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MORGAN STANLEY WEALTH MANAGEMENT

U P D A T E

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Nurture Your IRA

It's tempting to pay little attention to an individual retirement account (IRA). After all, with a maximum contribution of $5,500 in 2018 and $6,000 in 2019 (plus an additional $1,000 catch-up contribuiton if you are over age 50), how much can an IRA contribute to the vast sums you'll need for retirement? The answer is plenty, especially if you follow these tips:

✔ **Start contributing as soon as possible.** That way, tax-deferred or tax-free compounding of earnings can have a dramatic impact on your IRA's ultimate value. Consider the following example. Four individuals, ages 20, 30, 40, and 50, each contribute $5,000 to an IRA this year. With an 8% annual return, at age 65 the 50-year-old will potentially have $15,861, the 40-year-old will have $34,242, the 30-year-old will have $73,927, and the 20-year-old will have $159,602.*

✔ **Contribute every year until you reach retirement.** Even if you can't afford the maximum contribution, contribute something every year. Over a period of time, a modest investment program can grow to a significant sum. Assume that at age 30, you start contributing $5,000 per year to an IRA, earning 8% compounded annually. After one year, you'll have only $5,400. But that will grow to $29,333 after five years, $72,433 after 10 years, $228,810 after 20 years, and $861,581 after 35 years, when you

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Overdiversification

Diversify. Diversify. Diversify. While this investment advice seems to be continually discussed, it is possible to overdiversify, which can lead to lackluster returns. Thus, it is important to know the difference between healthy diversification and excess diversification.

The primary benefit of diversification for your portfolio is to spread market risk over different stocks in a way that will decrease the impact any one stock will have on your total return. With an appropriate level of diversification, your overall return will not be significantly impacted if one or even a few investments do not perform as expected.

Thus, it is not just the number of investments you hold that impacts your return, but how those investments interact with one another. If you keep adding investments that react to the market in the same way, you are not really diversifying. You are just adding similar investments to your portfolio.

Adding too many investments to your portfolio also makes it more difficult to monitor them. With too many investments to keep track of, it is more likely that you may miss important information about those investments.

Please call if you'd like to review the level of diversification in your portfolio. ✔✔✔

Nurture Your IRA

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turn age 65.* *(Keep in mind that an automatic investing program, such as dollar cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investments, consider your financial ability and willingness to continue purchases through periods of low price levels.)*

✔**Select investments with care.** Your IRA should be a long-term investment vehicle for retirement, so investments should be appropriate for that long time frame. Even modest changes in your rate of return can substantially impact your IRA's ultimate value. For example, assume you have $10,000 in your IRA, which will be invested for 30 years. If you earn an average rate of return of 6% compounded annually, your balance would equal $57,435. Increase that return to 8%, and your ending balance would equal $100,627, a difference of $43,192.*

✔**Fund your IRA at the beginning of the year, rather than at the end.** This allows contributions and earnings to compound for a longer period. For example, assume you are 30 years old and make a $5,000 IRA contribution at year-end for 35 years. If you earn 8% compounded annually, your IRA balance would equal $861,584 at age 65. Make the contribution at the beginning of the year instead, and your balance would equal $930,511, a difference of $68,927.*

Please call if you'd like to review strategies to help maximize your IRA's value. ✔✔✔

** These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment. They do not take into account the effects of commissions or any taxes that may be due.*

7 Steps to Make Saving a Habit

Habits are all about the principle of human inertia: we tend to keep doing what we've always done and shy away from doing something new. That principle may work against you at first. If you're not used to saving money, it can be hard to get started. But once you gain some momentum, it'll be relatively easy to keep it up.

We all need to save money to meet our financial goals. If you haven't started saving or aren't saving enough, here are some tips:

1. Take full advantage of payroll saving plans. Automatic payroll deduction is, without doubt, a great financial innovation. With just a few strokes of a pen on an authorization form, you hook yourself up to a savings program that works for you without any more effort. It doesn't matter what type of plan it is or how much you deposit. Just get started, and you have a new habit.

2. Aim to max out on company matches. When a company offers you a matching contribution, it's like they're saying, "Here's some free money. Want it?" What argument can anyone make to turn it down? The only conceivable one is that you need all your money to pay bills.

