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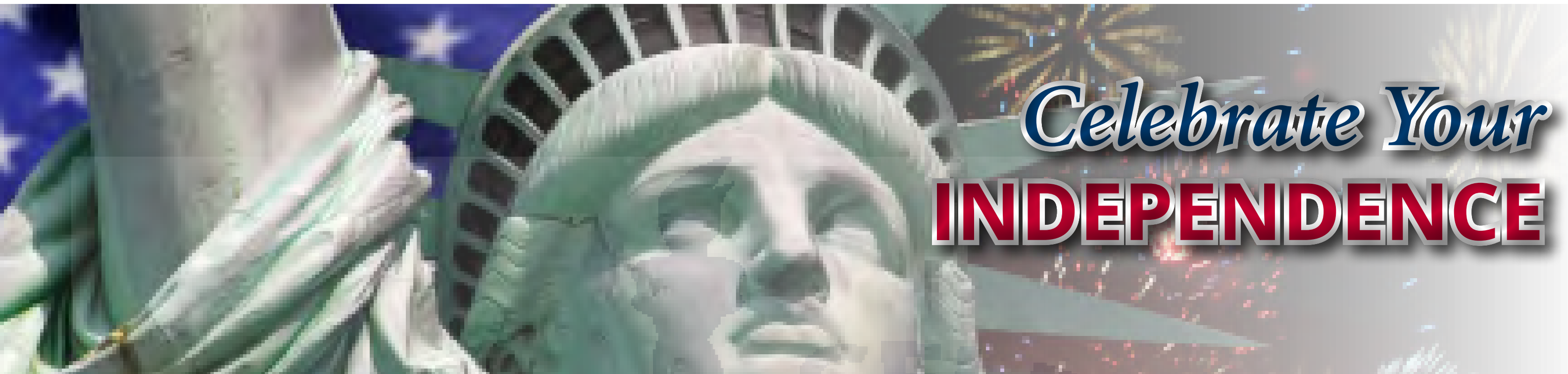
FINANCIAL EDUCATION



FINANCIAL INDEPENDENCE

Close your eyes, picture your retirement. What do you see?
Each of us has a different view of what retirement looks like. Some imagine sitting on a beach, drink in hand, looking into the horizon with a feeling of peace and security. Others imagine a home full of grandchildren and visions of future generations with less worries and fears about how their own retirements will turn out.

We all strive for financial independence regardless of how we individually define what it indeed looks like to us. Many believe there will be lots of years of work for the simple goal of retiring on your desired terms. It is true that planning retirement can seem daunting, because discipline and consistency are necessary to achieve goals. We all know that, yet statistics tell us that it doesn't happen all that often.

In fact, knowing all the stats, does it really matter? If you are unique, then your goal is to ensure that you can meet your goals. As an individual / family you have the opportunity to be self-reliable. The question then becomes, what do I need to do to achieve those goals?

One of today's realities, as we discussed last month with people living longer, it is possible to be retired for more years than you served as an officer. The other reality is recent pay increases have not kept up with the cost of living, so over time the price of life (food, clothes, etc) rises faster than one's ability to pay for it.

So, what's a person to do?
Start by looking back on the last month to see how much you've spent. Take the time to review your checking and credit card account statements. Check out *expense-tracking-services-review.toptenreviews.com*, a site that gives you the best of expense tracking mobile apps.

Once you know what you spend during a typical month, subtract any Social Security payments you and your spouse or partner expect to receive in retirement (find estimated amounts at the Social Security website). Be sure to subtract any pension payments you know will be coming your way as well.

Take the remaining amount and multiply by 200. The result is what you will need to have in savings, investments, and retirement accounts before you can retire comfortably.

Expressed in a formula it is:
(Monthly spending – Expected Monthly SS/ Pension) X 200 = Target Retirement Amount

So can you retire comfortably?
You can use a similar variation of this formula to see how you are progressing towards your goals. Just as before, start with your typical monthly expense amount. The below gives you where you should be...
In your 20s: Current Monthly Spending x 10
In your 30s: Current Monthly Spending x 25
In your 40s: Current Monthly Spending x 50
In your 50s: Current Monthly Spending x 100

Once you have assessed what you need, be sure to pay yourself first, and don't wait any longer to take advantage of the deferred compensation programs offered to you. Make sure your investments are in line with your risk tolerance and your goals. Review them periodically to ensure that you are always on track and if not make the necessary changes.

