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the EDWARDS REVIEW

U P D A T E

THE EDWARDS GROUP AT MORGAN STANLEY

4449 Easton Way, Ste. 300, Columbus, OH 43219
614-473-2401 • 866-273-3726
614-867-9306 Fax
advisor.morganstanley.com/the-edwards-group

Left to Right: Karen Mayet-Velasco, Trent Baker, Ahmed Barghouty, Kristy Burcham, Keith Conn, Heather Powell, Brian Edwards, Ben Ferguson, Nicole Edwards, Lynn Beach, Mark Poulin, Dani Nichols, Nick Brosky, Alex Nicholson

Morgan Stanley

Saving and Life Planning

Knowing when and how to save for different periods of your life can seem a daunting task. And after all, everyone is different, so how can one plan or system really apply across the board? The truth is that while everyone should have a savings plan customized to their own circumstances, there are some benchmarks and guidelines that are good to follow to meet financial goals.

When You're in Your Twenties

This is the time in which you'll be making the least amount of income, but will have fewer expenses as far as dependents go.

Your priorities should focus on creating a safety net to avoid taking on potentially crippling debt in case of dire need and jump-starting your retirement savings so it has as much time to grow as possible.

You should focus on building a readily available emergency fund equal to three to six months of living expenses. This means it should be liquid, in short-term savings vehicles like a bank account.

Begin putting money into a 401(k) plan or individual retirement account (IRA). Even if you can only contribute small sums, the long-term effects of compounding will work in your favor down the road.

Additionally, it is a good idea to start saving for a down payment on a house. Housing prices and interest rates will only continue to rise.

So if you believe you will be in the same place for at least the next 2-5 years and your area's housing market can bring a mortgage payment in at or under your current rent payment, you may as well begin to build some equity in home ownership.

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Benefits of Low-Correlated Assets

Correlation is a statistical measure of how one asset class performs in relation to another asset class. Correlations can range from +1 to –1. A correlation of +1 means the two assets move very closely together in the same direction. Combining assets with a high positive correlation will not provide much risk reduction. A correlation of –1 indicates the assets move in opposite directions, a rare event in the investment world. A correlation close to 0 means no relationship exists in the price movements of the two assets.

Combining assets with consistently high correlations to each other does little to reduce risk. The greatest combination benefit to a portfolio seems to be achieved by combining assets with consistently low correlations, which results in consistently reduced risk.

When selecting investments for your portfolio, don't just look at their risk and return characteristics. Also consider the diversification aspects for your overall portfolio. While correlations change over time, general observations include:

✔Stocks tend to have a low positive correlation with corporate and government bonds.

✔Short-term bonds tend to have a low correlation with long-term bonds.

✔Stock markets around the world are all positively correlated to some degree. In general, European stock markets are more closely correlated to each other and the U.S. than to markets in Japan or Asia. Correlations between developed countries tend to be higher than correlations between developing and emerging countries.

✔Real estate tends to have a low correlation with stocks and bonds.

If you'd like to discuss correlation in more detail, including how it may impact your portfolio, please call. ✔✔✔

Saving

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When You're in Your Thirties and Forties

Priorities in this stage of life begin to diverge a bit more. If you have children, it is important to begin saving for their education. Tax-advantaged 529 college savings plans are not very flexible, but they score high marks when it comes to state and federal tax breaks, high contribution limits, and age-based options. An Education Savings Account (ESA) has lower contribution limits, fewer state tax breaks, and no real age-based options.

Although it ultimately depends on which state you live in, a 529 college savings plan is a good way to combat the rising tuition costs you and your children will face in the future.

When You're in Your Fifties

This is usually the peak of your earning years and when many parents have started weaning their children off full financial support.

This means that retirement contributions should be the largest yet, and federal limits on annual contributions have a higher ceiling to accommodate this greater amount of saving.

In 2023, the limit for IRA contributions for those under 50 is $6,500, but those 50 and older can contribute up to $7,500. The limit for 401(k) plans is even more generous, with under-50-year olds able to contribute up to $22,500 while the rest do not reach their ceiling until $30,000.

If you are in your fifties and you're worried that you have only saved half of what you'll need by 65, you are not alone. This high-earning, high-contributing time is when many people make up the difference and still retire with a well-funded account.