3. Treat saving like a bill. The old adage for saving is, "Pay yourself first." It makes perfect sense, and the trick is to treat saving like any other bill. Name an amount and a date to pay it, and make the payment when it comes due. Instead of driving to the bank, you can mail your deposit in or transfer the money online or over the phone.

4. Set up automatic checking debits. Many financial institutions offer automatic withdrawals from your checking account into your savings account, money market, or other investment account. These automatic withdrawals are as good as payroll deductions at making saving easy.

5. Set annual goals for account balances. You can never reach a goal if you don't have one. Specific annual targets for account balances become incentives to save; and by dividing the difference between your current balance and target, you can easily find the periodic amount you'll need to contribute.

6. Devote your raises to savings. When you get a raise, don't forget to increase your savings. If you can afford to, bank the entire raise. If not, at a minimum, increase your savings proportionally.

7. Save your loose change. Keep a savings jar and at the end of the week, put your loose change in it. This can mean more than coins. It can be bills below any denomination you choose, like anything less than a 10- or 20-dollar bill. At the end of the month, take it to the bank.

Saving is all about discipline — denying yourself immediate gratification in favor of securing your future. For some people, this is instinctively difficult; but at some level, it's a challenge for everyone. Following these seven steps can take some of the pain out of creating a new habit or adjusting an existing one to help you pursue your goals. ✔✔✔

5 Steps to Create an Investment Plan

Like anything in life, having a plan for your investments will help you reach your investment goals. Below are five steps for crafting your investment plan.

1. Determine Your Goal

Every good investment plan begins with a clear goal in mind. Ask yourself: "Why am I investing? What do I hope to do with that money?" For example, you might invest to: fund a child's college education, retire comfortably, buy a house, start a new business, leave a charitable bequest to a favorite cause, or pay for a wedding.

Write down your investment goals. Make them as specific as possible. Think about the kind of lifestyle you want in retirement, the cost of your dream vacation home, the cash you'll need to start your business, or the cost of tuition where your children might go to college. Write down a realistic estimate of how much you think you'll need. Making these estimates can be challenging, but it's an essential investment planning step. After all, if you don't know where you're going, you'll never get there.

2. Decide on Your Time Frame

After you outline your goals, you need to establish your timeframe for investing. Typically, your goals will fall into one of three categories:

✔ **Short term:** Short-term goals are those you expect to achieve in five years or less.

✔ **Mid term:** Mid-term goals are those you expect to achieve in five to 10 years.

✔ **Long term:** Long-term goals are those you expect to achieve in more than 10 years.

Your investing timeframe has a direct relation to the investments you'll choose. Generally, the shorter your time horizon, the less risk you want to take. If you will need your money in three years to pay for your daughter's college education, then putting all your money in riskier investments is probably not wise, as the chances of losing money are greater. Instead, less risky investments, like bonds, will likely make up a larger portion of your portfolio. But if you're investing for the long haul (say, for a retirement that's 30 years away), you can invest in higher risk investments, since you'll have more time to recover from a loss.

3. Evaluate Your Tolerance for Risk

All investments come with risk — the chance you could lose your money. But riskier investments also come with the possibility of greater return. As an investor, you must decide how much risk you're willing to accept. Your personal risk tolerance is closely related to your goals and your time frame, as well as your experience with investing and your feelings about the possibility of losing money.

4. Decide How Much to Invest

Once you've considered your time horizon, goals, and risk tolerance, you can consider how much money you want to invest. You should keep a portion of your savings in a stable, easily accessible account to use for emergencies and other immediate needs.

Once you have the funds for your initial investment, you need to decide how much you want to invest on an ongoing basis. This number will be determined by your budget, your investment goals, and your time frame. For smaller, short-term goals, determining ongoing investment amounts is fairly easy. If you want to buy a home in five years, you might open an account with $2,000 you've already saved, and then invest $400 a month for the next five years.

Deciding how much to invest for longer-term goals can be more challenging. When saving for retirement, you need to consider how much yearly income you'll need, your anticipated investment returns, when you want to retire, how long you expect to live, the impact of inflation, and the money you'll receive from other sources, like Social Security. It can be a complicated equation, which is why many people turn to a financial advisor for help running the numbers.