No matter where you are in life, being more financially educated can help you decide where to place your money, which tools to utilize, and how to achieve your goals. Research has shown that large portions of the American public do not understand basic concepts of financial literacy. Defined as the ability to use knowledge and skills to manage financial resources effectively, financial education is a fundamental skill that even today is rarely covered in schools. For many, it's something you learn as you go through life. Sadly, many never get the education they deserve.

If it feels like you're living paycheck to paycheck, you can't seem to get ahead with your loan payments, or you are not making headway on reaching your goals; it's a good idea to invest some time in learning the basics of financial education.

In the next part of the series, we are going to discuss the value of money and what it means to you over your lifetime.

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MID-YEAR 2016: AN INVESTMENT REALITY CHECK

Market volatility is alive and well in 2016. Low oil prices, China's slowing growth, the prospect of rising interest rates, the strong U.S. dollar, global conflicts--all of these factors have contributed to turbulent markets this year. Many investors may be tempted to review their portfolios only when the markets hit a rough patch, but careful planning is essential in all economic climates. So whether the markets are up or down, reviewing your portfolio with your financial professional can be an excellent way to keep your investments on track, and midway through the year is a good time for a reality check. Here are three questions to consider.

1. How are my investments doing?

Review a summary of your portfolio's total return (minus all fees) and compare the performance of each asset class against a relevant benchmark. For stocks, you might compare performance against the S&P 500, Russell 2000, or Global Dow; for mutual funds, you might use the Lipper indexes. (Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security, and you can't invest directly in an unmanaged index.)

Consider any possible causes of over- or underperformance in each asset class. If any over- or underperformance was concentrated in a single asset class or investment, was that consistent with the asset's typical behavior over time? Or was recent performance an anomaly that bears watching or taking action? In addition, make sure you know the total fees you are paying (e.g., mutual fund expense ratios, transaction fees), preferably as a dollar amount and not just as a percentage of assets.

2. Is my investment strategy on track?

Review your financial goals (e.g., retirement, college, house, car, vacation fund) and market outlook for the remainder of the year to determine whether your investment asset mix for each goal continues to meet your time frame, risk tolerance, and overall needs. Of course, no one knows exactly what the markets will do in the future, but by looking at current conditions, you might identify factors that could influence the markets in the months ahead--things like inflation, interest rates, and economic growth projections from the Federal Reserve. With this broader perspective, you can then update your investment strategy as necessary.

Remember, even if you've chosen an appropriate asset allocation strategy for various goals, market forces may have altered your mix without any action on your part. For example, maybe your target was 70% stocks and 30% bonds, but now you have 80% stocks and 20% bonds. To return your asset mix back to its original allocation, you may want to rebalance your investments. This can be done by selling investments and transferring the proceeds to underrepresented asset classes, or simply by directing new contributions into asset classes that have been outpaced by others. Keep in mind that rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.

Asset allocation does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

3. Am I maximizing my tax savings?

Taxes can take a significant bite out of your overall return. You can't control the markets, but you can control the accounts you use to save and invest, as well as the assets you choose to hold in those accounts. Consider the "tax efficiency" of your investment portfolio. Certain types of investments tend to result in larger tax bills. For example, investments that generate interest or produce short-term capital gains are taxed as ordinary income, which is usually a higher rate than long-term capital gains. Dividing assets strategically among taxable, tax-deferred, and tax-exempt accounts may help reduce the effect of taxes on your overall portfolio.

All investing involves risk, including the loss of principal, and there can be no guarantee that any investing strategy will be successful.

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FOUR REASONS WHY PEOPLE SPEND TOO MUCH

You understand the basic financial concepts of budgeting, saving, and monitoring your money. But this doesn't necessarily mean that you're in control of your spending. The following reasons might help explain why you sometimes break your budget.

