ALAN B. DICKSON, CRPS®
Corporate Retirement Director
Vice President, Financial Advisor
949-365-5362
alan.dickson@morganstanley.com

28202 Cabot Road, Ste. 500
Laguna Niguel, CA 92677
800-965-2576
949-365-5398 Fax

DINA M. JONES
Senior Registered Associate
949-365-5316
dina.m.jones@morganstanley.com

Morgan Stanley

401(k) UPDATE

SUMMER 2018

A 3-Step Asset Allocation Plan

Perhaps the most important move you can make for your investments is to properly diversify your portfolio. By investing in a mix of stocks, bonds, and cash, you'll reduce the risk of a significant loss.

How you combine your diverse mix of investments is called your asset allocation. Asset allocation is a highly individual determination that's based on your risk tolerance, financial goals, and age. Asset allocation will spread out your investments among a mix of three types:

- ✔ **Stocks** — Stocks tend to be the riskiest investment. However, while they have the highest potential for loss, they also offer the greatest potential for gain.
- ✔ **Bonds** — Bonds tend to be less risky than stocks but more risky than cash equivalents.
- ✔ **Cash** — Cash equivalents, such as savings account, certificates of deposit, and money market accounts, typically offer the lowest risk and the lowest potential returns.

The benefits of allocating your assets across the three types of investments include:

- ✔ Proper asset allocation diversifies your portfolio among the three types of investments, reducing your risk.
- ✔ Allocating your assets between the three types allows you to tailor your portfolio to your specific goals.
- ✔ You can help manage the level of risk and volatility of your returns.

Considerations

To properly allocate your investments across stocks, bonds, and cash, consider this three-step approach to asset allocation:

Step 1: Be honest about your level of risk tolerance.

Some people think that

Continued on page 2

Your Emotions and Investing

The current bull market began in March 2009 and continues through today. While it has been a good market for investors, it also makes them nervous wondering when the market will turn. All investors know the market goes through cycles, but that doesn't make people any less nervous about their financial future. The key, however, is to avoid letting your emotions deter you from a solid investment strategy.

During any portion of the market cycle, an investor's emotions can lead to irrational decisions, as they could be on a high of a great bull run or in a panic when the bear enters. Both have the potential of negatively impacting investment performance.

Having a plan based on your objectives and risk tolerance with an asset allocation and diversification that is aligned to your financial situation is key. Additionally, you will want to stress test your plan to understand how poor market conditions can affect it. Performance modeling can bring you peace of mind knowing you will be able to ride out a market decline, or it can also lead you to make adjustments to your plan to better meet your needs. ❍❍❍

Copyright © 2018. Some articles provided in this newsletter were prepared by Integrated Concepts, a separate, nonaffiliated business entity. This newsletter intends to offer factual and up-to-date information on the subjects discussed, but should not be regarded as a complete analysis of these subjects. Professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

FR2017-1025-0001

A 3-Step Asset

Continued from page 1

investing in a relatively unknown start-up company with a great idea is a sound investment, while others prefer to stick with stable companies with household names. In other words, people's risk tolerances vary.

If you don't mind the more dramatic ups and downs associated with higher-risk investments, you may see higher return potential. But if you can't stand the thought of putting your hard-earned money in an untested company, you're probably better off sticking with relatively low-risk allocations, even though you may see more modest returns.

Step 2: Write down your financial goals.

What are the purposes of your investments? Are you saving to buy your first home? Planning to send your children to college? Looking to retire early? Whatever your financial goals are, knowing them will help you determine how to allocate your assets to help you meet them.

Step 3: Consider your time horizon.

How much time do you have before you need money for your goals? Is retirement a long-term goal, with 30 years to go? Or is it a short-term goal, with only five years to go? If you're just starting a career, do you have short-term goals, like buying a house, as well as intermediate-term goals, like sending your children to college?

There's no consensus on exactly how much of your portfolio should be in any of the three investment categories at any time. However, broadly speaking, the further away in time you are from your financial goals, the more aggressively you can be invested.

For example, if your financial goal is retirement and you are just starting out, you will want to have a higher percentage of your assets invested in stocks and the lowest percentage in cash. As you near retirement, though, you'll want to reallocate your assets more conservatively, so that a larger percentage is in bonds and cash than in stocks.

Cutting Financial Clutter

Piles of bills. Old paperwork. Misplaced statements. Financial clutter can cause more than stress. It can also cause you to lose money because of missed contribution deadlines, forgotten accounts, overlooked tax savings, and more. Below are six tips to help you cut clutter.

1. Prepare an inventory. Set aside time for a financial inventory. First, make a list of all your financial accounts. Then gather all your financial paperwork in one place and organize it into three piles: One of things to keep hard copies of, one of things to keep digital copies of, and another of things to get rid of completely.

