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Morgan Stanley

Watch Out for Estimating Mistakes

When determining how much to save by retirement age, several variables must be considered, some requiring estimates that will span decades. Err significantly on those estimates and you can end up with little or no money left during the later years of your life. Three of the most significant estimating mistakes to watch out for are:

✓ **Underestimating how much income you'll need in retirement.** The entire point of your retirement savings is to ensure you have sufficient income to spend your retirement how you'd like, so make sure you have a good estimate of how much that will cost. Various rules of thumb indicate you'll need anywhere from 70% to over 100% of your preretirement income. At first glance, it seems like you'll need less than 100%, because work-related expenses, lunches out, professional clothes, and commuting costs will be gone. But look carefully at your current expenses and how you plan to spend your retirement years before deciding how much you'll need. If you pay off your mortgage, remain in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, you might need less than 100% of your preretirement income. However, if you plan to travel extensively, must pay for health insurance, or carry significant

debt, you may find that 100% of your preretirement income is not enough. You need to look closely at your cur-

rent expenses and planned retirement activities to decide on a reasonable

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News and Announcements

Welcome to the Fall edition of our client newsletter. I've got a lot of personal information about my family and our team so let's get to it. Our granddaughter, Leighton, celebrated her first birthday June 2nd and was baptized later that month. Trish and I were in Indianapolis for both events. We've also had babysitting duties two other weekends this summer, so we've traveled I-74 quite a bit! Our son, John, who had been working selling pharmaceuticals for Elanco the last three years has decided to go back to school to get his MBA. He will be attending the University of Notre Dame for the next two years.

Megan Bannan is back to work following her maternity leave. She and her husband, Kenny, welcomed Gemma Anne into this world in January. It's great to have her back! Shelly Thompson's son Bradyn married Gabby in Boulder, Colorado earlier this summer. Her other son, Conner and his wife Clare live in the Indianapolis area. They just had a baby, George Douglas Michael, on July 30th. This is Shelly's first grandchild. Lori Douglas' son Cole got engaged to Kaitlin on Sanibel Island in July while on vacation. Lori and her husband Jim were there to share the moment. In addition, Shayne Christe and his wife Emily (married January 2025) are expecting their first baby in October. Finally, PJ's middle child, Sophia, is off to college. She is a freshman at the University of Arizona.

According to Charlie Bilello, Chief Market Strategist at Creative Planning, the market experienced a "tariff tantrum" in April, suffering a 20% drop. However, it took less than three months from the April bear market low for the S&P 500 to hit a new all time high. This was the 2nd fastest recovery for U.S. stocks in the last 75 years, trailing only the vertical rally in 1982. What's next? No one knows for sure, so we don't make recommendations based on prognostications. With that said, Mike Wilson, Morgan Stanley's Chief Investment Strategist, is leaning more and more towards his bull case target of 7,200 by mid-2026.

Thank you for the opportunity to be of service. Please call or email us with needs, questions, or concerns.

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Past performance is no guarantee of future results.

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks. An investment cannot be made directly in a market index.

Morgan Stanley Smith Barney LLC. Member SIPC. CRC4716129 8/25

Watch Out

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estimate.

✓ **Underestimating how long you'll live.** Today, the average life expectancy is 84.3 years for a 65-year-old man and 86.6 years for a 65-year-old woman. But don't use those figures without further analysis. Average life expectancy means the woman has a 50% chance of dying before age 86.6 and a 50% chance of living past age 86.6. Since you can't be sure which will apply to you, you should probably assume you'll live at least a few years beyond your life expectancy. When deciding how many years to add, consider your health and how long other family members have lived.

✓ **Overestimating how much you can withdraw annually from your retirement savings.** With a retirement that could span decades, it's important to withdraw a reasonable amount so you don't deplete those savings too soon. A number of factors can make that a difficult number to calculate. First, as noted above, you can't be sure how long you'll be making withdrawals. Live significantly beyond your average life expectancy and you could find yourself with little in the way of savings. Second, inflation over such a long period means you'll have to withdraw increasing amounts just to maintain the same purchasing power. Third, your rate of return on your investments will significantly affect how much you can withdraw annually. When withdrawals are being made, down markets can have a devastating effect on your savings. Not only will your investment value go down, but you will be withdrawing the same amount from a smaller balance. Thus, when the market rebounds, you'll have less capital

available to participate in that rebound. Especially if a major market downturn occurs early in your retirement, withdrawing an amount that may have been reasonable during an up market may quickly deplete your assets. Thus, it's generally pru-

dent to keep your withdrawal percentage as low as possible, perhaps 3% or 4% of your balance. With that level of withdrawal, your funds should last for decades.

If you'd like help making these estimates, please call. ✓✓✓

Manage Your Nest Egg after Retirement

You may think that after retirement you can sit back and stop worrying about money. If not for inflation and market volatility, you might be right, but you still need to keep a careful eye on your portfolio.

