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Strategies from Steve

UPDATE

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Overcoming the Fear of Investing

Unless you were lucky enough to be born wealthy or have an extremely minimal lifestyle, not investing isn't an option in today's complex financial world. Investing is a way to make your money work for you, rather than always having to work for your money. Put some of your money in stocks, bonds, and other investments that generate returns, and you'll put yourself in a position where you may be able to increase your wealth substantially.

Given that investing is one of the best ways for the average person to grow their wealth, why don't more people do it? Fear may be the major reason. Many Americans are nervous about investing. While investing does come with risks you need to be aware of, that's no reason to avoid it entirely. If worry about losing all your money is keeping you out of the market, here are three steps you can take to overcome that fear.

Start from a Position of Strength

If you have a mountain of credit card debt and no emergency savings, investing any of your money is likely to be a bit nerve-racking. After all, you're already in a precarious financial position, and if your investments decline substantially, you'll be in an even worse spot. Before dipping a toe into serious investing, work on paying down high-interest credit card debt and establishing an emergency fund with at least six months' living expenses. That way, you won't be worried that a poor investment or stock market dip will send you to the poorhouse.

The exception to the above suggestion? Investing in your retirement plan at work. If you get a company

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Your Bond Allocation

Your asset allocation mix represents your personal decisions about how much of your portfolio to allocate to various investment categories, such as stocks, bonds, and cash. Some factors to consider when deciding how much to allocate to bonds include:

✔ **Your risk tolerance.** The advantage of including both stocks and bonds in your portfolio is that when one category is declining, the other category will hopefully help offset this decline.

✔ **Your time horizon.** Certainly, individuals with short time horizons, perhaps five years or less, should be very cautious about how much is allocated to stocks. But as your time horizon lengthens, you can theoretically add a higher stock mix to your asset allocation.

✔ **Your return needs.** Your need to emphasize income or growth is likely to change over your life. When you are trying to accumulate significant assets for a goal far in the future, you may want to allocate more of your mix to stocks. However, when your needs for a predictable income stream become more important, such as when retirement approaches, you may want to allocate more to bonds. ✔✔✔

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Overcoming the Fear

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match, you may want to invest just enough in your 401(k) plan to get the match while also taking aggressive steps to pay down debt and establish emergency savings.

Get Educated

Anxiety about the unknown and worries about being taken advantage of are behind many people's fear of investing. But investing isn't really as complicated as it initially seems. Familiarizing yourself with how markets work and with the basic principles of sound investing will help you understand that though investing comes with risk, it's hardly the same as playing the lottery. There may be no sure things when investing, but if you proceed with a smart strategy and stick with it over time, there's a good chance you'll come out ahead.

Set a Goal

Simply taking a pile of cash and purchasing a random assortment of stocks and bonds isn't likely to end well. For one, you're not making an informed decision about how to invest. Second, you're not investing with a goal in mind. By knowing what you want to achieve before you make any specific decisions about where to put your money, you'll be more likely to invest in a way that will get you to where you want to be. If your goal is to buy a house in five years, that means investing in potentially high-return yet also high- risk stocks is not so smart — the risk you could lose your down payment savings is simply too great. Stashing that cash in a certificate of deposit probably makes more sense. But if you're investing for retirement that's three decades away, you can afford to take on more risk with your investments, since you have more time to make up any losses, and you'll benefit from the potentially greater returns of higher-risk investments. In that case, higher-risk stock investments make a lot of sense. The key is to keep your goal in mind and let that drive your decisions about how to invest.

Being a little nervous about investing is normal, but you shouldn't let it keep you from achieving your financial goals. Please call if you'd like to discuss this in more detail. ✔✔✔

Keep Saving after Retirement

You shouldn't stop saving just because you're retired. Carefully managing your money and looking for ways to save will help ensure you remain financially fit during retirement. Consider these tips:

✔ **Construct a financial plan.** Most retirees fear they'll run out of money during retirement. To ease those fears, create a financial plan detailing how much money will be obtained from what sources and how that income will be spent. Make sure your annual withdrawal amount won't cause you to deplete your savings. Review your plan annually to ensure you stay on course.