2. Shred, shred, shred. Much of the paperwork you've been hanging on to for years can be thrown away. Tax returns can usually be disposed of after three years, though in some cases (like if you're self-employed) you'll want to keep them for a longer period. Credit card statements can typically be shredded once you've confirmed there are no erroneous charges; and most receipts can be pitched right away, unless they're for a large purchase or an item you plan to deduct from your taxes. Loan documents can be shredded once you've paid off the debt in full.

3. Get a scanner. Invest in an affordable scanner and make digital copies of records you want to retain but don't need originals of.

4. When possible, consolidate accounts. Having numerous financial accounts is a major source of clutter. Streamline and consolidate if viable. Not only will this make things easier to manage, but you'll reduce the risk of forgetting accounts and eliminate extra fees. Consolidating investment accounts will also make it easier to make sure your portfolio is properly allocated and diversified.

5. Automate your finances. Sign up for online bank account and investment statements. However, because some banks may only allow you to access the past several months of statements, you may want to download the records and save them elsewhere. When feasible, automate bill payment and paycheck deposits.

6. Get an online vault and home safe. Personal computers can be compromised or stolen, so you may want to add an extra layer of protection by storing your financial information in a secure online vault. An added bonus? You'll be able to access your financial information from anywhere. Of course, not everything can be stored online. A fireproof home safe is a good place to store items you need to maintain original copies of. Marriage and death certificates, deeds to your home, car titles, Social Security cards, and copies of your will are all items commonly stored in home safes. One word of caution if you have a safe — make sure your family will be able to access it in the event you die or become ill.

Which Is Better? Saving or Paying Down Debt?

Debt can be dangerous to your financial health. Thus, is it better to save or pay down your debt first? The answer depends on a lot of things that are unique to each individual, such as your age, how much you've already saved, what rate of interest you're paying, and more. A review of the basics of financial planning is a good way to approach the subject. Here we outline how you should use income not dedicated to day-to-day expenses, in order of priority.

First Priority: Insurance

One of the best routes to financial ruin is to not have adequate insurance, so your first priority should be to have the right kinds of policies in the correct amounts that protect you and your family.

If you're young and unmarried, this means having basic health insurance. Beyond that, if you have a family, you need life insurance as well as short- and long-term disability insurance.

In each case, you're looking to provide yourself or your survivors with a replacement for income you and they count on. The bottom line: if you have debt, make the minimum payments until you're properly insured and have the next two priorities covered as well.

Second Priority: An Emergency Fund

Even if you don't have a family, you need to protect yourself against a job loss or major unexpected expense. The rule of thumb is to create an emergency savings fund equal to three to six months of your income. Not only does this give you breathing space against hardships, it also affords you the flexibility to move in connection with a job change you might want to make.

You should make creating an emergency savings fund a priority. If you can't take care of priorities one and two at the same time you pay for basic necessities, like groceries and gasoline, you're living beyond your means and need to cut back on your spending.

Third Priority: Retirement Savings

Finally, before you even think about making more than the minimum payments toward your debts, it's imperative that you start saving for retirement as soon as possible. Time is both the best ally and worst enemy of the saver.

Start saving too late, and it's possible that you'll need a rate of return you can only achieve in your dreams in order to accumulate enough for a worry-free retirement. On the other hand, even small amounts — as little as $25 a month — put away early enough can grow to sizable amounts by the time you're ready to retire.

With these three priorities covered, if and when you have money left over, it's time to consider making extra payments to tackle your debt.

Guidelines for Debt Reduction

There are a number of factors to consider when you're ready to start accelerating the pace at which you pay down debt:

✔ **Start with the highest-interest-rate debt.** Instead of paying more on every one of your debts, concentrate on the one that charges the highest interest rate. In general, these will be store credit cards, followed by bank credit cards like Visa and MasterCard. Use all your spare cash flow to pay down one at a time.

✔ **Is it tax deductible?** Debt that you can write off against your taxes is generally considered good debt. In effect, the tax deduction reduces the interest rate by your marginal tax rate. In most cases, this means home mortgage interest.

✔ **What rate of return can you expect?** The most important consideration is whether you can earn more by investing your money than the interest rate you're being charged on your debt. If you can earn more in the financial markets than your interest rate, you should invest your money instead of paying off debt. If not, it's worth it to pay off debt.

✔ **How long until you retire?** This is a key consideration when you're thinking of paying off your mortgage, especially if it's near the end of its term. At that point, the tax benefits are minimal because most of your payments consist of principal, not interest. In addition, if you're 50 or older, the monthly cash flow you'd free up could be devoted to an IRA or 401(k). On the other hand, if you have 10 years or more to go on your mortgage, it could be smarter to keep making the minimum payments to retain the tax advantages. As an alternative, consider the advantages of refinancing the remaining balance. At a reduced principal amount and with mortgage interest rates near historic lows, you may be able to reduce your monthly payments so that you can save nearly as much as you would if your mortgage was paid off. ❍❍❍

Keeping Track of Retirement Funds

Most of us change jobs at least twice before retiring, leaving a trail of retirement nest eggs behind us. Now that defined-contribution plans are much more prevalent than defined-benefit plans, we have more responsibility for financing our retirement. So it's important to manage our retirement accounts actively. But how can you do that if your accounts aren't even located in one place? Here are a couple of tips:

Organize your records. As long as you continue to hold your account in a former employer's plan, you should receive statements. Keep them all in a file. At a minimum, managing your retirement accounts means knowing how you're diversified and the weighting of the different types of investments.

