra $200 paying off the debt with an 18% interest rate first, it will take only 41 months to pay off the debts, and total interest will be just $4,457.

Pay Off Highest Interest-Rate Debt First



Use a Debt-Consolidation Loan

If you have multiple debts with high interest rates, it may be possible to pay them off with a debt-consolidation loan. Typically, this will be a home-equity loan with a lower interest rate than the rates on the debts being consolidated. (Note that a federal income tax deduction is not currently allowed for interest on home-equity indebtedness unless it is used to substantially improve your home.) Keep in mind that a home equity-loan potentially puts your home at risk because it serves as collateral, and the lender could foreclose if you fail to repay. There also may be closing costs and other charges associated with the loan.

All examples are hypothetical and used for illustrative purposes only and do not represent any specific investments or products. Fixed interest rates and payment terms are shown, but actual interest rates and payment terms may change over time. Actual results will vary.

Three Ways to Help Simplify Your Finances

Over time, finances tend to get complicated, especially when you're juggling multiple goals and accounts. Simplifying your finances requires a bit of effort up front, but making just a few changes may help free up more time to focus on your financial priorities.

Make Saving Automatic

Saving for a goal is simpler when money is set aside automatically. For example, you may be able to regularly and automatically deposit a portion of your paycheck into a retirement account through your employer. Your contribution level may also increase automatically each year, if your plan offers this feature. Employers may also allow you to split your direct deposit into multiple accounts, enabling you to build up a college fund or an emergency fund, or direct money to an investment account.

Another way to make saving for multiple goals easier is to set up recurring transfers between your savings, checking, or other financial accounts. You decide on the frequency and timing of those transfers, and you can quickly make necessary adjustments.

Consolidate Retirement Funds

If you've had a few jobs, you might have several retirement accounts, such as IRAs and 401(k) or 403(b) plans, with current and past employers. Consolidating them in one place may help make it easier to monitor and manage your retirement savings and distributions, and prevent you (or your beneficiaries) from forgetting about older or lower-balance accounts. Not all accounts can be combined, and there may be tax consequences, so discuss your options with your financial and/or tax professionals.

Take a Credit Card Inventory

Credit cards are convenient, but managing multiple credit-card accounts can be time-consuming and costly. Losing track of balances and due dates may lead to increased interest charges or late payments. You could also miss out on some of the rewards and benefits your cards offer. If you've accumulated a few credit cards, review interest rates, terms, credit limits, and benefits that may have changed since you got the cards. Ordering a copy of your credit report can help you quickly see all of your open credit-card accounts — there may be some you've forgotten about. Visit annualcreditreport.com to get a free credit report from each of the three major credit reporting agencies (Experian, Equifax, and TransUnion).

Once you know what you have, you can decide which cards to use and put the rest aside. Because it's possible that your credit score might take a temporary hit, it may not always be a good idea to close accounts you're not using unless you have a compelling reason, such as a high annual fee or exposure to fraud.