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WHAT IS FINANCIAL PLANNING?

Hint: It’s a process, not a product!

THE BUILDING BLOCKS OF FINANCIAL PLANNING

Budgeting

- Budgeting is simply the process of identifying AND DIRECTING where your money goes.
- Budgeting is a powerful tool regardless of whether you are concerned about outspending your current income or if you have more money than you can spend every month.
- A good budget can help you:
  - Build an adequate emergency fund so your lifestyle doesn't change when something happens unexpectedly.
  - Identify and fund the things you want and the things you want to do – in the short term and long term.
  - Planning for and living within your retirement. This includes factoring in inflations and changes in both income and expenses.

THE BUILDING BLOCKS OF FINANCIAL PLANNING

Controlling Debt

- Being debt free is great and is a great goal to have. But for many it is unrealistic and, for some, even not advisable.
- Did you know:
  - Making the minimum payment on a credit card with a $5,000 balance and a 24% interest rate will cost you about $200 a month and take over 13 ½ years to pay off? Assuming you don't charge anything else?

THE BUILDING BLOCKS OF FINANCIAL PLANNING

Taxes

- The average American pays 14% of total household income in taxes according to the Bureau of Labor Statistics. That's $10,489 in 2018.
- Many people lose deductions that they would otherwise qualify for. That leaves less money for spending and/or saving. Some examples include:
  - Medical expenses don't just include doctor and hospital bills. It can include transportation to and from appointments, parking fees, and even toll roads.
  - "Over the counter" medical devices such as hearing aids, glasses, contacts.
  - Medical expenses such as crutches, wheelchairs, walkers, canes, and even orthopedic inserts for shoes.
  - Certain taxes and penalties you paid.
  - Costs of tax preparation – even if you buy a software package or pay a website.

THE BUILDING BLOCKS OF FINANCIAL PLANNING

Retirement

- Even though retirement may have seemed like the “finish line” it really isn’t.
- People are living longer, which means, two things:
  - First, 40% of people in an AARP survey reported that they thought they would have to work until they die.
  - Second, when planning for retirement, people have to plan for a longer time.

THE BUILDING BLOCKS OF FINANCIAL PLANNING

Retirement

- There are several items to consider in retirement when it comes to financial planning.
  - Estate planning – proper estate planning can help you and your heirs.
  - Income planning – a review of your retirement income can reveal ways that you can improve it even after you have retired.
  - Work on spending. Some people want to spend a lot of money in retirement traveling the world and others want to take it easy and work around the house. Financial planning can help you make sure you have the money you need when you need it regardless.
  - Get your insurance in line. Many people don’t need life insurance in retirement – but some still do. And financial planning can help you identify and access benefits from policies like long term care, critical illness, and even provide more income.

RETIREMENT

Choices, choices, choices

RETIREMENT INVESTMENTS

Stocks

- Stock is simply a fractional ownership of a company.
- As a stockholder, you are entitled to any increase – or loss – in the total value of the company.
  - Example: May owns 10,000 shares of MegaCorp stock which has a total company value of $10,000,000. MegaCorp has 100,000 shares of stock outstanding. May's stock is worth $1,000,000.
  - If MegaCorp's value increases to $11,000,000, May's stock is now worth $1,100,000.
  - If MegaCorp's value decreases to $9,000,000, May's stock would be worth $900,000.

RETIREMENT INVESTMENTS

Stocks

- Stocks are categorized several ways including:
  - Large, Mid, and Small Cap
  - Share Classes
  - Preferred and Common
- As a stockholder you are also entitled to dividends – if the company pays them. They are not required to! (Dividends are taxable income each year they are paid.)
- So, with stock, you can make money two ways:
  - The stock value goes up and/or,
  - You receive dividends.

RETIREMENT INVESTMENTS

Bonds

- Bonds are loans to companies (or governments).
- You are paid interest for the use of your money (the "coupon" rate).
- Bonds have a "maturity" date, meaning you get your original investment back on that date.
- The interest payments are (probably) taxable income to you.
- Bonds fall into categories too:
  - Government – typically federal government bonds.
  - Municipal – issued by state, city and local entities and may pay tax-free interest to residents.
  - Quality:
    - High-grade – Probably safer in terms of receiving your interest payments and principal at maturity
    - High-Yield – Bonds that are riskier but pay a higher interest rate. You may not receive your payments and principal!