5. Choose Your Investments

Given the thousands of possible options, choosing investments can be overwhelming. But completing the first four investment planning steps should help you make those decisions. Again, your goals, risk tolerance, and timeframe will point you in the right direction, such as toward target-date funds designed for retirees or college savers, or a money market fund for short-term goals. But if you're baffled by all the options, it's always a good idea to seek a second opinion.

Please call if you'd like help with your investment plan. ✔✔✔

Segregating Your Risk

Your willingness to assume risk with your investments is not necessarily a static concept. You may be less willing to take risk with investments designated for an essential financial goal, while you may be more willing to take risk for nonessential goals. However, those varying risk levels may be difficult to assess if all your investments are commingled in one account.

For instance, assume you have three goals — to ensure you have enough funds to support yourself through retirement, to send your children to Ivy-league colleges, and to purchase a vacation home. The most crucial goal is to ensure you don't run out of money during retirement. Thus, you want a high level of assurance that you'll reach that goal, devoting a substantial portion of your resources to it. Your investments for that goal are likely to be somewhat conservative. The next important goal is sending your children to Ivy-league colleges. You have more limited resources to devote to that goal, plus your children can still attend a less-expensive college. For that goal, you may be willing to assume more risk. Your goal for a vacation home is clearly last, so you may have few resources to devote to it. For that goal, you may be willing to use aggressive investments.

The point is that your willingness to assume risk is not static. Commingling all your investments for all goals in one account may make it difficult to analyze your investments in this manner. Thus, you might want to set up separate accounts for each goal. ✔✔✔

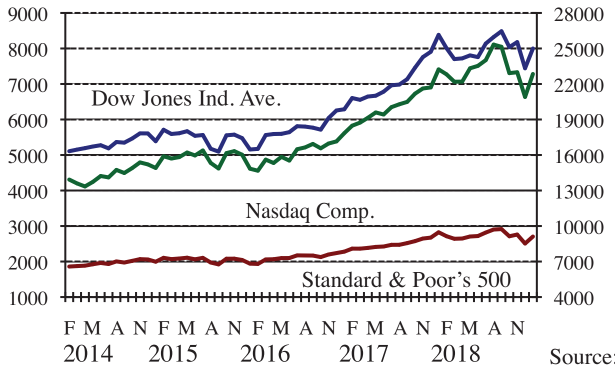
Market Data

	Month End			% Change	
Stocks:	**Jan 19**	**Dec 18**	**Nov 18**	**YTD**	**12-Mon.**
Dow Jones Ind.	24999.67	23327.46	25538.46	7.2%	-4.4%
S&P 500	2704.10	2506.85	2760.17	7.9	-4.2
Nasdaq Comp.	7281.74	6635.28	7330.54	9.7	-1.8
Wilshire 5000	27905.54	25724.51	28418.59	8.5	-4.2
Precious Metals:					
Gold	1323.25	1281.65	1217.55	3.2	-1.6
Silver	16.08	15.51	14.18	3.7	-6.7
Interest Rates:	**Jan 19**	**Dec 18**	**Nov 18**	**Dec 17**	**Jan 18**
Prime rate	5.50	5.50	5.25	4.50	4.50
Money market rate	0.59	0.56	0.58	0.33	0.30
3-month T-bill rate	2.38	2.47	2.37	1.45	1.43
20-year T-bond rate	2.91	3.03	3.22	2.66	2.74
Dow Jones Corp.	4.16	4.40	4.50	3.13	3.29
Bond Buyer Muni	4.12	4.08	4.20	3.88	3.89

Sources: *Barron's, Wall Street Journal*. *An investor may not invest directly in an index.*

Stock Indices

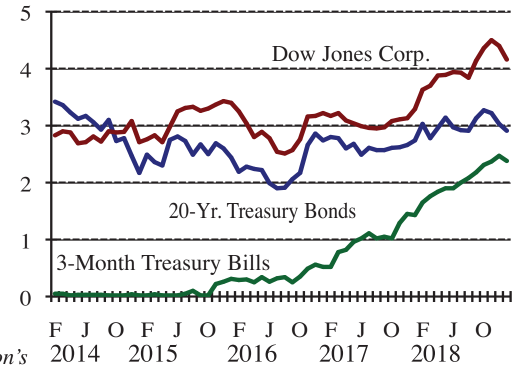
February 2014 to January 2019



Source: *Barron's*

Interest Rates

February 2014 to January 2019



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