1. Failing to think about the future

It can be difficult to adequately predict future expenses, but thinking about the future is a key component of financial responsibility. If you have a tendency to focus on the "here and now" without taking the future into account, then you might find that this leads you to overspend.

Maybe you feel that you're acting responsibly simply because you've started an emergency savings account. You might feel that it will help you cover future expenses, but in reality it may create a false sense of security that leads you to spend more than you can afford at a given moment in time.

Remember that the purpose of your emergency savings account is to be a safety net in times of financial crisis. If you're constantly tapping it for unnecessary purchases, you aren't using it correctly.

Change this behavior by keeping the big picture in perspective. Create room in your budget that allows you to spend discretionary money and use your emergency savings only for true emergencies. By having a carefully thought-out plan in place, you'll be less likely to overspend without realizing it.

2. Rewarding yourself

Are you a savvy shopper who rarely splurges, or do you spend too frequently because you want to reward yourself? If you fall in the latter category, your sense of willpower may be to blame. People who see willpower as a limited resource often trick themselves into thinking that they deserve a reward when they are able to demonstrate a degree of willpower. As a result, they may develop the unhealthy habit of overspending on random, unnecessary purchases in order to fulfill the desire for a reward.

This doesn't mean that you're never allowed to reward yourself--you just might need to think of other ways that won't lead to spending too much money. Develop healthier habits by rewarding yourself in ways that don't cost money, such as spending time outdoors, reading, or meditating. Both your body and your wallet will thank you.

If you do decide to splurge on a reward from time to time, do yourself a favor and plan your purchase. Figure out how much it will cost ahead of time so you can save accordingly instead of tapping your savings. Make sure that your reward, whether it's small or big, has a purpose and is meaningful to you. Try scaling back. For example, instead of dining out every weekend, limit this expense to once or twice a month. Chances are that you'll enjoy going out more than you did before, and you'll feel good about the money you save from dining out less frequently.

3. Mixing mood with money

Your emotional state can be an integral part of your ability to make sensible financial decisions. When you're unhappy, you might not be thinking clearly, and saving is probably not your first priority. Boredom or stress also makes it easy to overspend because shopping serves as a fast and easy distraction from your feelings. This narrow focus on short-term happiness might be a reason why you're spending more than normal.

Waiting to spend when you're happy and thinking more positively could help shift your focus back to your long-term financial goals. Avoid temptations and stay clear of stores if you feel that you'll spend needlessly after having an emotionally challenging day. Staying on track financially (and emotionally) will benefit you in the long run.

4. Getting caught up in home equity habits

Do you tend to spend more money when the value of your assets--particularly your property--increases? You might think that appreciating assets add to your spending power, thus making you feel both wealthier and more financially secure. You may be tempted to tap into your home equity, but make sure you're using it wisely.

Instead of thinking of your home as a piggy bank, remember it's where you live. Be smart with your home equity loan or line of credit--don't borrow more than what is absolutely necessary. For example, you may need to borrow to pay for emergency home repairs or health expenses, but you want to avoid borrowing to pay for gratuitous luxuries that could put you and your family's financial security at risk. After all, the lender could foreclose if you fail to repay the debt, and there may be closing costs and other charges associated with the loan.

You may be more likely to overspend on a particular purchase compared to other possible expenditures.
According to research conducted by the Consumer Reports National Research Center, adults in the United States reported that they would spend money on the following throughout the year:

- 54%--electronics
- 33%--appliances
- 27%--a car
- 23%--home remodeling

Source: Consumer Reports, November 2014

SHOULD YOU BUY OR LEASE YOUR NEXT VEHICLE?