RETIREMENT INVESTMENTS

Mutual Funds

- When you own a mutual fund, you own a piece of a “company” that buys other investments.
- Allows you to diversify your investments much more than buying stock directly.
- Example:
  - Jimmie has $1,000 to invest and would like to invest in several utilities to provide income for retirement. Utility 1’s stock price is $50, Utility 2’s is $100, and Utility 3’s is $150. Jimmie could only buy 20 shares of 1, 10 shares of 2 or just 6 shares of 3.
  - Or Jimmie could invest his $1,000 in a mutual fund that specializes in utilities and could invest in 40 or 50 different companies.
- Remember, mutual funds are not free! Some charge commissions to purchase and virtually all charge management fees every year.

RETIREMENT INVESTMENTS

Annuities

- Annuities are contracts issued by insurance companies.
- Annuities are the ONLY investment option that GUARANTEES you will not run out of money.
- Annuities can be:
  - Fixed – the insurance company pays a fixed amount of interest or payments to you each month and it won't change.
  - Indexed – the interest earned is a percentage of some stock index like the S&P 500.
  - Variable – the earnings and often the payments you receive are tied to the investments that you choose. In a "pure" variable annuity, you can make or lose money!

RETIREMENT INVESTMENTS

Annuities

- Annuities have also evolved over the years. Now they often offer additional benefits (at a cost) such as:
  - A death benefit like life insurance,
  - A guaranteed minimum interest rate so you won't lose money,
  - A guaranteed minimum amount you will receive each month – regardless of actual performance of the annuity.

  - The guarantees associated with Annuities are subject to the financial strength of the issuing insurer and the specific terms and restrictions of the applicable policy or contract. The insurance features do not guarantee that the investment will not fluctuate in value

FINANCIAL MISTAKES TO AVOID

FINANCIAL MISTAKES TO AVOID

Taxes

- Investment #1:
  - 100% interest earned daily. 34% income taxes also paid daily

- Investment #2
  - 100% interest earned daily. 34% income taxes paid when withdrawan.

- Investment #3
  - 100% interest earned daily. Tax-free.

- At the end of day 21:
  - Investment #1: $______________
  - Investment #2: $______________
  - Investment #3: $_______________– _______% more!

FINANCIAL MISTAKES TO AVOID

Being Too Conservative

- Wells Fargo did a survey that reported that 59% invested to avoid loss rather than for gains.
- Investing in Bonds for Dummies warns against being too conservative.
- If you invest $200 a month for 20 years, at 1% you would have $25,109.
- If you invest $200 a month for 20 years at 8%, you would have $35,627 -38% more!
- You would need to put aside an extra $100 a month – 50% more – to get that much at 1%.