Consolidate your accounts. It's much easier to manage your assets if they're all in one place. Fill out the paperwork necessary for rolling them over into one account. That single consolidation account could be the plan you're currently contributing to if it permits rollover contributions. You can also open a rollover individual retirement account (IRA) and have the funds from your other accounts directly transferred there. Be careful about asking for a check. Withholding taxes may be taken out, and you may have to pay a penalty if you don't deposit the check into a qualified account within 60 days.

If you've lost track of one or more of your accounts with a former employer, contact your old employer and ask them to confirm that you participated in the plan and the steps you need to take to get a current statement of your account. Or find an old statement and look for a contact phone number or address. As long as there are assets in the account, the financial institution can probably still account for them. ❍❍❍

This newsletter was produced by Integrated Concepts Group, Inc. on behalf of Morgan Stanley Financial Advisor Alan B. Dickson. The opinions expressed in this newsletter are solely those of the author and do not necessarily reflect those of Morgan Stanley. Morgan Stanley can offer no assurance as to its accuracy or completeness and the giving of the same is not deemed an offer or solicitation on Morgan Stanley's part with respect to the sale or purchase of any securities or commodities.

Tax laws are complex and subject to change. This information is based on current federal tax laws in effect at the time this was written. Morgan Stanley Smith Barney LLC. ("Morgan Stanley"), its affiliates, and Morgan Stanley Financial Advisors do not provide tax or legal advice. Individuals should consult their personal tax advisor for matters involving taxation and tax planning and their attorney for matters involving personal trusts, estate planning, and other legal matters.

Investments and services offered by Morgan Stanley Smith Barney LLC, Member SIPC.

2017-PS-66

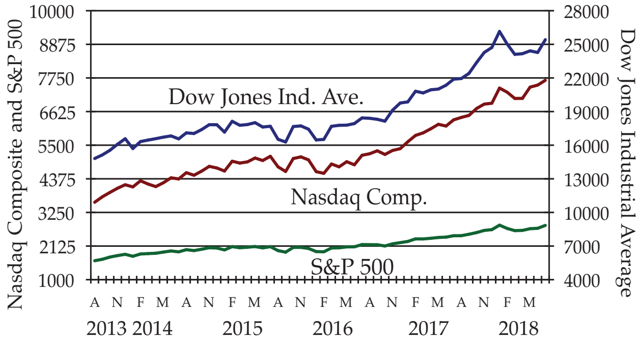
Market Data

	Month End			% Change	
	Jul 18	Jun 18	May 18	YTD	12-Mon.
Dow Jones Ind.	25415.19	24271.41	24415.84	2.8%	16.1%
S&P 500	2816.29	2718.37	2705.27	5.3	14.0
Nasdaq Comp.	7671.79	7510.30	7442.12	11.1	20.9
Wilshire 5000	29230.11	28313.77	28166.30	5.6	14.3
Gold	1220.95	1250.45	1305.35	-5.8	-3.7
				Dec 17	Jul 17
Prime rate	5.00	5.00	4.75	4.50	4.25
Money market rate	0.49	0.52	0.47	0.33	0.29
3-month T-bill rate	2.00	1.90	1.90	1.45	1.11
20-yr. T-bond rate	2.92	2.97	3.14	2.66	2.61
Dow Jones Corp.	3.93	3.94	3.89	3.13	2.96
Bond Buyer Muni	4.01	3.98	4.00	3.88	4.03

Sources: *Barron's, Wall Street Journal*

Stock Indices

August 2013 to July 2018



Past performance does not guarantee future results.

Thoughts about Retirement Planning

The average 401(k) plan balance for workers between the ages of 55 and 64 is $178,000 (Source: Vanguard, 2017).

The Society of Actuaries calculates the average life expectancy for a person who turned 65 years old in 2015 to be approximately 87 years. Men are projected to die at a slightly younger age and women at a slightly older age (Source: *AAII Journal*, July 2017).

While 14% of U.S. households made contributions to an IRA in 2014, these contributions accounted for just 13% of all new money flowing into IRAs. Rollovers from 401(k) plans accounted for the overwhelming majority of inflows into IRAs (Source: *AAII Journal*, June 2017).

Only six out of 10 workers say they or their spouses are saving for retirement. And 47% said the total value of their savings and investments is less than $25,000, versus 35% who have $100,000 or more (Source: *AAII Journal*, May 2017).

Nearly three out of five retirees move into new jobs. And 80% said they continued to work past age 65 because they wanted to. Most said the new jobs were more flexible, fun, and fulfilling than their past jobs — and much less boring and stressful (Source: *AARP Magazine*, June/July 2017). ❍❍❍