	Buying considerations	Leasing considerations
Ownership	When the vehicle is paid for, it's yours. You can keep it as long as you want, and any retained value (equity) is yours to keep.	You don't own the car--the leasing company does. You must return the vehicle at the end of the lease or choose to buy it at a predetermined residual value; you have no equity.
Monthly payments	You will have a monthly payment if you finance it; the payment will vary based on the amount financed, the interest rate, and the loan term.	When comparing similar vehicles with equal costs, the monthly payment for a lease is typically significantly lower than a loan payment. This may enable you to drive a more expensive vehicle.
Mileage	Drive as many miles as you want; a vehicle with higher mileage, though, may be worth less when you trade in or sell your vehicle.	Your lease will spell out how many miles you can drive before excess mileage charges apply (typical mileage limits range from 12,000 to 15,000).
Maintenance	When you sell your vehicle, condition matters, so you may receive less if it hasn't been well maintained. As your vehicle ages, repair bills may be greater, something you generally won't encounter if you lease.	You generally have to service the vehicle according to the manufacturer's recommendations. You'll also need to return your vehicle with normal wear and tear (according to the leasing company's definition), so you may be charged for dents and scratches that seem insignificant.
Up-front costs	These may include the total negotiated cost of the vehicle (or a down payment on that cost), taxes, title, and insurance.	Inception fees may include an acquisition fee, a capitalized cost reduction amount (down payment), security deposit, first month's payment, taxes, and title fees.
Value	You'll need to consider resale value. All vehicles depreciate, but some depreciate faster than others. If you decide to trade in or sell the vehicle, any value left will be money in your pocket, so it may pay off to choose a vehicle that holds its value.	A vehicle that holds its value is generally less expensive to lease because your payment is based on the predicted depreciation. And because you're returning it at the end of the lease, you don't need to worry about owning a depreciating asset.
Insurance	If your vehicle is financed, the lien holder may require you to carry a certain amount of insurance; otherwise, the amount of insurance you'll need will depend on personal factors and state insurance requirements.	You'll be required to carry a certain amount of insurance, sometimes more than if you bought the vehicle. Many leases require GAP insurance that covers the difference between an insurance payout and the vehicle's value if your vehicle is stolen or totaled. GAP insurance may be included in the lease.
The end of the road	You may want to sell or trade in the vehicle, but the timing is up to you. If you want, you can keep the vehicle for many years, or sell it whenever you need the cash.	At the end of the lease, you must return the vehicle or opt to buy it according to the lease terms. Returning the vehicle early may be an option, but it's likely you'll pay a hefty fee to do so. If you still need a vehicle, you'll need to start the leasing (or buying) process all over.

After declining dramatically a few years ago, auto sales are up, leasing offers are back, and incentives and deals abound. So if you're in the market for a new vehicle, should you buy it or lease it? To decide, you'll need to consider how each option fits into your lifestyle and your budget. This chart shows some points to compare.

Buying or leasing tips

- Shop wisely. Advertised deals may be too good to be true once you read the fine print. To qualify for the deal, you may need to meet certain requirements, or pay more money up front.
- To get the best deal, be prepared to negotiate the price of the vehicle and the terms of any loan or lease offer.
- Read any contract you're asked to sign, and make sure you understand any terms or conditions.
- Calculate both the short-term and long-term costs associated with each option.

My daughter is about to start college. What does she need to know about opening her first checking account?

Starting out on one's own in college involves many financial firsts. Opening a checking account to manage money might be just one of them. As your daughter prepares to head off to school, she should begin to shop around and find a bank or credit union that offers the best deal. Many banks (both local and national) and credit unions offer accounts tailored specifically to young adults. Some things she should keep in mind when shopping around include:

- Is there a monthly maintenance fee?
- Are there overdraft charges?
- Does the account pay interest?
- Does the account come with free checks?
- Is there an ATM on campus or close by?
- Are there penalties for using an out-of-network ATM?

Many colleges and universities have begun to partner with financial institutions to offer accounts to their students. In fact, 40% of college students attend schools with these types of arrangements. (Source: U.S. Government Accountability Office, College Debit Cards, February 2014) Some colleges may use official communications, such as email, to market a particular financial institution's products. Others may allow a financial institution's staff on campus to promote their products. A college or university may even be paid when a student opens a sponsored account. It's important to note that these sponsored accounts can come with high fees. As a result, you'll want your daughter to be aware that just because an account is sponsored by her college or university doesn't necessarily mean it's the best option, or even that she has to use it.

Cartoon: 401(k)-9

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