When You're in Your Sixties/Getting Close to Retirement

At this time, you should still be contributing more than ever to your accounts and acquiring assets for your retirement.

With less than five years left before you retire, consider changing your portfolio in favor of more lower-risk investments.

Please call if you'd like to discuss this in more detail. ✔✔✔

A Strategy for College Costs

If you haven't looked at college costs recently, be prepared. For the 2022-23 school year, the average annual cost of a public university is $23,250, while a private university costs $53,430 (Source: *Trends in College Pricing*, 2022). To help ensure you'll be prepared to provide your children with a college education, start planning now. Consider the following tips to help with the process:

✔ **Start investing now.** Determine how much you need to save to reach your goals. Many people will have difficulty saving the amount needed to fully fund a college education. However, there are other sources to help fund those costs, such as loans or financial aid. Thus, your goal may be to accumulate 30%, 50%, or some other percentage of the total cost of college. The important thing is to start an investment program now and invest as much as you can.

✔ **Determine if you can pay some costs from current income.** Paying down your debts before your child enters college may free up current income for college costs. One strategy is to make extra principal payments with your mortgage payment, attempting to pay off your mortgage by the time your child enters college. Then, funds used for your mortgage payment will be available for college costs.

✔ **Encourage your child to participate in the process.** Maintaining good grades and participating in extracurricular activities may make your child a more desirable candidate for college. He/she may then be eligible for a larger range of grants or scholarships. The most attractive loan programs are offered only to students. While you may not want to burden your child with large loans, it may make sense for your child to obtain the loan and you can then gift funds at a later date for him/her to repay the loan.

✔ **Expect your child to work to pay part of the cost.** Although a child will have difficulty saving all the costs for college, you may expect him/her to fund a certain percentage of those costs. You can make him/her responsible for tuition, out-of-pocket expenses, transportation costs, or room and board. This may also help ensure your child is committed to his/her education.

If you'd like help developing a strategy for financing your child's college education, please call. ✔✔✔

How Flexible Is Your Financial Plan?

Flexibility in a financial plan is a delicate balancing act: it is important to maintain enough flexibility that your financial plan can accommodate unexpected events that are out of your control. On the other hand, a sound financial plan needs to be firmly grounded by factors you can control so that even in the face of unexpected events, following your financial plan gets you to where you want to be.

Be Flexible: There Are Assumptions You'll Have to Make about Factors You Can't Control

When you develop a financial plan, you have to make certain assumptions, many of which are out of your control:

Taxes — The notoriously complicated U.S. tax code will affect your financial plan in a number of ways. For one, your effective tax rate will change as your income changes. Also, changes to the tax code itself can affect your financial plan, often dramatically. Fortunately, most changes in the tax code are announced in advance of taking effect — allowing you time to plan.

Income — We all hope, of course, that our income will rise as we move forward in our careers. Typically, those kinds of income changes are predictable. More dramatic yet still predictable income changes can happen when one spouse voluntarily stops or starts working.

Health — Your health and your spouse's health is a significant factor in your financial plan for two reasons: first, because health is a big determinant of one's ability to earn income; second, because health care costs are often a large expense, especially for older people. As you age, it's important to think about changing your assumptions about your health. Maybe you reduce the income you expect because you won't be able to work such long hours anymore. Or you increase the healthcare-related expenses you plan for.

Life — Beyond job losses and health events that can impact your financial plan, other major life events can have a big impact as well. Whether it's good or bad, expected or unexpected, events like the birth of a child, marriage or divorce, a spouse's death, or a relocation will impact your financial plan.

Economy — For most of us, our financial plans are based on the assumption that our investments will earn a certain average return in the market. Those assumptions affect decisions we make about our plans. The best way to make these assumptions is to base them on long-term historical returns.

That is not to say, of course, that these assumptions will always be correct; anyone with money invested in the stock market in the fall of 2008 understands that those assumptions can be turned on their heads in a single day. But given that we have to make assumptions, using historical returns is the best way to do it.

Be Grounded: Factors You Can Control to Keep Your Financial Plan on Track

Because there are so many factors affecting your financial plan that you can't control, it's critical to know the factors you can control.