FINANCIAL MISTAKES TO AVOID

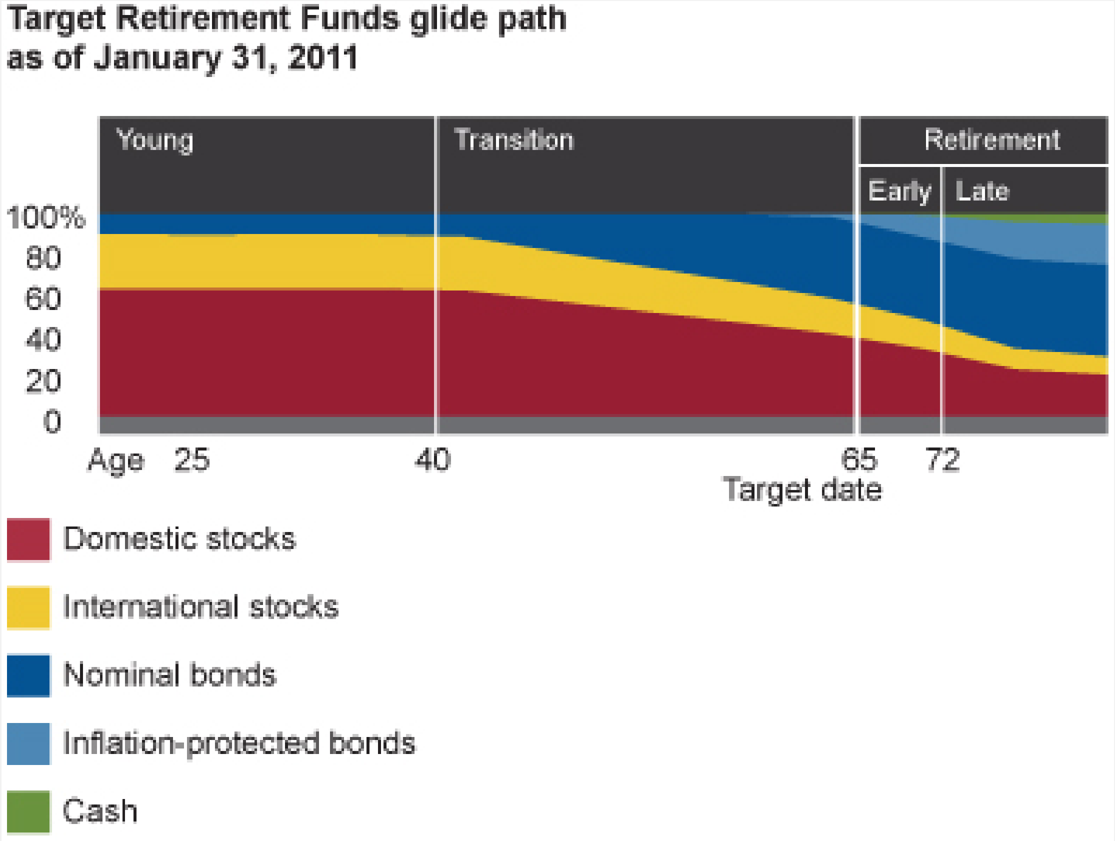
Being Too Risky

- Investing is not a competition! You don't have to make more than everyone else!
- Investing is about planning to meet your goals and sticking to that plan, making adjustments along the way.
- No one knows what the market will do tomorrow, next week, or next year. But we do know that over last 90 years, there has never been a 20 year period in which the Dow Jones Industrial Average OR the S&P 500 has lost value.

FINANCIAL MISTAKES TO AVOID

Being Too Risky

- A "glide path" is sometimes used to plan for moves toward more conservative investments as the time horizon shortens.



BE SAFE!

Resources for Better Investing

- If it sounds too good to be true, it probably is.
- Check the person's qualifications –
  - There are hundreds of professional designations available. Some are little more than something like diploma mills.

BE SAFE!

Resources for Better Investing

- Look for the respected marks such as:
  - Certified Financial Planner/CFP – requires a series of tests over virtually all financial planning topics.
  - Chartered Financial Consultant/ChFC – similar to CFP in that it requires a series of tests but is targeted more to insurance industry.
  - Chartered Retirement Counselor/CRC – Focuses on retirement planning. Requires 5 years of experience and a 200 question exam.
  - Chartered Life Underwriter/CLU – Requires several exams. Demonstrates proficiency in life insurance topics.
  - Chartered Property and Casualty Underwriter/CPCU – Widely recognized as the most comprehensive program for auto/home/business/farm/liability insurance.
- FINRA Broker Check: https://brokercheck.finra.org – Industry watchdog site to check individual brokers and the companies they work for.

BE SAFE!

Know Who You Are Talking To

- BrokerCheck will show you if the person has formal complaints, disciplinary actions, tax liens, etc. https://brokercheck.finra.org
- CFP website will give you background information on any CFP Certificant. http://www.cfp.net
- Understand the person's abilities and motivations.
  - Life insurance companies often call their agents financial representatives or even financial advisors. But they have to sell life insurance to keep their jobs.
  - Many larger well-known financial organizations have quotas that their representatives must meet to keep their jobs or get bonuses. This may tempt some to offer products that are not necessarily in your best interests.

BE SAFE!

Know Who You Are Talking To

- Not all representatives can offer all products –
  - Annuities can only be offered by representatives with a license to sell life and health insurance.
  - Mutual funds require a securities registration (license). If a representative does not have that registration they are not allowed to offer or service mutual funds.
  - A person must be an Investment Advisor Representative (IAR) in order to charge a fee for money management. Otherwise, they may only be eligible for commission products.
- Pay attention to the ongoing costs of what you are being offered.
  - Annuities and other investments often carry surrender charges effectively locking you in for 5, 10 or more years.
  - https://tools.finra.org/fund_analyzer/ will show you the expense fee for any mutual fund.
  - Be sure to check the prospectus/contract/brochure of other investments for ongoing costs.

TO DO:

Stop by the Transitions Financial LLC Table and pick up information.

- Use the computer at the table to access Broker Check to look up your financial advisors.
- See the FINRA fund analyzer in action.

Sign up for a free mini-analysis of your current situation with Tom Faulconer which includes

- Looking at your retirement income, estate planning
- Making recommendations

Tom Faulconer is an Investment Advisor Representative, a 20 year CFP® and local attorney with extensive experience in various facets of financial planning. His company, Transitions Financial LLC, is dedicated to helping those through life's financial transitions. Tom firmly believes that it is as important to protect clients from the wrong investment as it is to make sure they have the right ones. He is licensed in insurance, and carries Series 7 and 66 securities registrations. Transitions Financial LLC is a fee-based planning firm.

ABOUT US

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