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SPRING 2024

Office News

Greetings from Pittsburgh! As we write this message, we are doing so from 1 PPG Place. If this sounds familiar to you, it is not déjà vu. As you may recall, 1 PPG Place is our old address from the not-so-distant past. Oddly enough, our "old" address is now our "new" address (again).

Roughly three years ago, we initially discussed the idea of combining forces with another group of Morgan Stanley professionals to become an eight-person team known as "The Steel City Group at Morgan Stanley". A very large part of the initial due diligence process involved working with both internal and external coaches and consultants to ensure that we were checking all the right boxes and leaving no stone unturned as we worked to bring together two large, well-established wealth management practices.

August of 2023 was when we physically relocated from 1 PPG Place to Morgan Stanley's Sewickley branch location, joining our new team members under one roof. In the months that followed, we came to realize that, as is quite often the case with many "mega teams", we were still very much operating as two separate, legacy teams under one unified team name.

With the above having been said, and after careful consideration with, first and foremost, our clients' best interests in mind, we made the decision to revert to our pre-merger structure and operations in Morgan Stanley's 1 PPG Place location. Rest assured that our original team remains intact and at the ready to continue to provide world-class advice and service:

Colin M. Rosenberg, CRPC®
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Financial Advisor

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Portfolio Management Director
Financial Advisor

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Assistant Vice President
Financial Planning Specialist
Wealth Management Associate

Andrea L. Cipriani
Registered Client Service Associate

We are excited to be back "home" and look forward to continuing to serve you, our dear clients and friends. We will be sure to promptly communicate any updates pertaining to contact information if/when any changes are scheduled to occur. If you have any questions or would like to discuss this subject further, please do not hesitate to contact us directly.

As always, we thank you for your continued business and friendship!

Sincerely,

Colin, Marc, Sarah and Andrea

Focus on the Basics

It's easy to become overwhelmed when faced with all the decisions that need to be made to ensure you select appropriate investments to help pursue your long-term investment goals. How do you choose the right combination of investments to help work toward a goal that may be decades away? The answer is to focus on the basics. Make sure you are getting these fundamentals right:

✔ **Don't wait — invest now.** To put the power of compounding to work for you, start investing now. It's easy to put off investing, thinking you'll have more money or more time at some point in the future. Typically, however, you'll be better off saving less now than waiting and saving more later. Consider the savings habits of a 20-year-old couple. The wife starts contributing $2,000 per year to a tax-deferred investment, such as a 401(k) plan, when she is 20. After 10 years, she decides to stop investing and let her money grow until retirement. She has invested a total of $20,000. Her husband starts investing when she stops, investing $2,000 per year from

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Focus on the Basics

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the time he is 30 until he retires at age 65. Thus, he saves every year for 35 years, making a total contribution of $70,000 — $50,000 more than his wife. If they both earn 8% compounded annually, who will have the larger potential balance at age 65? Time and compounding of earnings favor the wife. Before paying any taxes, her balance would equal $462,649, while her husband's balance would be $372,204. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)*

✔ **Live below your means so you can invest more.** It's a basic fact that most people have trouble coming to grips with — the amount of money you have left over for investing is a direct result of your lifestyle. Don't have any money left over for investing? Ruthlessly cut your living expenses — dine out less often, stay home rather than going away for vacation, rent a movie rather than going to the theater, cut out morning stops for coffee. Redirect all those reductions to investments. This should help significantly with your retirement because you'll be saving much more for that goal and you'll be living on less than you're earning, so you'll need less for retirement.

✔ **Maintain reasonable return expectations.** When developing your financial goals, you'll typically decide how much you need, when you'll need the money, and how much you'll earn on those savings. Those factors will determine how much you need to save on an annual basis to reach your goals. The higher your expected return on your investments, the less you need to save every year. However, if your assumed rate of return is significantly higher than your actual rate of return, you won't reach your goals. Thus, it's important to determine reasonable return expectations. While past returns aren't a guarantee of future returns, you'll want to start by reviewing historical rates of return for investments you're interested in. You can then adjust those returns based on your expectations for the future. Assessing your progress every year will allow you to make adjustments along the way. If your return is lower than expected, you may need to increase savings or change investment allocations.