Live within your means — When you keep your expenses (including savings and investments) less than your income, you give yourself more flexibility to accommodate unexpected changes that you can't control. If you have some breathing space in your budget every month, you can more easily accommodate, for example, a higher tax rate or economic downturn without having to alter your financial plan.

Have a rainy day fund — Have at least 3–6 months worth of living expenses in an easily accessible, liquid fund that you can draw upon in the event of an emergency or unexpected situation. This savings fund should be set aside from all other savings and investments and only used for true emergency expenses — like in the case of a job loss or illness. With an adequate rainy day fund, you can deal with unexpected events without having to dilute or erode your financial plan.

Revisit your plan regularly — The number one key to achieving your financial goals is to review and, if necessary, revise your financial plan regularly — at least once a year. That way you can make adjustments for all the factors out of your control that have changed, for better or worse. If you haven't revisited your financial plan in the last year, or if you need to develop one, please call. ✔✔✔

From the Desk of: Brian Edwards

The fact is, investing isn't just about making your money work for you. It's about making your money work for you for a particular purpose. Here are four specific reasons why a goal-focused approach to investing is important.

Because It Puts You in Control

When you first start investing, it's easy to get overwhelmed. You may feel like you have little control over what happens to your money. But if you take a goal-focused approach to investing, you're not just watching the value of your portfolio rise and fall based on the whims of the market. You are making specific decisions that you designed to help you reach specific goals.

Because It Will Be Easier to Save

Having concrete goals can turn saving from an abstract concept into a concrete step towards a certain aim. Studies have shown that the better you are at setting goals, the more you're likely to save.

Because You'll Be Less Focused on How Others Are Doing

A little competition is healthy, but when it comes to investing, it can get risky. If your father-in-law is bragging about the great return he got on his investments, it can be tempting to drop your plan and copy his moves. But if you're investing toward a goal with a clear plan, you'll be able to congratulate your relative on his success while staying focused on your needs.

Because It Will Help You Weather the Ups and Downs of the Market

If you know you won't need your money for another 30 years, you can handle some volatility today. But if you're going to need your money in the next couple of years, you can select less volatile investments so the day-to-day movements of the market won't stress you out.

If you need help setting your own investing goals, please call. ✔✔✔

Brian J. Edwards

Market Data

	Month End			% Change	
Stocks:	Dec 23	Nov 23	Oct 23	2023	2022
Dow Jones Ind.	37689.54	35950.89	33052.87	13.7%	-8.8%
S&P 500	4769.83	4567.80	4193.80	24.2	-19.4
Nasdaq Comp.	15011.35	14226.22	12851.24	43.4	-33.1
Total Stock Market	47787.47	45414.79	41597.35	24.1	-20.8
Precious Metals:					
Gold	2068.67	2035.45	1996.90	14.1	0.4
Silver	24.25	25.26	23.13	2.1	3.7
Interest Rates:	Dec 23	Nov 23	Oct 23	Dec 22	Dec 21
Prime rate	8.50	8.50	8.50	7.50	3.25
Money market rate	0.48	0.47	0.61	0.33	0.07
3-month T-bill rate	5.26	5.28	5.33	4.35	0.08
20-year T-bond rate	4.20	4.72	5.21	4.14	1.94
Dow Jones Corp.	5.17	5.83	6.34	5.54	2.48
Bond Buyer Muni	4.48	4.94	5.29	4.64	3.45

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

The Edwards Group at Morgan Stanley

Left to Right:
Karen Mayet-Velasco
Client Service Associate
Trent Baker CFP®
Business Development Associate
Ahmed Barghouty
Client Service Associate
Kristy Burcham
Wealth Management Associate
Associate Vice President
Keith Conn CRPS® QPFC®
Portfolio Associate
Heather Powell CDFA®
Vice President
Financial Advisor
Brian J. Edwards CIMA® CRPS®
Managing Director
Corporate Client Group Director
Corporate Retirement Director
Financial Advisor

Continued:
Ben Ferguson
Associate Vice President
Group Director
Nicole Edwards
Senior Vice President
Financial Planning Specialist
Senior Investment Management Consultant
Financial Advisor
Lynn Beach
Client Service Associate
Mark Poulin Q(k)p®, CRPS®, CRPC®
Vice President
Financial Advisor
Dani Nichols
Client Service Associate
Nick Brosky
Business Development Director
Alex Nicholson
Client Service Associate

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