✔ **Consider part-time employment.** Especially if you retire at a relatively young age, you might want to work on at least a part-time basis. Even earning a modest amount can help significantly with retirement expenses. However, if you receive Social Security benefits and are between the ages of 62 and full retirement age, you will lose $1 of benefits for every $2 of earnings above $22,320 in 2024. You might want to keep your income below that threshold or delay Social Security benefits until later in retirement.

✔ **Contribute to your 401(k) plan or individual retirement account (IRA).** If you work after retirement, put some of your earnings into a 401(k) plan or IRA. As long as you have earned income and meet the eligibility requirements, you can contribute to these plans.

✔ **Try before you buy.** Want to relocate to another city or purchase a recreational vehicle to travel around the country? Before you buy a home in an unfamiliar city or purchase an expensive recreational vehicle, try renting first.

✔ **Keep debt to a minimum.** Most consumer loans and credit cards charge high interest rates that aren't tax deductible. During retirement, that can put a serious strain on your finances. If you can't pay cash, avoid the purchase.

✔ **Look for deals.** Take the time to shop wisely, not just at stores, but for all purchases. When was the last time you compared prices for auto or home insurance? Can you find a credit card with lower fees and interest rates? When did you last refinance your mortgage? ✔✔✔

4 Reasons to Invest in Bonds

Bonds have a reputation as safe, stable investments. But writing off bonds as boring investments that are best for the risk-averse could be a mistake.

While it's true that investing in bonds tends to lack the dramatic highs (and the lows) that come with investing in stocks, it doesn't mean you should ignore the opportunities that bonds present. Here are four reasons why you might want to have a portion of your portfolio in bonds.

1. Bonds are a way to diversify your portfolio.

Many financial experts recommend diversifying your portfolio to include a variety of asset classes, including bonds. This is a concept known as asset class diversification. Because different asset classes tend to perform differently at different times, you may be able to create a portfolio that generates more stable returns by investing across asset classes. For example, stocks and bonds tend to historically move in opposite directions, which means that owning some of both can help smooth out the ups and downs in your portfolio.

2. Bonds are (usually) less risky than equities.

If you are looking to dial-down risk in your investment portfolio (such as when you near retirement), increasing your allocation to bonds may be one way to do that. However, keep in mind that less risky does not mean risk free. Bond issuers can default, plus you face what's known as inflation risk. Because bond payments are set in advance (that's why they're known as fixed-income investments), you lose purchasing power due to inflation.

3. Bonds can provide a steady, predictable source of income.

Stocks and other investments are unpredictable — you don't know with any certainty how well a given stock might perform in a certain year or even how well certain types of stocks (like small-cap stocks or international stocks) will do. Bonds are a bit different. They are debt investments, which means you are essentially agreeing to loan an entity, like the government or a corporation, money for a certain period of time. The entity you are lending money to agrees to pay you a certain amount of interest (known as the coupon) over the time they have your money, plus repay your initial investment when the bond reaches maturity. This means that unlike some other investments, you have a pretty good idea of how much money you're going to see from your bond investments over the years.

Of course, bonds aren't risk free. Bond issuers can default and you could lose your money. That's why riskier bond issuers tend to offer investors higher coupon rates — their greater risk is compensated by greater total return. But in general, bonds are more predictable in how much money they generate for investors than stocks, which is one reason why they're so appealing to retirees.

4. Bonds can provide valuable tax savings.

Depending on the types of bonds you own, you may be able to save on taxes. While you'll pay normal taxes on corporate bonds, income from Treasury bonds (which are issued by the U.S. federal government) is free of state and local tax. Then there are municipal bonds, or bonds issued by state and local governments. You won't pay federal tax on money you earn on these investments, and you may also be exempt from state and local tax. For anyone who is looking to minimize their tax burden, especially retirees, this can be an appealing proposition.