✔ **Understand that risk can't be totally avoided.** All investments are subject to different types of risk, which can affect the investment's return. Cash is primarily affected by purchasing-power risk, or the risk its purchasing power will decrease due to inflation. Bonds are subject to interest-rate risk, or the risk interest rates will rise and cause the bond's value to decrease, and default risk, or the risk that the issuer will not repay the bond. Stocks are primarily subject to nonmarket risk, or the risk that events specific to a company or its industry will adversely affect a stock's price, and market risk, or the risk a stock will be affected by overall stock market movements. These risks make some investments more suitable for longer investment periods and others more suitable for shorter investment periods.

✔ **Diversify your portfolio.** When stocks had above-average returns for an extended period, diversification acted as a drag on total return. By definition, allocating anything other than all of your portfolio to the best-performing asset lowers your return. But when stocks declined substantially, the disadvantage of investing only in one asset class became apparent. Typically, you do not know which asset class will perform best on a year-to-year basis. Diversification is a defensive strategy — it helps protect your portfolio during market downturns and helps reduce your portfolio's volatility. Diversify your investment portfolio among a variety of investment categories, such as stocks, bonds, cash, real estate, and other alternatives. Also diversify within investment categories.

✔ **Only invest in the stock market for the long term.** Stocks should only be considered by investors with an investment timeframe of at least five years. Remaining in the market over the long term reduces the risk of receiving a lower return than you expected.

✔ **Don't try to time the market.** Timing the market is a difficult strategy to accomplish successfully since so many factors affect the market. Remember that most people, including professionals, have difficulty timing the market with any degree of accuracy. Significant market gains can occur in a matter of days, making it risky to be out of the market for any length of time. Instead of timing the market, concentrate on setting an investment program that works in all market environments and you can stick with in good and bad times.

✔ **Pay attention to taxes.** Taxes are probably your portfolio's largest expense. Using strategies that defer income for as long as possible can make a substantial difference in the ultimate size of your portfolio. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently in your tax-deferred accounts.

Focusing on the fundamentals can help ensure you work toward your financial goals. If you need help with investing, please call. ❍❍❍

Estate Planning Considerations for Your Children

It takes special care to create an estate plan that efficiently distributes your assets and meets your goals for every person and cause important to you. But no part of the process means more to most people than that which involves their children.

To help organize this process, it is useful to think of children in three categories: minors, young adults, and fully grown adults with spouses and children of their own.

Minor Children

Children from infancy through high school have a different set of needs than children of other ages. One is simply to be able to rely on an income for daily needs. Since the parents of young children usually don't have large savings or net worth, the challenge is to provide an instant estate, for which life insurance is the best answer.

There are several rules of thumb for how much life insurance to buy — from four to 10 times your annual income. The right amount should be the result of a thorough needs analysis of your entire family, which can be accomplished by asking your spouse and yourself a series of probing questions, including:

- ✔ How much do the two of you already have saved?
- ✔ Will your spouse be able to work full- or part-time? If so, what will child care cost?
- ✔ Will your children go to public or private elementary and secondary schools?
- ✔ How much will your children need in college funds by the time they're ready to attend?
- ✔ How much will your spouse need for retirement, and how much of that will he/she be able to accumulate on his/her own?

After you determine how much life insurance to buy, you need to think about who will raise your children if you and your spouse both die before the children are adults. This calls for naming a guardian in both of your wills. If you don't have a will, a state court will appoint a guardian for you, and it may not be someone you or your spouse would have wanted for this role. In addition, parents might also wish to designate a person to manage the children's assets, known as a custodian or trustee. It can be the same person as the guardian, but designating an unrelated third party who can be charged with thinking only of your children's welfare appeals to some people.

Among the other major decisions you have to make is whether and how to split your assets between your surviving spouse and your children, and if you leave some assets directly to your children, how to determine the split among them. Often, it can make sense to leave all or most of your assets to your spouse and to evenly divide assets you bequeath to your children. But this might overlook such considerations as children with special medical needs or special abilities.

Young Adults

Once children reach the age of majority — 18 most states — a new set of considerations enters the picture. By this age, your children no longer require a guardian and are legally capable of spending their money in any way they want — and therein lies a potential problem.