The current U.S. rate of inflation is a little over 3%, but it fluctuates constantly. A 3% rate of inflation per year means that after 23 years, a fixed sum of money has lost half its value. And unfortunately, safe assets do not keep you ahead of inflation in the long run.

Managing your portfolio in retirement can be difficult and complicated, but by doing so, you can keep it growing and combat the threat of inflation. Here are some key points to consider:

- ✓ Keep some of your portfolio invested in stocks.
- ✓ Keep your rate of withdrawal below your annual rate of return. This is no more than 3% or 4% per year, so the remaining balance can be reinvested to continue growing your savings.
- ✓ Keep your essential expenses separate from nonessential expenses in your budget. Consider structuring your portfolio to have assets like dividend-paying stocks or long-term bonds pay for your essential expenses, but are otherwise untouched.
- ✓ Lower your portfolio risk and boost your long-term returns by rebalancing. This means selling off a portion of the assets in an asset

class or sub-class that has grown larger than your intended allocation. Use the proceeds from the sell-off to purchase assets in classes or sub-classes that have shrunk in value. While it is wise to rebalance once per year, it is also good to consider rebalancing when any category of assets has grown or shrunk by 5% to 10% off your designated allocation percentage.

- ✓ Withdraw as little as possible from your investments and review them regularly. If your investments have decreased in value, you will deplete your balance quickly by continuing the same withdrawal rate as before.
- ✓ Build up a reserve of investments not tied to the stock market, preferably totaling three or four years of retirement expenses. If you have this reserve to fall back on, you will not need to sell stock investments during periods of market decline.
- ✓ Withdraw funds in a tax-efficient way to make them last longer. For example, you should withdraw your taxable investments first so that tax-deferred investments can continue to grow. By age 73, you will likely have to start taking minimum required distributions from tax-deferred investments, but going back to work part-time may help push that timeline back even further.
- ✓ Reassess your asset allocation periodically. Make changes gradually to increase diversification in your portfolio. ✓✓✓

What's 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 factors 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 right amounts to 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 should have 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, consider making only the minimum payments until you're properly insured and you 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 while also paying for basic necessities, like groceries and gasoline, you're living beyond your means and should cut back on your spending.

Third Priority: Retirement Savings

Finally, it's imperative to 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 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 paying down debt:

✓ **Start with the debt with the highest interest rate.** Instead of paying more on every one of your debts, concentrate on the one that charges the highest interest rate, like Visa and MasterCard credit cards. 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 debt. If you can earn more in the financial markets, 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 the extra \$5,000 a year you can contribute, pretax, 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.

Smart debt management is often overlooked as a way to improve your finances, yet it can be as powerful as smart investment management.

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Calculating an Investment's Basis

Your capital gain or loss on the sale of an investment equals the proceeds from the sale less your basis (the cost of acquiring the investment). When you purchase an investment, your basis equals the



Market Data



	MONTH END			% CHANGE	
	JUL 25	JUN 25	MAY 25	YTD	12-MON.
STOCKS:					
Dow Jones Ind.	44130.98	44094.77	42270.07	3.7%	8.1%
S&P 500	6339.39	6204.95	5911.69	7.8	14.8
Nasdaq Comp.	21122.45	20369.73	19113.77	9.4	20.0
Total Stock Market	62663.41	61309.50	58393.30	7.3	14.2
PRECIOUS METALS:					
Gold	3310.00	3281.00	3288.90	26.5	36.4
Silver	36.75	35.98	32.89	24.8	27.5
INTEREST RATES:	JUL 25	JUN 25	MAY 25	DEC 24	JUL 24
Prime rate	7.50	7.50	7.50	7.50	8.50
Money market rate	0.44	0.44	0.45	0.42	0.48
3-month T-bill rate	4.24	4.20	4.26	4.23	5.15
20-year T-bond rate	4.89	4.79	4.93	4.86	4.44
Dow Jones Corp.	5.26	5.18	5.38	5.45	5.43
Bond Buyer Muni	5.15	4.96	4.93	4.46	3.94

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

price you paid plus any fees or commissions. While the calculation is fairly straightforward, other factors can affect your basis calculations:

- ✓ Reinvested dividends are added to your basis at full market value plus any fees or commissions.
- ✓ The basis of any investment received as a gift is the donor's original basis plus any gift tax paid by the donor. However, if you then sell the investment at a loss, your basis is equal to the lesser of the donor's basis or the investment's fair market value on the date of the gift.
- ✓ For inherited investments, the basis is the market value on the date you inherited the investment, typically the date of the donor's death.
- ✓ Your basis in stock that has been split is the same as your basis before the stock split. Your per share basis, however, will now equal your total basis divided by the number of shares you own after the split.
- ✓ When you exercise a stock option, your basis equals the price you paid for the shares plus any fees or commissions, which may be lower than market value. Shares must be retained for at least one year after purchase and for two years after receipt of the option, or any gains will be taxed as ordinary income. ✓✓✓

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2025-PS-486