Questions about making bonds part of your investment strategy? Please call to discuss this topic in more detail. ✔✔✔

Bonds and Interest Rate Changes

Basically, interest rate changes affect bond prices as follows:

✔ **Interest rates and bond prices move in opposite directions.** The price of a bond will decrease in value when interest rates rise and increase in value when interest rates fall. The price of an existing bond changes to provide the same return as an equivalent, newly-issued bond at prevailing interest rates. If interest rates are higher than the rate on an existing bond, the existing bond becomes less valuable because of the lower interest payments, causing the price to decrease. Since you receive the full principal value at maturity, holding a bond until maturity eliminates the impact of interest rate changes.

✔ **Interest rate changes have a more dramatic affect on bonds with longer maturities.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, their price must change more to compensate for those interest rate changes.

✔ **Bond price changes are less significant for bonds with higher coupon rates.** Bonds with coupon interest rates near or above current interest rates will experience the least amount of price fluctuation.

By understanding the effects of interest rate changes on bond prices, you can make more informed decisions regarding your bond portfolio. Please call if you'd like help with your bond portfolio. ✔✔✔

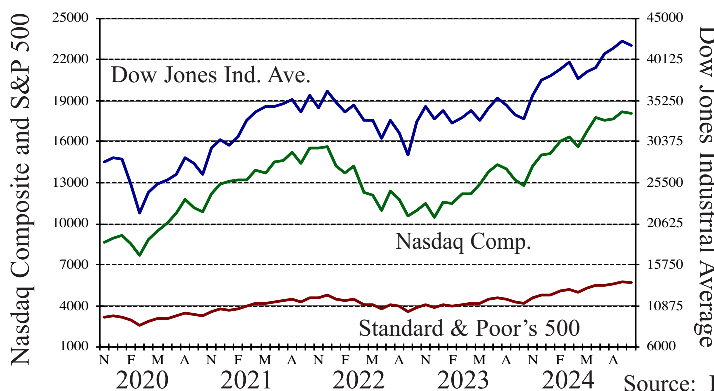
Market Data

	Month End			% Change	
Stocks:	Oct 24	Sep 24	Aug 24	YTD	12-Mon.
Dow Jones Ind.	41763.46	42330.15	41563.08	10.8%	26.4%
S&P 500	5705.45	5762.48	5648.40	19.6	36.0
Nasdaq Comp.	18095.15	18189.17	17713.62	20.5	40.8
Total Stock Market	56595.25	57046.41	55960.34	18.4	36.1
Precious Metals:					
Gold	2734.15	2629.95	2513.35	32.2	36.9
Silver	32.69	31.18	28.98	34.8	41.3
Interest Rates:	Oct 24	Sep 24	Aug 24	Dec 23	Oct 23
Prime rate	8.00	8.00	8.50	8.50	8.50
Money market rate	0.43	0.42	0.47	0.48	0.61
3-month T-bill rate	4.49	4.54	4.98	5.26	5.33
20-year T-bond rate	4.58	4.19	4.28	4.20	5.21
Dow Jones Corp.	5.22	4.87	5.06	5.17	6.34
Bond Buyer Muni	4.35	4.23	4.32	4.48	5.29

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

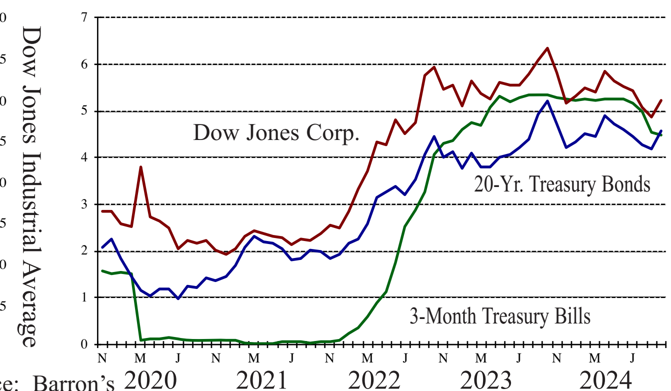
Stock Indices

November 2019 to October 2024



Interest Rates

November 2019 to October 2024



Source: Barron's

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