One way to control how the inheritance is spent is to establish a trust with a schedule for distributions. One option is to delay a full distribution until they reach a certain age, like 25 or 30. Another choice is to give them a series of partial distributions at ages that make sense to you given what you know about your child. Another increasingly popular strategy is the incentive trust. This vehicle makes payouts contingent on your child's achievement of specific accomplishments — like maintaining a certain grade point average; graduating from college, graduate, or professional school; marrying; or buying a home.

Adult Children

Many of the same kinds of considerations that apply to minors and young adults can also influence your decisions regarding how much money to leave your adult children. Do they, their spouses, or their children have special medical needs? Have your adult children fallen on hard times or are they irresponsible with money? How many children do they have and how much help will they need to finance their education?

Another consideration has as much to do with your own objectives for minimizing estate taxes. If your estate is much larger than you and your spouse's combined estate tax exemptions (currently $13.61 million for each spouse in 2024), you might want to shrink it with an aggressive campaign of gifts to your children and grandchildren. On the other hand, any funds you leave to your children might encumber them with estates equally as large as yours or larger, with the same tax challenges. In this case, you might want to transfer some of your assets to a generation-skipping trust, which bypasses your children and names your grandchildren as the beneficiaries.

Don't go it alone when mulling over these decisions. One thing you don't want to do is to create bad feelings after you're gone, either toward you or among your survivors. Please call if you'd like to discuss this in more detail. ❍❍❍

Factors Influencing Your Asset Allocation

While you probably won't make frequent changes to your asset allocation strategy, changes in your personal situation may necessitate periodic alterations. That will typically occur when personal changes alter the major factors affecting your asset allocation:

Risk tolerance — Your risk tolerance is likely to change, either as you become more familiar with investing or as you age. Familiarity with investing typically makes you more risk tolerant, while aging may make you more or less risk averse. The views of both conservative and aggressive investors toward risk tolerance are likely to change over their life.

Return needs — Your need to emphasize income or growth is likely to change over your life. Young investors typically want to emphasize growth, while retirees may want to emphasize income.

Investment time horizon — With a short time horizon, your liquidity needs may require avoiding more volatile investments, such as stocks. With a longer time horizon, you can wait out any fluctuations in volatile investments. Typically, young investors have longer time horizons than older investors, so they can invest more aggressively. ❍❍❍

Set Your Own Debt Limits

Rather than allowing lenders to set credit limits for you, evaluate your financial situation and determine your own limits.

To find out where you stand with consumer debt, make a list of your debts and monthly payments. Then calculate your debt ratio by dividing your monthly debt payments by your monthly net income. The general guideline is that your debt ratio should not exceed 10% to 15% of your net income, with 20% usually considered the absolute maximum.

Before purchasing something on credit, carefully evaluate whether it makes sense to do so. Some questions to ask yourself include:

- ✔ Should I wait and save the money so I can pay cash for the item?
- ✔ Will the cost of the item increase or decrease in the future?
- ✔ Is it really worth paying interest on the item to use it now?
- ✔ Will I still be within my designated debt limits if I add this new debt payment?
- ✔ Will the item still have value after I finish paying for it?

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Financial Thoughts

A survey found that 47% of U.S. adults have at least one unused "gift card, voucher, or store credit," adding up to about $23 billion nationwide in unused money (Source: Bankrate, 2023).

In 2022, 650,000 Americans over 80 were still working, up 18% from the previous decade. There will be twice as many 75-year-old and workers in 2030 than in 2020, due in part to the aging baby boomer generation (Source: Census Bureau and Bureau of Labor Statistics, 2023).

Nearly 80% of U.S. parents say they've gone into debt to pay for kids' competitive extracurricular activities, including athletics, music, dance, and cheerleading. About 90% of those who did so say one of their motivations is to provide better financial and educational opportunities, including scholarships for college (Source: Lending Tree, 2023).

A general rule of thumb is that 30% or less of your gross income should go to housing. That includes rent or mortgage payments, along with homeowners association fees and utilities. In 2019, nearly half of all renters paid more than 30% of their income to housing, with about a quarter paying more than half (Source: Joint Center for Housing Studies of Harvard University, 2023). ❍❍❍