Nest Builder Financial Advisors, Ltd.

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"News from the Nest"

Welcome to our newsletter. Please email us at: Mary@NestBuilderFinancial.com with your suggestions, comments or questions.

Recently

Last year the market dropped nearly 10% from January to February, but the S&P 500 closed up 9.5% (the Dow Jones Industrial Average was up 13%) for the year with much of the increase coming in the final two months. The markets have started 2017 on an upbeat note, hopeful that slow economic growth will pick up speed, bringing more people back to work and triggering higher wages.

Over 62% of boomers age 55-64 were employed as of October, just shy of the record in 2008 whereas millennials 25-34 are 2.5% below peak employment and those 16-24 are still 12% below peak employment. Many boomers were caught up in job and housing losses and are now working longer to catch up.

December brought the first and only interest rate increase in 2016, only the second increase in 10 years. The Fed is expecting faster growth and more rate increases in 2017. Home buyers, be aware of higher interest rates, and double check property taxes and the assessor's appraisal.

Handy Tip

If one of your new year's resolutions is to get more organized, you may come across old clothing that's so worn or stained that you wouldn't donate it. Rather than throwing it away, consider dropping it off at a SWALCO recycle bin where they'll recycle textiles. See http://www.swalco.org/187/Clothing-Textiles for drop off locations and a list of acceptable and unacceptable items. Don't forget to donate usable items to charity…and save the receipts!

Common Cents

You may have heard that a new car is worth considerably less once a new owner drives it off the lot. Because of depreciation, a $30,000 new car may lose up to half its value in 4 years. If you keep a car for a long time, the effect of depreciation is greatly reduced. Cars today can often last for 150,000 or even 200,000 miles, so buying and holding for eight years or more is a better value than replacing a new car every 4 or 5 years. Another strategy is to buy a car that is just a couple of years old and let the previous owner take the biggest depreciation penalty; meanwhile you still have warranty coverage.

Dear Mary,

I bought a universal life insurance policy many years ago, expecting it would cover me for life. Now in retirement, I'm learning I need to pony up tens of thousands of dollars to keep the policy in force. What gives? Signed, Disillusioned Dad

Dear Disillusioned Dad,

Unfortunately, universal policies may not be guaranteed for life and those issued many years ago frequently used what is now an unrealistic investment return assumption of 10% or so. Since the 2008 financial crisis, interest rates dropped to near zero and have stayed very low for years, so policies that assumed a double-digit return have come up short.

Does your family still depend on your income or the insurance to meet their living expenses such as food, shelter, etc.? Often, by retirement boomers have built a portfolio that can eliminate the need for insurance, especially if the mortgage is paid off or if the survivor(s) downsize their home. If insurance is still needed you might consider dropping to a lower cost – lower benefit policy, or even a short-term term policy to cover you until, say age 70 or so, when other factors such as 401(k) distributions and a delayed Social Security benefit might start.

Financial Considerations, Decade by Decade

In your 20's, your greatest assets are your human capital, i.e., your ability to earn money and grow your earnings over your career, and time for compounding your investments. Work those assets to your advantage by continuing your education, either formally through a college program, or specific courses related to your work, and invest aggressively in your 401(k), Roth IRA or other retirement account. Focus on getting the full employer match in a 401(k), if available and work on developing sound financial habits like doing an annual review of your net worth and asset allocation, rebalancing annually, buying slightly used cars, saving for "wants" like vacations, big-screen TV's, etc. before you purchase them, and not carrying credit card debt.

In your 30's, continue the path above while realizing you may have more responsibility, certainly at work, but possibly settling down, starting a family and buying a house. If loved ones depend on your income, it's important to have individual life and disability policies to help pay the mortgage or child care should the need arrive. Live beneath your means, and have an emergency fund of about 6 months' living expenses to avoid credit card debt and falling behind on obligations.

Your 40's often bring more expenses, either with upsizing your home or college costs or both. Be careful here: it may be easy to go big with a new home or pay for most or all of your children's college costs while working at a good job, but these can be costly and hurt your prospects for retirement. You might think you'll make up for indulgences by working past normal retirement age, but be aware that many people can't work well into their 60's because of health issues (their own or a loved one's) or they lose their job and can't replace it with a comparable paying job. Again, have an emergency fund, avoid credit card debt.

Your 6th decade may be the time you finally push ahead on your retirement savings, with 401(k) plans allowing extra savings via the "catch-up" provision. Your 50's and beyond will be easier if you started good financial habits early, but it's not too late to step up your game! Are you maxing out your 401(k)? How will that affect your retirement plans?

In your 60's you will start to realize the results of your financial habits. If you mostly lived beneath your means, you will have more confidence of meeting your goals in retirement. You may have lower expenses due to a paid off home or, you might even live above the means you were accustomed to because of your high savings rate and returns, a move to a low-cost destination, and/or a generous pension.

"Life's tragedy is that we get old too soon and wise too late."

Ben Franklin

Mary Erl, CFP®